Rallis India Limited

Q1-FY22 Earnings Conference Call Transcript
July 22, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Limited Q1 FY22 earnings conference call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India Limited's Q1 FY22 earnings conference call.

We have with us today Mr. Sanjiv Lal - Managing Director & CEO, Mr. Nagarajan - Chief Operating Officer and Ms. Subhra Gourisaria - Chief Financial Officer.

Before we begin, I would like to mention that some statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation.

I now invite Mr. Lal to begin proceedings of the call. Over to you, Sanjiv.

Sanjiv Lal: Thank you, Gavin and good morning everyone and welcome to this call. . As mentioned by Gavin, I have alongside with me call Mr. Nagarajan, our Chief Operating Officer and Subhra Gourisaria, our CFO.

To begin the call with a quick overview of the sector and the trends that we have observed during the quarter, after which I will move to Rallis specific developments. Domestic demand during the quarter has been quite healthy and there is a good positive growth over last year. Even in International Business, we have witnessed good momentum. We did not see any panic buying from the trade and farmers domestically as we had seen last year. And also, unlike the first wave, the second wave of the pandemic has impacted rural hinterland with most distributors, dealers being directly or indirectly affected by it.

We have accelerated our focus behind collections and this continues to be one of our top priorities. Furthermore, while the overall headline numbers for rainfall during the current monsoon appears to be healthy, the timing and the spatial distribution has not been uniform. As far as commodity prices are concerned, soya, maize, pulses and cotton among field crops and green chilies, grapes and apples amongst fruit have been higher. Prices for bajra have fallen significantly year-on-year.

In terms of International markets, Chemical prices have shown a steady upward trajectory. COVID related disruptions continue over logistical movements, in turn impacting cost and availability of key raw materials. However, we believe the situation should improve gradually with time.

Moving on to Rallis specific developments, we saw revenue growth of 11.7% driven by a steady performance across domestic and International markets. If we remove the impact of the lockdown spillover of sales, which we had in Q1 21, we have witnessed an overall growth of 19.7%. Growth in the seeds business has been impacted by the purchase of illegal cotton seeds by farmers and crop shifts to soyabean.

Competitive pricing environment has limited our ability to pass on increased input costs. We have also been adversely impacted by the steep cost increase for both inland and ocean freight across our domestic and international business. Employee cost has registered an increase with reference to the base quarter where we had not given a salary revision to our employees in the previous year. Despite that, our EBITDA margins continue to be around 16.4%. Export income was negatively impacted due to ambiguity and delay and announcement of the export incentive schemes. Overall, PAT for the quarter stood at around 11.1% versus 13.9% for Q1 FY 21.

Moving on to individual businesses, starting with our domestic crop care business, as we have indicated in our previous calls as well, our efforts are largely directed towards delivering growth by strengthening our product portfolio and distribution reach. Domestic formulation business registered 34% growth year-on-year basis. This was driven by strong performance of some of our flagship brands. We continue to focus on connect with farmers digitally through video conferencing, through Google Meets supported by aggressive TVC and social media campaigns.

I am also happy to say that we have been delivering on our guidance of introducing a minimum of two new products annually. In Q1 of FY22, we have launched three new formulation products. One is a product from our own 9(3) formulation which is referred to as PEPE, and two other products, which were also launched through in licensing. Based on our product portfolio gaps, we have a healthy portfolio pipeline, which is in various stages of development to strengthen presence in various segments.

In terms of International business, we had a growth of 38% after removing the impact of sales spillover in the base quarter. Growth was witnessed in most of our key active ingredients in Q1. Metribuzin sales were also higher than Q1 of FY21. But it is yet to pick up to a satisfactory level. I am happy to say that we obtained new registrations in our markets in Africa and Southeast Asia as well. Moving on to the seeds business, we saw a growth of 3.1%, which was impacted largely by illegal cotton, and a shift in cropping pattern to soybean. We launched medium maturity paddy hybrid and five new hybrids in the cotton segment, we continued our focus towards building our Rabi portfolio which will iron out the cyclicity in our business. Also, as indicated earlier, we will leverage in licensing opportunities for mustard and vegetable seeds till the time our own hybrid seeds get commercialized. With that, let me now hand over the floor to Subhra who will walk you through the financial performance of the quarter.

Just to introduce Subhra, who has recently joined the company as CFO, has over 17 years of experience in business finance, financial strategy P&L management, controllership and is well versed in handling financial operations across multi geographical businesses. Till recently she was the General Manager Finance

Homecare for South Asia at Hindustan Unilever. That concludes my opening remarks, and it is over to you Subhra.

Subhra Gourisaria: Thank you, Sanjiv. Good morning, everyone. And thank you for joining us today for our Q1 FY22 earnings call. I hope all of you are doing safe and healthy. Let me walk you through our financial performance for the quarter post which we will commence the Q&A session.

Starting with the top line first revenue for the quarter stood at Rs. 741 crore as against Rs. 663 crore reported during Q1 of FY21. This is higher by 11.7%; without the impact of carry forward of lockdown sales. Considering the impact, the growth is 19.7%. The growth was higher in crop care business compared to seeds. EBITDA for the quarter stood at Rs. 122 crore as against Rs. Rs. 128 crore for Q1 of FY21.

As Sanjiv mentioned, margins have been impacted by the pricing pressure limiting our ability to fully pass on the cost inflation. Employee spends have gone up by Rs. 11 crore, since we had not given any salary increment to our employees during the base quarter and actuarial charge for gratuity and leave encashment spends that we had to take during this quarter. PAT for the quarter stood at Rs. 82 crore as against Rs. 92 crore generated during the corresponding period last year. This is lower by 10%.

Moving on to business specific performance, we have seen a steady 31% growth in domestic business on the back of recent product launches. We have been working towards improving our portfolio by introducing new products in the market. During this quarter as well, we introduced three new products and the initial feedback has been quite positive. COVID related challenges have impacted our marketing and on ground activities. Although we believe that the same will change as COVID subsides. Secondly, our effort towards strengthening our distribution reach has been shaping quite well which should help us better market our products. Our efforts towards digital marketing acceleration in the wake of pandemic continues to bear fruits. In the seeds business we generated revenue of Rs. 269 crore as against Rs. 261 crore generated during Q1 of FY21. This is higher by 3.1% versus last quarter. The growth was impacted by the increase in demand for illegal HT cotton and the crop shift patterns. EBITDA for the quarter stood at Rs. 83 crore as against Rs. 82 crore reported during Q1 of FY21. Better realizations coupled with stringent management of fixed costs helped in holding on to margin delivery.

Moving on to International business, we delivered a growth of minus 8% for the quarter with steady demand across most of our key products. This growth has to be seen on the back of lockdown spillover of Rs. 45 crore of sales in base period. We are working towards registering new products across our key geographies. Input product prices for most of our products have seen an uptick. As far as our contract manufacturing business is concerned, demand for the molecule PEKK continues to remain subdued with stress in the aviation industry.

We are nonetheless focusing on leveraging our chemistry knowledge and dialogues with the global players in the agri domain. A quick word on CAPEX before I hand it over back to the moderator. The work on formulation plant at Dahej is progressing as per the schedule and we expect the unit to start operations by the second quarter. Work on the new MPP plant as well is on track. We expect our CAPEX for the current year to be approximately Rs. 250 crore. That concludes my opening remarks. We can now commence the Q&A session.

Moderator: The first question is from the line of Rohit Nagraj from Emkay Global.

Rohit Nagraj: Sir, the first question is on the increase in input costs. So, we have seen that across the board, the costs have increased. On the contrary we have not been able to pass it on. So, what is our perspective in terms of incremental cost increases, which are happening and whether we have the ability to pass it on completely over the subsequent quarters?

Sanjiv Lal: No, there will be some price corrections that we will keep taking. And a lot of the pricing is really determined by what is happening in the market in terms of competitive action also in terms of the ability of the farmers to pay for it. So, we will judiciously look at any kind of price correction as the season progresses.

Rohit Nagraj: The second question is on the International business. So, again, here also we have seen that it has got impacted because of the logistical issues, both in terms of inbound as well as outbound. What is our stance on this that whether the situation is still continuing in the similar fashion? Or will it recover in the coming quarters? And with regards to this do we have to take certain changes in terms of how we are approaching the global market?

S. Nagarajan: You are absolutely correct. We have witnessed significant challenges on the International business on the trade front. As you are aware, the freight rates have gone up significantly. We have also found that it was difficult to secure availability of shipping containers. It has been a global impact certain markets and impacted a lot more in some markets. If one were to look at how things have progressed, there is a little bit improvement in terms of availability, but the rates still continue to be quite high. From our point of view, we are trying to take preemptive action wherever possible as regarding the raw material front in terms of making sure that our production does not suffer for want of raw materials.

As far as outbound shipments are concerned, we have also been focused on trying to book the containers and shipping lines as much as possible under the circumstances. With regard to how things might move forward, I guess it is a little bit difficult to predict. But from our point of view, these are the actions that we have taken.

Rohit Nagraj: So, just one last clarification on the strategic perspective. So, on the contract manufacturing, anything that we have, you know, finalized in terms of products, in terms of application areas, and when do we have a definitive understanding of where we want to proceed on this?

Sanjiv Lal: No, on our contract manufacturing, as we said, for us, this is important area, and it is an area where we have started focusing on only in the last year year-and-a-half. And as already mentioned in my previous call, that we have put a good structure in place for business acquisition. Discussions are currently underway with multiple potential partners. And it is still work in progress there is nothing to confirm as of now. It will take its own time, considering that we have not been very active in this part of the business. So, it will take its own time and we are putting the necessary resources behind it. So, as of now, there is nothing to report.

Moderator: The next question is from the line of Varshit Shah from Veto capital.

Varshit Shah: Sir, my question pertains to that if you see your pricing action has been slightly lagging behind the competition. So, is that assessment correct and hence you are able to slightly garner the higher market share in the domestic business? That is my first question. Probably it is for Naga and Sanjiv.

S. Nagarajan: Yes, I think if one were to kind of ask the question in terms of what has contributed to our improvement in market share, frankly, I would say it has less to do with the pricing action and more to do with some preemptive work that we had undertaken in Q4. One of the important things that we had focused on was making sure the learnings from the previous years with respect to availability of particular SKUs of particular products is improved. Because we do have a challenge of producing some of the SKUs in a given period of time, because of the labor intensity.

And since we had felt that in Q1 last year, we had taken some of these production in Q4 itself. And thereby we had built up some amounts of finished goods inventory, particularly in reference to the smaller SKUs. And that allowed us to be able to improve, in fact, to some degree. The other one, of course, is that if you look at our herbicide segment, we did introduce Enzip as a product last year and we also introduced three plus this year. We also gained volumes on the back of that plus we also gained volumes on some of our legacy products, strong brands that we have. So, one would think that those were probably the biggest drivers for our increased volumes and perhaps improved market share as well. Though, we will have to wait for the market share figure that at the end of the year when we have proper industry information.

With regard to pricing, certainly, like what Sanjiv mentioned, we do have a portfolio where there are certain brands where we are able to sort of pass on the cost increases fully. But there are of course, brands where we do have to keep in mind the effective price point for the farmer as well as what the competitive actions are. So, we do have a mix. And for those cases where we have been perceiving a significant competitive pressure, we have chosen not to pass on the cost, but certain other cases, we have been able to do that. But I think the broad driver for the improved volumes in the domestic market is more coming from the actions that I described.

Varshit Shah: Sure, that is helpful. And there is one more thing so if you see FY21, we had sort of we were unable to ramp up some of the newer newly launched molecules because of the physical movement restrictions. So, where are we on that in terms of now further progress, and how much of that probably not a particular number, but probably is that also one of the important element in the growth acceleration, which we have seen in Q1 on a like to like basis, excluding the impact of the spillover? And just one last question on the MEIS impact. So, what was the full year MEIS incentive either in percentage terms or absolute terms in FY21?

S Nagarajan: For the first one, we do. First question we do find challenges even this year, from the standpoint of physical work as far as demand generation is concerned, because as you will recall, in quarter one, we did have though we did not have a nationwide lockdown, like we had last year, we did have regional lock downs, which limited our ability. When the second wave happened, certainly things are easing up have been easing up, since you can say middle of June.

But I think if you take an overall quarter's perspective, like we had mentioned in the last analyst call as well, we had prioritized safety about anything else. So, we have got impacted. However, what we did this year is that learning from the experience of last year, we did increase the amount of effort on the distance marketing front. There were two kinds of learnings. One is of course, the intensity of work. And second is in terms of improved efficiency in distance marketing. We would reckon that we would have perhaps reached almost twice the number of farmers that we reached last year through distance marketing work this year.

So, that is how we have been dealing with this for this quarter.

Varshit Shah: Sure. So, is it okay to assume that the benefits of the newly launched products are yet to kick in and probably it will gradually pick up as we go along the year subject to a Covid related hiccups?

S. Nagarajan: Certainly, I think if you compare FY20 with FY21 and FY22 first quarter, the level of physical demand ambition we are still not able to do. And when you talk about products like PEPE for example, what Sanjiv mentioned requires a fair amount of demand generation work, I do not think we have yet got the full benefit of it.

However, certain other products, which are comprising of highly generic active ingredients where the farmers are already familiar with the product, those products are likely to not that much benefit from the demand generation work.

Varshit Shah: And my question on the MEIS incentive?

Subhra Gourisaria: Yes, so MEIS of course as you know there has been some bit of ambiguity and hence, we have stopped recognizing that as a revenue. So, we have seen an impact of close to Rs. 3 crore in this quarter because of non-realization or ambiguity around announcement of MEIS scheme.

Varshit Shah: So just for clarification for whatever full year MEIS incentive was a recognition last year and how much of that was part of Q1? So, to help us model for this whole year?

Subhra Gourisaria: So, I would not have the full year numbers handy. And it also depends on how much of the export revenue we do. As I mentioned, for Q1, we had seen an impact of Rs. 3 crore for MEIS.

Moderator: The next question is from the line of Madhav Marda from Fidelity.

Madhav Marda: I had two questions. The first one was on the contract manufacturing business that we are speaking about. If I understand right, there are quite a few players in India who are sort of well entrenched in this business since maybe, you know 10 odd years. Just wanted to understand, is there a specific type of chemistry or something in our competitive positioning that we are trying to focus upon, that will help us differentiate versus these peers who have been in the market for longer?

Sanjiv Lal: So, actually, you know, there is a lot of work which we are doing on multiple chemistries, of course, we have been very good at certain chemistries, but as part of our overall portfolio where we are adding new products to even our International business, there is a lot of work happening on multiple chemistries. So, we are not limiting ourselves to the type of chemistries that we can take up for a CM kind of opportunity.

Your observation is correct that there are some well entrenched players and therefore, it becomes all that more important for us or rather I would say the kind of effort that is required to try and bring in CM opportunities for our company. That is where the work is currently underway

Madhav Marda: Just a follow up to that like, basically, this will be crams work that we will be doing or would it be just the contract manufacturing or is it like some part of research and custom synthesis also, how would that work out for us?

Sanjiv Lal: No, actually, currently, some of the discussions which we are having is also including some amount of synthesis work. So, we can call it CRAMS, we can call it

CM. But these are not the patented molecules. Let me just also clarify that what we are working on is not the patented molecules.

Madhav Marda: Okay. And my second question was, through the domestic Cropcare business where we have a 31% growth, could you break it down in terms of price and volume growth for the quarter?

Sanjiv Lal: Subhra you like to just share the number?

Subhra Gourisaria: Yes, we specifically do not talk about volume and price growth. But on a broad basis, I can say it has a fair mix of volume and price growth. Because it also varies depending on parts of portfolios where we have a market premium and are able to command higher price growth vis-à-vis some products where for getting market share, we would have not taken pricing very aggressively.

Moderator: The next question is on the line of Abhijit Akella from IIFL Securities.

Abhijit Akella: So, just a one follow-up on the domestic formulation's growth. So, you know, this is the second successive year of strong growth in this quarter for us. Last year also, we had grown, I think from you know, close to 25% in domestic formulations in 1Q. Just wondering this number might be, you know, rather high compared to what the industry might be expected to do for this 1H for the kharif season overall.

So, should we expect that you know, there was some amount of channel filling this quarter and growth will probably, you know, slow down a little bit in 2Q, is that how we should look at it or you think, you know, this 25%, 30% growth can be sustained even in 2Q?

Sanjiv Lal: We do have a very, very good approach in terms of how we are placing product, and it is really based on demand. And last year, you will recall that there was some amount of panic buying by the trade, because we did not know whether material will be available or not. That is not the situation this year.

So, there is a certain amount of expectation that we have from the way the monsoon has picked up. And on that basis, only we are placing our material. And one of the points that Naga has already pointed out is that there was some expectation of certain SKUs that were more important, which we missed out on last year, which we are able to do this year with better planning. So, that has also helped us in the current quarter. And we do expect a reasonably good kharif.

So, we do not think that we have over placed any material. It has been done very judiciously in terms of what we expect to sell. Naga, you may like to add?

S. Nagarajan: Yeah, no, absolutely. We have felt fairly comfortable with the level of channel inventory that is there for our products. But like you correctly point out Abhijeet, the first quarter is always a placement quarter, we will have to wait for the full H1, to understand the trend with regard to kharif. Last year, for example, as per the industry data, the growth rate in the industry the full year growth rate was closer to 9% to 10%.

Although in the first quarter, we did have much higher growth, because of the panic buying because of various factors that happened last year. From our point of view, certainly I think we have learned from the happenings of last year and we have therefore been able to supply some of the material that we identified might be required and that is also one of the contributors for our growth.

Abhijit Akella: The other question I had was on the CAPEX budget. I think Subhra mentioned about Rs. 250 crore for this year. If it is possible to just, you know, give us a rough breakdown of the major components of that in terms of projects?

Sanjiv Lal: Abhijit, in the last quarter, we had given a split of what would be the key heads of CAPEX. So, largely that does not change. We are in the same path of delivering some of our existing projects, which are related to one is commissioning of the CZ formulation facility during this current quarter. And trying to accelerate as fast as possible, the multipurpose plant that we are building in the SEZ at Dahej. So, these are our two big projects, which are currently on the ground. Many of the other projects are already coming towards closure, which is related with the Metri shifting into one particular plant, which we had already talked about.

So, that is already coming up for commissioning during this month. And apart from that, two other open projects, which also getting closed during this month, and early next month, for our two existing products, which we are debottlenecking. And of course, we do have a lot of expenditure related with the digitization, automation and all those kinds of projects, which are also currently underway.

Apart from that we have the new R&D center. So, that is something that is running a little slower than planned, we are still awaiting certain approvals, related with name change, and all of the of the land, it is still something that is pending. So that has got delayed because of the availability of people for getting the name change done in the various khatas and all that maintained by the various authorities. So, that is one project, which is still running behind schedule. And only once all the paperwork is done, can we really start the construction.

In the meantime, what we have already done is we have added significant additional capacity in our existing facility, which we have in Bangalore. And we have also added more people. And we are currently running there in two shifts to avoid any delay in any of the projects that we want to undertake. Apart from that, we are also working with some CROs for some of the projects that would have otherwise been taken up in house.

So, if you can just refer to the investor call deck of last quarter, there is no significant change in the overall approach that we are taking on CAPEX.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Couple of questions from my side. One, if you could give us your ITI for Q1 FY22 and the similar figure for the last year, same quarter? And the second, you know, some sense on the competitive intensity in the market. And how are the consumption patterns right now in the hinterland given you know, the high commodity prices, strong kharif rabi last year. But then, you know, there is the impact of COVID-19 the second wave going to the rural land as well. So, just wanted to get your thoughts on that?

S. Nagarajan: I will take the second one first, just to sort of give you a little bit of an overall scene of how we are seeing the industry is moving. As you know, the rain started off very well this year. But however, after the third week of June, there has been actually a slowdown, and this is what was mentioned in the opening remarks by Sanjiv that there has been a bit of a stop – start, paused kind of monsoon. However, I think it got revived in the last, let us say 10 days or so, and we are therefore hopeful that the original prediction of normal monsoon will prevail.

With regard to therefore the sown area, we do not see much of a difference. In fact, the estimates that are made are plus or minus 1% or 2% of last year. Not very different. The progress of sown area was good early, but then it kind of slowed down. Therefore, the season's progress has actually been a little slower compared to last year. But like I said, we are still hopeful that the overall acreage will be reached. In the market, the flow of credit has been good. Agricultural credit in May 21 was about 10% growth compared to 5% in May 20. So, it is certainly a favorable situation, but because of the variation in the rains as well as because of commodity prices, we do expect quite a bit of crop shift of the commodity prices, as you know, soyabean has been ruling high this year compared to last year, cotton is also higher than last year as is maize and some of the pulses like tur.

So, this crop shift is something which has implications in our portfolio for cotton certainly in our seed portfolio, and for also hybrid Paddy in our portfolio, because in some of the North Indian markets, there have been an increase towards OP varieties compared to hybrid paddy. On the fruit and vegetable front, green chilies, grapes, apples, these products have had good commodity prices. So, that is actually favorable situation. Bajra is one crop where the commodity prices have actually gone down significantly over the last year. And that has implications for example, from our portfolio. But net-net, it is expected that the farmers will adapt to the situation through these kinds of crop shifts.

So, the farming profitability is also expected to be actually higher on a per acre basis, compared to last year. With regard to COVID, you are absolutely correct that this second wave has been more damaging I should say for the rural areas. We have had some of our channel partners who have got impacted because of COVID. Some of them have passed away as well, we are working through some of the challenges that it consequently creates. Movement has been a challenge, the freight rates have actually gone up substantially.

So, net-net, one would say that quarter one has been a challenging and difficult quarter, towards the end of June, one would say that things have certainly begun to look up. And we are hopeful that as we come out of the second wave kind of a situation things will stabilize. Of course, the fear is there in everybody's mind and with regard to the third wave, which all of us are aware of. And from our point of view, we are prioritizing employee safety, partners' safety. Those areas we are continuing focus on. That is broadly in terms of how the quarter has been. If any particular aspect of the quarter, we would like to for the past I can respond and then go to the ITI.

Tarang Agrawal: No, this is this is all right. I just the only thing well, on the cropping pattern I understand. I wanted to also understand from the rural consumption perspective, are the farmers because you said that you did face some competitive intensity on pricing, which sort of pushed your gross margins. So, are the farmers willing to spend more given the strong seasons that they have gone through in the past? Or you do not see any such trends emerging?

S. Nagarajan: No, I think on that purchase behavior certainly, last year, also we had if you recall in the beginning there was this feeling that the farmers might downtrade or there might be some kind of value purchases in the sense of, let us say more generic products at lower prices. That is not something which we witnessed last year as well. And we do not expect that that would happen this year too. As long as the product is differentiated because the season has started off on a very, very promising note. We do expect the same trends to continue. Even in our first quarter for example, like I mentioned, some of our legacy brands which are strong have contributed to our growth and at least the channel has been willing to stock them up. So, I think they share the perception that the farmers will be open to and in fact in some of the markets like North India we have found the partners being willing to invest in these products as long as they are differentiated.

Tarang Agrawal: On the ITI question?

S. Nagarajan: See on the ITI normally I think the ITI would make sense to look at from an annual point of view. Because there are certain products that we will be introducing in Q2 and we will also be introducing during Rabi as well. So right now, only three products have been introduced. So, it is therefore unlikely to provide a good measure of what we are introducing this year. Of course, the point remains that in the previous years, whatever we have introduced, those would contribute to a certain revenue share. And also, that quarter one is a placement quarter largely, except in North India. And therefore, with all those caveats, I can say that at this point in time, it is trending better than what we had hoped for the first quarter. So, it is above 6% right now, but I think we will have to wait for the full year to really see what the ITI percentage ends up with.

Moderator: The next question is from Chintan Modi from Haitong Securities.

Chintan Modi: Sir, on the International business side, when we look at the growth, this spillover in the base quarter, could you give us some sense like you know, how much was the volume contribution and what would be in the pricing? Because last year we have seen a steep increase in prices. So, wanted to understand that lower prices in the base quarter have already started kicking in or it will kick in from next quarter?

S. Nagarajan: So, what I would respond is as follows. If you adjust for the spillover of last year, for all our key AIs, we have actually witnessed growth in terms of volumes. In terms of the price realizations, Metribuzin is really the one where there has been a substantial drop through the last year. So, if you see compared to quarter one of last year, the realizations this year are still ruling lower, so it is not yet in the base. However, if you compare it with Q4 of last year, the prices have been slightly improved on the Metribuzin front. So, the full impact of the Metribuzin drop is not yet reflected in the base quarter. Other products have been reasonably doing well.

Chintan Modi: And sir, just to add more on this like last quarter also we saw 75% growth this quarter also decent growth the momentum is good. So, but you know, like so, it indicates that the demand has been good, but do you think there is also a lot of supply coming into the market which is not allowing the prices to kind of go up at least you know, quite a bit?

S. Nagarajan: Are you referring to the International market?

Chintan Modi: Sir, International.

S. Nagarajan: No, International market no in a general sense, the prices for all chemicals have been firming up, I think that is also something which Sanjiv mentioned in his opening remarks. So, specifically to individual products, there could be varying demand supply position in each of those products. And that is what I mentioned that in the case of Metribuzin as an example, the prices have improved over quarter four in quarter one. If you look at Acephate prices have actually been much higher compared to quarter 4. So, it is actually product specific. And in general, directional sense the prices have actually been increasing in Q1 compared to Q4.

Chintan Modi: And just one last question. On the gross margin, I missed your comments whether this reduction in gross margins was largely to do with domestic or International business?

S. Nagarajan: The gross margin for both domestic and International business have been stable. It is actually the mix between our crop care business and seed business in this quarter versus the mix in the first quarter of last year. That is the reason for the gross margin reducing. So, for example, last year in the first quarter, maybe Subhra, you have the percentage of contribution from these crop care, right compared to this year?

Subhra Gourisaria: So just to add to what Naga was saying, so last year, if you look at our share of seeds business was close to 35% and crop care 65% which has swung and the mix has come down by 8% for the seeds business. And this is driven by the high growth that we saw in crop care business. And we indeed make higher margin in seeds business compared to crop care business. So, while on a standalone basis, each of our segments of business has delivered good margin, it has come down because of the impact of the mix which is sitting in our portfolio. The way we internally look at gross margin is also considering other variable costs. So, with that into account, we can say that the mix has been something which has impacted our gross margins.

Moderator: The next question is from line of Amar Maurya from AlfAccurate.

Amar Maurya: So firstly, if you can give me what is the contribution of the organic manure in this particular quarter?

S. Nagarajan: So, I was just saying that we do not give out the break-out within the crop care business. We follow the total crop care it is part of that.

Amar Maurya: And secondly, in terms of the CSM or the CRAMS business, as you said that, you know, the work is in progress. So, if you can sir, help us like, you know, how we had I mean, any new incubation in terms of the team on the sales side or on the R&D side I mean how the progress is in terms of building the team for the CSM, because that as you said, you are new into the business and you know, the animal is different than the existing business? So, if you can help us, you know, any new people bought on the CSM to specifically drive the business that will help us to understand, you know, how the progress is?

Sanjiv Lal: So, Amar, just to clarify, you know, we have been in this contract manufacturing business for the last two decades, but it has not been an area where we have been focusing and that focus, we brought only about a year-and-a-half back. And to support this part of the business we have put in place a business team. And we have also created a team at the R&D to support the business team. So, I had mentioned that we have added resources to the R&D setup. And we have also started working extra shifts and all that so that you know, one is the physical distancing and all that we need to maintain and also there is a limit, which is there in terms of number of people who can be at a particular area at one point in time. So, keeping all that in mind, one is that we have moved to a two-shift operation. Second is we have added more chemists, more scientists to our team. And second is that we have split the R&D team, between a team that is supporting contract manufacturing and a team which is working on our own reverse engineering synthesis of the AI portfolio that we are building. That is how we have resourced this particular part of the business to focus on getting opportunities for us.

Amar Maurya: So, one is that, you know, one is basically building the portfolio or building the AIs that is basically the R&D part of the business. I was focusing more from the marketing point of view, like, you know, ultimately somebody has to go and showcase that. So, are you saying that that has been done by the existing sales team?

Sanjiv Lal: No, there is a business team. I mentioned to you that we put in place a business team, which we call marketing team, or we are calling them business development team. So that team is already in place.

Amar Maurya: Okay, so how many people in the sales? I mean the business team.

Sanjiv Lal: Two people.

Amar Maurya: And based out of India, based out of International markets?

Sanjiv Lal: Based out of India, currently based out of Mumbai. So anyway, even for this, like the way we are dealing using video conferencing, these meetings are happening over video conferencing. So even potential customers are preferring that in the current situation, so that is not an issue as of now, but yeah, I mean, once things normalize people will travel.

Amar Maurya: Okay. And sir, I mean, in terms of the molecules, like, you know, how many molecules we will be working like, you know, what would be at a quite at a discussion stage, which can culminate into the business, let us say in predictable future?

Sanjiv Lal: So, while without getting into numbers, just to say that the team has got their hands full. So, they have got enough work to do on the inquiries that we are currently dealing with, including the R&D team.

Moderator: Next question is from the line of Rohan Gupta from the Edelweiss Financial Service.

Rohan Gupta: Sir, if you can give us absolute numbers for the seed, domestic agrochemicals and export for the current quarter and last year? Sir, you started this practice of sharing this number on a quarterly basis, but I think that this quarter is not being provided. So, can you just clarify on those numbers?

S. Nagarajan: So, it is in the Investor presentation, if it is not yet uploaded maybe it will be. The seed revenue was Rs. 269 crore this quarter. Last year first quarter was Rs. 261 crore. The crop care revenue was Rs. 471 crore this year, first quarter, and the last year was Rs. 401 crore. The EBITDA and PAT numbers are also displayed and it will be part of the investor presentation.

Rohan Gupta: Sir, in crop care can you also share the export number sir separately?

S. Nagarajan: Yes, it is there in that sheet. This year, the share of International business is 28% compared to last year 36% that is because in the last year, these numbers are without adjusting for the spillover.

Rohan Gupta: Okay. Sir, second question, we have seen that a lot of input costs driven price increases, there in the market across the agrochemicals and given a large part of our product basket is in generic in nature. So, can you give us some sense that what kind of price increase in general or average we can expect for this year, and how much it has already been in a first quarter? You are still in the process of passing it on. So, I am just asking that how much you see that the price increases can happen in generic product for this year?

S Nagarajan: See Rohan, I think the way we are approaching it, might help. The way we are doing it is that every month we actually executed what we call a high frequency pricing approach, where we are looking at the changes being witnessed at that point in time. And that is because we are finding that the variations are much more frequent than they have been in the past. And based on the kind of changes in our costs, and on the basis of how the competitive movements are happening, we are taking very short frequency pricing calls. Therefore, it becomes a little bit difficult to predict for the full year, because as you would appreciate there are certain products which other companies, we have carried stock, which gives us the opportunity to sort of benefit from an increasing price regime. And on the contrary, there could also be the opposite situation where we may have not carried the stock and we are forced to buy in order to cater to the market. So, it is hard to actually give you a forward view because this is the kind of approach that we are taking. As regards what we have already witnessed, we have healthy volume growth as well as reasonable price growth. We have passed on wherever we have strong brands and good market share. In certain other cases where the differentiation that our products enjoy in the market is somewhat weaker, we have not passed on the full extent.

Rohan Gupta: Last question from my side. And I will come back in queue for follow up. Sir, this is referring to your annual report of 21. Sir, from last three years, our focus has been a lot on the new product launches and driving sales for our branded products. But despite that a lot many products, which had been launched in last three years, our Innovation turnover index has been has fallen last year from 16% to 11%. It means that the revenues from the new products actually have gone down in the last three years, especially last year. Sir, we have created many more initiatives, we have taken many more initiatives like architecture of the brands and new product launches. But sir, it is not somehow getting reflected in the numbers especially from the new product launches. And that I think is continuously depressing our margins also. If you can share some bit on that, that how you see that this year, the new product launches revenues can be or the ITI can look like over next couple of years, if you can give some sense on that?

S. Nagarajan: Yeah, certainly. I think what your observation is absolutely correct. We have had a decline in the ITI last year was 12%, earlier year was 16%. But if I recall like the previous year before that was about 10%, or 11%. So, we did not get the growth last year. And I think we had mentioned that one of the big difficulties that we have had is that in terms of the demand generation work to scale up some of the new products, which we think are differentiated, those have got hampered in the market last year. We continue to face those challenges this year also, although that is not deterring us from introducing new products, because we do want to attempt to market these as best as possible and be poised for any opening in the market that can happen if the COVID were to subside, but your observation is correct that the ITI index last year has been lower. We are hopeful that as COVID ends, we should be able to engage more in the demand generation activities. Some of the products that we have introduced, including PEPE, are good, differentiated products, and will need to be backed by a good demand generation work because these are not low-priced products, like you correctly said from a margin point of view also they are very, very, very efficient. But at the basic level, the price points are not very low. So therefore, they require detailing to the farmers, strong demand generation where we at this point in time, are hopeful that things will improve on this front.

Rohan Gupta: And sir, continuation of the same thing if I am allowed to ask the same thing. Sir, we have also observed that the biggest drop in ITI has been in insecticide category where it has fallen from 20% to almost 9% last year. It is something that because our focus on reducing the sale from the red triangle products and insecticides falls the maximum in that category. It is something that the regenerating our product portfolio where we are having a thought process of reducing the red triangle product sales or whatever portfolio It is something to do with that, that insecticide sales and ITI in insecticides fall in the most. Is my observation correct or is there some other reason for that?

S. Nagarajan: No, it is not related to red triangle, because we have not had red triangle products for some time in our portfolio and certainly not in the ITI products. So, that is not the reason. Maybe this particular question, one will have to really look at to give you a more thoughtful response. Perhaps we can take it subsequently.

Moderator: The next question is from the line of Aditya Jhawar from Investec Capital.

Aditya Jhawar: Just a couple of questions. The first one is on export. If you can help us understand that there has to be a sequential drop in export, what could have driven this, is it because of the container issue and that you know, as you know, highlighted that in the beginning of July and last week of June things are looking better. So, does that mean that there could be a bit sequential uptick in export as the situation improves? A related question is that just a confirmation. You also mentioned that in export, the pricing of the key molecules like Metribuzin that is also kind of you know, improving? Just wanted to confirm. That was the first question from my side.

S Nagarajan: Yes, that is correct. The price of Metribuzin on a sequential basis has improved in Q1 over Q4. With regard to your other point about whether it is about shipping difficulties that have contributed to a sequential change? Not really because I think even in a normal situation, if you were to look at a couple of years back, there are variations between Q4 and Q1 of International revenues and just like in our context, Indian context, these shipments that we make of various AI to various overseas countries is driven by their local weather conditions and therefore, the timing is actually more determined by those factors. So, I do not think it is actually attributable to selling difficulties contributing to any reason for the decline.

Aditya Jhawar: I mean, the quantum was 40%, which we have now seen in the past as well as a new question. Fair enough. So, moving on to the next question is you mean, in a couple of questions like you had indicated a big you know, CAPEX plan for the next you know, five years where are you know, you are announced about Rs. 800 crore of CAPEX which you will spend and out of that of about Rs. 400 crore, Rs. 450 crore kind of worth you have clearly identified certain, you know, action items for that. So, the question here is that, you know, since we are we have entered into FY22, is there a line of sight for the remaining Rs. 350 crore to Rs. 400 crore CAPEX have we identified certain areas, where the next stage of CAPEX can be targeted first, you know, in terms of specific molecule or specific broad areas that we can target for?

Sanjiv Lal: So, Aditya, the, you know, one of the areas, which we still need to finalize, and that is also dependent on the way our work at the R&D center is going is we are currently building one multipurpose plant, which is largely intended for fungicides, insecticides. We need to build one more multipurpose plant for the herbicides, which is also the work which is currently happening. So, we will take that decision perhaps during the course of this year as to when to start the work on that. So, this year, we are really focusing on closing out on some of the key projects that we have taken up so that we can start commercializing products from them. So, this is the current focus. And during the course of the year, we will take decisions on one is the additional MPP for herbicides and also one more decision which we need to take is on the plant for the intermediate. So, that also is something that we will decide, perhaps during Q3 or Q4, once we have clarity on the work that the R&D team is progressing on.

Moderator: The next question is on the line of Prashant Biyani from Prabhudas Lilladher.

Prashant Biyani: Sir, the pricing pressure is mainly coming only from Metribuzin or is it also in the domestic business that we are seeing some sort of pricing pressure?

S. Nagarajan: No, it is there in various products certainly in domestic market also. We are facing pricing pressure.

Prashant Biyani: Sir, despite the overall environment we would in the underlying demand also relatively better with regular price hikes also, then what could be the reason for the pricing pressures in the domestic market?

S Nagarajan: See actually, the increases in some of the raw materials have been substantial. I mean, if you look at increases in certain raw materials like acetic hydride, for example, these are all substantial increases, these are not small 2% or 5% kind of increases. So, therefore, in order to be able to pass on those kinds of increases, the resultant farmer prices will have to become substantially higher which becomes difficult for the customer to be able to bear. So, really speaking, I think these are abnormally high-cost increases that we have witnessed and that is the reason why there is a pricing pressure.

Moderator: The next question is from the line of Nirbhay Mahavar from N Square Capital.

Nirbhay Mahavar: Is there any significant inventory addition in the seed's verticals? Because I am sure you would have not prepared for a 3% growth in the business?

S Nagarajan: Yes, we do have, but that is also because we had consciously taken higher quantity of paddy production in rabi of 2020 because we have again as a learning from the previous years that having some level of buffer stock is useful for us to capture some of the opportunities which we were otherwise losing. And therefore, we had deliberately taken a higher quantity of production. And that production has come in during the course of this quarter, some of which came in after the shipment of paddy seeds for this quarter both have been inventoried, and therefore there is a higher level of inventory compared to last year.

Nirbhay Mahavar: So, if we look at all the three verticals, domestic international and seeds, while two verticals are showing a clear sign of buoyancy, in seeds from some time we are seeing some kind of stagnation. So, what is our gameplan for this? Do we expect it to increasingly become a smaller size in the overall scheme of things? Or we have some aggressive growth plan here?

S. Nagarajan: No, actually, we do not expect the contribution of the share of that business to become smaller. But you are right that I think we have not been able to get the kind of growth that we were hoping to get. In the case of cotton, for example, we had identified it as one of the growth areas. And we did have new hybrids that were, you know, approved. We did launch them. We introduced five new products. However, in this particular year, we have not been able to gain, we have been affected by the crop shift that we mentioned. There has been a significant impact in Eastern Maharashtra consequent to shift to soybean. We have also had the challenge of illegal HT proliferating in the market. And therefore, we have, despite our efforts not been able to increase our business share business volume on the cotton front. On the maize front, on the other hand, it has been a different factor, we did have some challenges in the rabi production season of last year because of the weather conditions that prevailed there, which led to a lesser availability of maize from a placement point of view. And this is something which in the past affected us in the paddy and that is why we took higher production in rabi and certainly for maize as well. But certainly, for this quarter, we got impacted because of limited availability. So, from our growth point of view, we still think that cotton represents an important area for growth. We have introduced these hybrids this year, and we should focus on scaling them up in the years ahead. On vegetables things have been actually more satisfactory, which is another area which we have called out in the past as a growth area and quarter 1 has been satisfactory from our point of view. Of course, we have to also focus on the rabi maize product, which we mentioned earlier from a profitability improvement standpoint, because our portfolio continues to remain kharif dominated. And that is something which our R&D team is focused on. But you are right, I think we have work to do on the seed side.

Sanjiv Lal: Nirbhay, just to add, you know, some of the work that is happening on the new hybrid seed development for all our field crops. That is progressing well. And we did mention that it will take a couple of years before we are able to fully sort out our portfolio. We have already launched five new products in cotton, which Naga mentioned, of course, these have to be scaled during the subsequent seasons. So, the pipeline is looking reasonably good. And some of the pre commercial work that we are doing on some of these hybrids is also looking positive. So, overall, while it has not created the kind of growth that we were expecting, I think there is a positive trajectory that we can see in the coming years.

Moderator: The next question is from the line of Somaiah V from Spark Capital.

Somaiah V: So, the first question is on our projects. First in terms of the new volumes that is expected to come up. I know you have given a breakup of the projects. So, with respect to Metri recommissioning or the debottling exercise, can you just provide in terms of quantum what will be the volume expansion in our International portfolio? It could be either probably in a percentage terms or probably in an absolute terms, in metric ton where our capacity will go in each of these products? That is the first question.

S. Nagarajan: Yeah, let me start with Metribuzin. Metribuzin compared to where we were in FY20, we have more than doubled our capacity. However, what has happened in the case of Metribuzin because there has been a softness in demand, we are not expecting that we will be running at 100% capacity utilization, but from a capacity increased point of view, we have doubled it. We will be calibrating our production in line with whatever demand feelers we get. So, that is something which we will take on a month-to-month basis. If you look at Pendimethalin, our capacity has increased by about 25% compared to where we were in FY21 beginning. That one is fully commissioned and it is deployed and the demand outlook so far and also been fairly positive. So, we are actually running at more than 90% of our capacity utilization. As far as Hexaconazole is concerned, we have increased that also by about 70% of capacity compared to FY 21 beginning. We are having a good capacity utilization situation and we are talking more than 85%-90% of capacity utilization. These are principally from the export market point of view. In addition, for Kresoxim Methyl, we had expanded capacity, we had doubled the capacity. So, here the utilization has so far been good, but I think on an annualized basis, we would not expect to run at 100% utilization, but something like 70%-75% utilization. These are the projects which are completed. The other projects about Acetamiprid and Lambda Cyhalothrin these are now getting completed and they will get commissioned in the quarter two.

Somaiah V: Just one follow up on that. So, with respect to Metribuzin, so we have doubled capacity with respect to last year itself. So, in terms of capacity, we are in line compared to last year, between FY22 and FY21, so it is about the utilization rate of this capacity. Is this the right understanding?

S. Nagarajan: Metribuzin we have doubled compared to FY20 because last year also we had increase in capacity. So, compared to FY20, we have doubled.

Moderator: Next question is from the line of Faizal Hawa from HG Hawa & Company.

Faizal Hawa: My question to you is that do you feel due to ESG and different environmental concerns, the entire bio pesticides team would work out much earlier than we have envisaged and there could be a huge demand for these kinds of bio pesticides? So that is one question and secondly sir, can we look at more acquisitions like we did the Metahelix acquisition that we look at such opportunities often?

S. Nagarajan: Just to further highlight you know, while we did not talk anything during this call on the biologicals, we have already launched couple of products during the last financial year. And even this year, we will be launching couple of biological products. This is an area which is important. And even from an export perspective of some of the crops that are being exported out to the country, there is a need for farmers to use products which reduce the MRL levels for certain kinds of chemicals. So, we are focused on this category of products. And, apart from that even our crop nutrition portfolio is doing very well we have been adding products. Even during Q1, we did add a product for nutrition related with the apple crops. So, that product has already been launched. Last year we had done a similar kind of crop nutrition product for foliar application for the grape crop. So, these are areas where we have been slowly adding products to our portfolio.

And your second question, Faizal? What was that?

Faizal Hawa: My second question is, do we look at more acquisitions like Metahelix?

Sanjiv Lal: No, this is something that we constantly look at and we will make the appropriate decisions because it has to be value creating for Rallis. So, we regularly scan to see what are the things that we need to add to our portfolio. So, we will go for acquisitions as and when we find something that will be value creating for Rallis and its shareholders.

Faizal Hawa: But do we feel that the bio pesticides movement could really accelerate a lot faster than we had envisaged? How well prepared are we for that?

Sanjiv Lal: Well, let us say that, you know, we did have a few biological products in our portfolio over the years. And we have now made a conscious effort in terms of adding more products into our portfolio based on our package of practice that we are recommending for various crops, whether it is field crops or whether it is horticultural crops. So, we have been adding products, we will be launching new products, as I mentioned. So, this is certainly an area of focus for us, we will continue to build this portfolio while we drive crop protection as well.

Moderator: The next question is from the line of Ashwin Reddy from Samatva Investments.

Ashwin Reddy: So, I broadly have two questions. First one is on the contract manufacturing bit. So, I just wanted to understand what specific steps have been taken? Because the reason I ask is I understand that there has been a management change, and there has been a change in the company's direction. But contract manufacturing has been a focus area for a long time for the company. So, what is the fix things to change? And what gives us the confidence that we can track it now?

Sanjiv Lal: Ashwin, I think I have already answered this question to something that I think Amar had asked. So, we have, as I already mentioned, put in place a business team who is engaging with the potential partners. We also have R&D team, which is working along with business, in the discussions that we are having with various partners. There are certain opportunities that are there for which the R&D team is working on the route of synthesis and costing and also making available samples to the potential partners. So, it does go through its own cycle time of getting ourselves qualified, to be able to make it at the right price and the right quality that is expected by the partner. So, that is work in progress. So, we believe that we have a good team in place, both at the business level as well as at the R&D level to support this part of the portfolio.

Ashwin Reddy: So, broadly what is the realistic timeline when we start to see tangible results from this business?

Sanjiv Lal: It is safe to assume that this is not going to happen in the next quarter or the next two, three quarters. This is something that will really start kicking in maybe a year, maybe two years from now. Because, you know we do have a capacity related issue and as we just answered the earlier question that most of our capacities are maxed out, our new MPP plant is getting built that has invented a certain set of products and we will take decisions on further investments, basis the various discussions that are happening. So, it is safe to say that any further revenue streams will happen only over a year from now a year-and-a-half from now.

Ashwin Reddy: The second question is on the Metribuzin, can you give a more clarity on that at what passing at a global level and then we are what are what are the factors that you are looking for to change? Is it because capacity has come up in parallel and the prices decreased or how do we track or what are the things to look forward to that can be confident that Metribuzin capacity can be utilized in the next one two years from now? Any broad pointers that you think you should look at?

S. Nagarajan: So, I think from our point of view, I think we are focused on increasing market access. We obtained the direct registration in the US market and that was significant opportunity to access customers. We have begun that work and we have added customers and will be able to add more customers as we go forward. From our point of view, we are trying to increase the number of customers to whom we can sell this product and we are trying to do that through increased registration, one of which has come through for USA sometime back and we have already obtained additional customers. We are also doing the same thing in other geographies also. So that is the important aspect from increased utilization of the increased capacities.

Moderator: Thank you very much. Ladies and gentlemen, I will now hand the conference over to the management for closing comments.

Sanjiv Lal: So, thank you all for joining our earnings call and the questions that were asked. We do hope that we have been able to provide the necessary clarity to all your queries. We do look forward to positive kharif season ahead despite all the challenges, we are optimistic because things on the ground are certainly showing directional improvement. And we hope to have a reasonably good kharif season and we will again meet at the end of next quarter with the set of results. With that, back to you to the moderator.