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## **Rallis India Limited**

### **Q4 FY22 Earnings Conference Call**

**April 22, 2022**

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**Moderator** Ladies and gentlemen, good day and welcome to the Rallis India Limited's Q4 FY '22 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 Q4 and FY '22 earnings call.

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

Before we begin, I would like to mention that some of the 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 result presentation.

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

**Sanjiv Lal** Thanks, Gavin. Good morning and welcome, everyone. Thank you for joining us on today's Q4 earnings call. I have alongside me, Mr. Nagarajan, our Chief Operating Officer, and Ms. Subhra, our CFO.

I will, begin the discussion with a brief overview of the industry before I move to Rallis specific developments. Domestic business growth is largely aligned with the soft Rabi season, given that the same was impacted by erratic climate conditions and rapid spread of black trips in the south, especially in Andhra and Telangana. Additionally, resurgence of COVID cases during the initial part of the quarter resulted in limited in-person interaction.

Furthermore, the growth was largely price driven, given the price revisions undertaken to offset impact of rising input prices. On the exports front, demand for agrochemicals continued to remain strong, in part driven by remunerative crop prices and supply shortages from China. Going ahead, we believe the sector offers a good growth potential. Weather predictions from Skymet and IMD indicate that we are set to receive a normal monsoon. Kharif season also is expected to be



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good with crop prices ruling higher than last year. In the long run as well, the China plus one strategy augurs well for the Indian agrochemical industry.

Let me move now towards the Rallis specific developments. I will briefly talk about our Q4 and FY '22 performance, more so from an operational point of view, post which Subhra will discuss the financial aspects. I would like to discuss the roadmap for the company over the coming years, our objectives and the steps we plan to undertake towards achieving them.

Considering the challenges faced during the year, FY '22 had mixed outcomes with robust growth in our crop care business, with margin related headwinds. Our Seeds business continued to remain under stress as conveyed earlier.

Let me now talk a bit about our domestic business. As most of you must be aware, the business has seen a number of challenges over the last two years. Firstly, with the pandemic led supply chain disruption and availability of key raw materials; secondly, untimely and excessive rainfall across certain regions have impacted product offtake; third, the rising input material prices over the last two years has exerted further pressure on margins. Amidst all these challenges, the industry, as well as Rallis has shown the resilience and executional capability to overcome these hurdles.

As I had mentioned in our earlier call, our efforts over the last few years and over the coming years as well would be to strengthen our product portfolio. We undertook a thorough analysis of our portfolio to identify the gaps and we have addressed the portfolio refresh agenda to some extent, as we can see from the increase in the number of products launched by us over the last few years. We have added around six new products in FY '20, followed by four new products in FY '21, and in FY '22, we have introduced seven new products in the Crop Protection segment. Of the seven products added during the year, three were 9(3) products, two were 9(4) and two were through co-marketing. Our aim is to introduce at least two 9(3) products annually. The newly launched products will help improve the overall quality of our portfolio by replacing the old ones and providing better options for our customers. Despite these new introductions, our ITI was around 11% lower than the 15% that we are targeting. With the pandemic largely coming under control and restrictions being removed, we are optimistic that we will be able to help our customers better understand the advantages of these products. We believe these new products will help us gain better market share in certain underserved markets, such as Madhya Pradesh, Uttar Pradesh and Rajasthan across crops, such as soybean, wheat, and certain segments of paddy.

From an outcome point of view, our domestic herbicide business grew well at 20% year-on-year, in line with our strategy of increasing the share in this category. Insecticide and Fungicides category grew as well at about 5%. We have continued our footprint expansion. Our retailer count was around 55,000 and our distributor count was around 4,100 compared to 47,000 and 3,900, respectively. Our trade terms introduced a few years back, have been well received by the dealers and our cash flow is improving steadily. The Crop protection segment within crop care continues to do well, with a Q4 year-on-year growth of 17% and an annual growth of 20% over the last year. In FY '22, we have added six new products in the crop nutrition segment, two in-house and four co-marketing. All these products -- both these in-house products branded as AQUAFERT are well differentiated water soluble products with, customized formulations for apple and the cotton crop. Three of the co-marketing products are from the bio-pesticide



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category. All these products have been received well and have a good response from the market.

Moving on to our Seeds business, while Q4 performance was steady, the overall performance for the year has been soft given the industry-wide challenges. Increased demand for illegal herbicide tolerant cotton seeds during the year, impacted the overall growth momentum and profitability of the business. Our efforts in recent years have been directed towards addressing the seasonality of our portfolio by building up our Rabi portfolio. We are also taking steps towards building our presence in the vegetable seed space. We have also been focusing on optimizing our cost in line with the revenues we have been able to generate in this segment. Our retail footprint and the Seeds business was around 38,000 compared to 31,000 during the previous year-end, although we have rationalized our distributor count. We are hopeful that the recent steps will help us in addressing the current problems impacting the business.

Moving on to the international business, despite the external challenges, we have been able to deliver consistent growth in our exports business in recent times. Despite challenging environment for one of our products, Metribuzin, all other products have seen good traction and volume. Demand for Pendimethalin and Hexaconazole continues to remain strong. We have also undertaken capacity expansion and debottlenecking of capacities for some of our products, given the strong demand momentum and visibility. Capacity expansion undertaken for Kresoxim-methyl, Acetamiprid and Lambda-Cyhalothrin have all started contributing to the overall growth of the business. The other positive development, which we have been consciously working towards is increasing our share of formulation business in our exports portfolio. As mentioned in the previous call, we have successfully registered Acephate formulation in Brazil and expect to start some business during H1 of the current financial year. RM costs have been trending higher, particularly since, November of '21 is contributed by many factors. We have focused on taking calibrated price increases, keeping our brand strength, competition etc in mind. On a year-on-year basis, our realizations have improved by around 5% in the domestic crop protection segment and 14% in the international business. However, these have not been sufficient to fully offset the cost increases, which have resulted in margin compression. We are continuing to focus on value engineering, cost reduction, careful sourcing and calibrated price increases to deal with the challenging scenario. We have also been working on diversifying our supply sourcing for some of these key materials. While the percentage of raw materials procured from China is still in the 50s range, we now have very good, viable options from within India for some of our key raw materials. We have commenced sourcing from India, some of these, in addition to China. These sources provide us flexibility and security amongst challenging times.

In terms of our next growth triggers to the business, as most of you are aware, we have embarked on a Capex program to scale up the capacities of some of our existing products while at the same time towards introducing newer products. In this regard, we are on track towards introducing one new AI, Difenoconazole from the new Multi-purpose plant in FY '23. Our new formulation facility at the Dahej CZ is also stabilizing and is gearing up for larger volumes in FY '23.

Moving onto the Contract Manufacturing business, our performance in this segment has been fairly benign, largely owing to limited attention and investment towards developing and scaling up this business. One product, PEKK is primarily used in the aviation business, which, given the pandemic related issues, hasn't



seen much offtake in the past two years. We are committed towards developing the contract manufacturing business with a team now in place, both at the business level, as well as the R&D level to support the business development activities. As mentioned in the Q3 call, we have confirmed two new contracts, which although small in size and not material, mark the first step towards winning new business in the Contract Manufacturing segment.

I would like to reiterate that operationally, we are undertaking the requisite steps towards driving each part of our business. The growth run rate for the business remains strong, as structurally, the sector is well poised to benefit both from growing local and global demand. Additionally, with China plus one theme gaining momentum, the sector is well placed to deliver growth consistently over the coming years. With investments for expanding capacity of our manufacturing operations, we are positioning ourselves to meet the growing demand for agrochemicals.

There is a positive sentiment, as far as agriculture is concerned, both globally and domestically, given the positive commodity prices and monsoon outlook. We are positive on our growth outlook crop care business, both domestic as well as international. Looking forward, as far as Q1 is concerned, we expect the market volatility to continue on input availability and RM pricing front. This would require us to demonstrate agility and resilience in terms of right competitive pricing and keeping the eye on overall volume growth. For crop care, managing right pricing and protecting absolute EBITDA value would be a priority. We have already seen a 15% plus cost inflation in Q4 on a year-on-year basis. We may see the percentage margin coming under pressure, given the steep pricing impact in sales value. However, we believe that this is the right thing to do to protect our long term growth. While all efforts are on to source our key raw materials, difficulties on account of logistics out of China are continuing to create some uncertainties.

On the Seeds business, we are preparing for Kharif '22, and the focus is to ensure optimal placements with adequate caution. To liquidate the large inventory we are carrying in seeds, we anticipate undertaking prudent commercial interventions, as well as strong market activation efforts. These are likely to impact EBITDA margins. However, we believe successfully navigating this phase will provide us long term benefits during the course of the year.

With that, I conclude my opening remarks, and over to you, Subhra, for a quick update on the financials.

**Subhra Gourisaria**

Thank you, Sanjiv and good morning, everyone. Thank you for joining us today in our Q4 earnings call. Let me quickly walk you through our financial performance for the quarter and the year, post which we will commence the Q&A session.

Starting with top line, our revenue for the quarter stood at Rs. 508 crore, compared to Rs. 471 crore reported during the corresponding quarter last year, higher by 7.7%. The growth could have been higher, but for the extreme shortage of one of the key raw materials, which goes into a technical, coupled with a phasing issue of one of our international customers. Domestic business continued its trajectory of double digit growth momentum with well balanced growth between volumes and price. Growth is across different segments and it's on the back of huge uncertainty and volatility seen in the market in terms of managing pricing transition while ensuring the inventory in the market remains at a manageable level. The international business growth is buoyant and would have been in double digits, but for the disruption due to the reasons I mentioned above.



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For Seeds, growth has been flat in a quarter which is relatively small for us. All efforts are focused on Kharif '22 preparation. In terms of margins, our EBITDA margins for the quarter is flat. EBITDA was impacted by the opportunity loss due to the non-availability of raw material for a key technical and export phasing in international business for a key customer. This has impacted by EBITDA by about Rs. 10 crore. Furthermore, we absorbed a hit of Rs. 8 crore, largely coming from the provisions we recognized on the slow and non-moving stocks in Seeds business given the performance in the last season. Had we not had these profitability issues, our EBITDA margins for the quarter would have been in a range similar to last year.

PBIT was also impacted by higher depreciation on the capitalization -- on the capacity expansions completed during the year. Regarding margin compression, our pricing is based on competitive intensity and affordability of the end consumer while protecting the volume. Despite taking a 16% increase on overall crop care portfolio, our pricing has been insufficient to recover the cost inflation in absolute term. Also, as Sanjiv mentioned, this causes an impact on managing pricing and margins in percentage terms. Inflation is not only in raw materials, but across all lines, freight, inland, ocean, packaging materials, and energy costs. PAT for the quarters stood at negative Rs. 14 crore, as against Rs. 8 crore in the base period.

Moving on to individual businesses, domestic crop care business performed well, despite external challenges, weather and high raw materials related. Despite the hurdles, we were able to deliver a growth of 25.1% for the quarter on the back of better product mix and price hikes. Besides product introductions, we have also been working towards widening our distribution network, which aided sales growth during the quarter. As far as international business is concerned, we continue to maintain the recent momentum in the business on the back of good demand for most of our products. Metribuzin as well indicated in the last call, has started performing well. Newly introduced products, registration in newer markets, coupled with better product mix i.e. shift towards increasing the share of formulation products has sustained growth and margins.

Moving on Seeds business, revenue for Q4 remains relatively steady. However, for the year as a whole, we saw a revenue degrowth of 13%. The performance during the year was largely impacted by increased demand for illegal herbicide tolerant cotton seeds, government bans, et cetera. We are undertaking steps towards addressing these issues and our hopeful of overcoming them in the coming years.

On a full-year basis, our growth is 7.2%, which is split between crop care growth of 11.2% and seeds of 13%. In fact, if we remove the spillover effect of the revenue loss in international business in Q1 of financial year '21, and the business loss in Q4 this year, our growth in crop care, would've looked upwards of 15%. We've already spoken about the challenges in Seeds business, and the focus is on profitable growth while undertaking major steps on rejuvenating the portfolio. EBITDA percentage for full year stands at 10.5% as against 13.3% in the base year. This is impacted due to pricing volatility and inability to fully absorb seed inflation and the mix led headwind because of degrowth in seeds. Our Seeds business contribution to overall revenue during the year, dropped by 3%. Given that this business makes higher material margins in the range of 15% to 20%, our company margins have been impacted by 50 bps by this shift in mix alone. For this fiscal, EBITDA stood at Rs. 274 crore as against Rs. 323 crore reported during previous financial year. PAT for the full year stood Rs. 164 crore as against Rs. 229 crore reported during the last year.



The Board was pleased to recommend a dividend INR 3 per share in view of our business direction in line with a growth strategy and our dividend distribution policy. On Capex, our overall spends during the year amounted to Rs. 185 crore, and we expect additional cash flow of Rs. 250 crore during FY '23. We are well on track to work commissioning the MPP at Dahej during FY '23.

That concludes the opening remarks. We can now commence the Q&A session.

**Moderator** Thank you very much. The first question is from the line of Aditya Jhawar from Investec Capital.

**Aditya Jhawar** My first question is on the international business. As you mention that the outlook is very encouraging. However, how is the line of sight of improvement in supplies of one of the key critical molecule that you mentioned and how is the capacity ramp up happening? So how should we look at growth in export business, in FY '23 and '24?

**Sanjiv Lal** See, as far as our international business is concerned, we did have a supply chain disruption on one of the key starting materials for Pendimethalin. This is coming from China, which had led us to advance annual shutdown from Q1 into Q4. Apart from that, I would also just like to add that most of our manufactured products have been running at full capacity, and we have produced the highest ever quantity of Pendimethalin during FY '22. We have, of course produced the highest ever Kresoxim-methyl. We've also produced Acephate at the full capacity of that plant and the limits that we have by way of our license. And also we introduced two new products. Metribuzin, we are expecting that this plant will also be running at capacity towards Q3 as we have started now building up an order book for Metribuzin.

And the securitization of key raw materials, that is another important step that we had undertaken during FY '22, for some of the materials that we were 100% dependent on China. So that dependencies are of course smaller key raw materials. So these have been developed through local, sources in India. And also, for one of our key raw materials, we have entered into a long-term supply agreement with an Indian partner. So we'll continue to work on de-risking our key raw material supply chain. And one more -- all going well, we should start the capital investment towards Q3, for securitizing one more intermediate, that we import from China. Does that answer your question?

**Aditya Jhawar** Yes, absolutely. So just one, follow up on this. So Metribuzin, you mentioned there were challenges and so Pendimethalin, clearly the issue was more on the raw material side. What were the challenges, Sanjiv, on Metribuzin, and how things are unfolding going ahead?

**Sanjiv Lal** So Metribuzin, as we have indicated that there has been a high inventory overhang in our key market. So that is now getting fully resolved. And that's why I mentioned that our order book has started building up for dispatches starting July. I'm talking about some of our big customers. So we see Metribuzin also bouncing back towards Q2.

**Aditya Jhawar** Perfect. Perfect. And you mentioned that phasing issue with one of our international customer, can you please elaborate on this?





- Sanjiv Lal** So actually, what happens is that, for example, where we've got certain contracts for supply of material, so between one quarter to the next quarter, there is a phasing issue, and this is what happened to one of our dispatchers. It's got nothing to do with the overall volume of business that we did in that contract.
- Moderator** The next question is from the line of Prashant Biyani from Elara Capital.
- Prashant Biyani** Sir, in our technical business, we might have also benefited from higher prices this year. So, despite that we have seen, crop care EBITDA margins declining by almost 200 to 300 basis points all through the year. So is it that the margin pressure in formulation business is so sharp that it is offsetting all the benefit from the technical business or even in technical business, we have sort of reduced our margins and playing for higher volumes?
- Sanjiv Lal** So may I request Subhra to just take that call, and Naga, if you'd like to add something after that.
- Subhra Gourisaria** Yes, sure. So, as we mentioned in our opening remarks also, our endeavor is firstly to go after volumes. And we saw 16%, kind of cost inflation coming in the last quarter alone. We're taking price increases, but it's been insufficient to manage the kind of price hikes that the cost inflation warrants for it. And this I'm talking about protecting the absolute rupees crore of cost inflation.
- Furthermore, you can understand that in terms of percentages, just because of the steep increases, it will cause a dent on the percentage EBITDA margin. So it's not a problem for formulation or technical, but it is an overall considering the inflation that we have seen in the last quarter, and the inflation -- you would've seen our investor deck is across raw materials, freight, gas prices. So when all of these have hit us one quarter, two quarters, it has become difficult to manage the transition.
- S Nagarajan** Yes. Maybe I can just add on to what Subhra said, Prashant, from a market point of view, domestic, international, if you were to kind of look at it, I would say that the ability or the challenge to fully pass on the cost increases is a common challenge. It depends on the products, it depends on the markets. However, what we have prioritized is to try and increase the volumes so that we are able to, like what Sanjiv mentioned, keep our plants going almost to the full capacity from a technical point of view.
- Between technical and formulations, the pressures are in both, but formulation, as you know, is largely a domestic play from our point of view. And there, along with the increases in the raw material for the technicals, you also have increases coming through because of the crude oil impact, all of that, which has happened. So things like solvents and all also have gone up in terms of cost.
- So I would say, at an overall level, it is difficult to distinguish whether it is an isolated pressure or not, it is actually common for all the markets as well as for technicals and formulations between the two categories as well.
- Prashant Biyani** Secondly, sir, how is the demand in Kharif season looking like in both seed and agrochemical, whether we are seeing the menace of illegal cotton seeds impacting our Seed business this time as well? And also while dispatching Q1 ag-chem products, have we passed on full cost inflation?



**S Nagarajan**

So in terms of the external environment, I think things are definitely looking very promising at this point in time, Prashant, whether it is the forecast of a good monsoon -- normal monsoon or whether it is in terms of the commodity prices that are ruling right now. As you are aware, crops like paddy, for example, are up 17% compared to last year and certain other crops are higher even more in terms of crop prices. In terms of our own actions, whether it is in both the Crop Care business or in the Seeds business, we have been focusing on increasing our retail footprint. We have made good progress during the course of FY '22 and we continue to do that for FY '23 as well. That will allow us to help scale some of the new products that have got launched over the last three years, where, as we indicated, we still have some distance to go in terms of achieving the revenue objectives for each of those products.

Specifically, in terms of seeds, illegal HT continues to be a problem. There is no doubt about it. Last year, the proportion, we understand, reached almost 20%, 25%. So that is something which we will continue to face, we believe, even in FY '23. In fact, it is in that context that we want to be fairly careful with regard to our placement, learning from what we had gone through last year in terms of the returns that we witnessed during Q2, we are moderating or carefully placing in quarter 1 of FY '23.

In terms of the ability to pass on the prices, we have taken significant price increases like what was mentioned earlier. On an average basis, if you see year FY '22 versus year FY '21, we have had a 5% increase in terms of price increase like-to-like, right? If you take an average across the year for the same set of products and that was 13% if you calculate that for quarter 4 -- over quarter 4 of last year. So it's actually on an increasing trend, 5% is the average FY '22 over FY '21 and Q4 of FY '22 over Q4 of FY '21 is 13% for domestic, which is also equally strong in the IBD market or the international market. The corresponding figures being 14% and 19% which was what was mentioned in the opening remarks also.

So we think these are significant increases. But obviously, when we take these increases, we are calibrating it in line with what the market is able to bear, the strength of the particular brand, if it is a formulation or even the AI, the competitive intensity, which is there. Our experience in FY '22, like, has been noticed by you or everybody is that the full translation of the cost increases into price benefit has not been possible. We are thinking that we will continue to have these challenges going forward and that is why we are out looking that we will try to protect the rupee value of the EBITDA, which means we try to get the volume growth even if it means that the percentage margins may come under pressure.

**Moderator**

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

**Tarang Agrawal**

Two questions from me. One, given the robust agro commodity prices, would it therefore be reasonable to conclude that we'll probably see higher acreages this Kharif? And if so, which crops are you looking at this time picking up?

**S Nagarajan**

Well, certainly, the crop economics as predicted by various agencies has improved in FY '22. And certainly, the outlook is looking very good, chiefly driven by the commodity prices. But this is actually happening in pretty much almost all the crops, right? I mean I think you are finding it in paddy, you're finding it in bajra. If you just look at maize, for example, it is 35% up commodity price for maize year-on-year. Bajra is up 58%. Cotton also, as you know, is up by more than 50%, 55%.



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So really speaking from the core seeds portfolio that we have, all our crops are outlook good commodity prices. If you look at from an agro-chemical point of view, also these are significant drops. Also in terms of vegetables, we are hoping that the recently witnessed increases in tomato or chilies, all of these will persist. So one should really feel quite optimistic and that is what we are feeling about with regard to all the crops, no specific crop to call out specifically.

**Tarang Agrawal** But broadly, do you think maybe 3% to 4% growth in acreages, would that be a fair sort of a outlook?

**Sanjiv Lal** I think there is a Crisil outlook on this. They had flagged maybe some 2% drop in cotton.

**S Nagarajan** Yes, I think it will probably be in that range overall if you take all crops and all acreages. At the macro level, things are looking good. We are obviously not such a large player to really be focused on the market movement. We have our focus on the areas which we will be working on.

**Tarang Agrawal** Got it. And second, I mean, in Q4, we saw the domestic CP business move up by about 25%. What drove this? Was it price driven volumes, some color?

**Subhra Gourisaria** So what I was saying is domestic business, 25% is well split between prices and volumes. You can consider that 12% is driven by volume and a similar 12% to 13% is coming from price group.

**Tarang Agrawal** So is this placements for Kharif?

**S Nagarajan** Well, it is not really because as you know, we have carefully calibrated our placements so that the trade inventory that is there at the end of March is something which we are comfortable with. In fact, we are quite comfortable with the trade inventory or the channel inventory that we are carrying. So it is largely the requirements for Q4. There is of course, a small amount of placement towards Kharif, but I would say most of it is for the Q4 requirements.

**Subhra Gourisaria** Yes. And we consider sales return in terms of accounting for whatever is as per for Q1. So this is not considering the Q1 placement.

**Moderator** The next question is from the line of Saurabh Kapadia from AMSEC.

**Saurabh Kapadia** Sir, first question on the international, you mentioned about the phasing out of the clients. So is it fair to assume that the volume will come back in the Q1 of your loss of business?

**S Nagarajan** No, there is no business loss at all. It is like what Sanjiv mentioned earlier, based on the shipment schedules of different customers, there is a phasing that happens and that has been pointed out in the investor presentation more to provide a context for comparison. There is no loss of business.

**Saurabh Kapadia** So what would be the value of this particular aspect?

**Subhra Gourisaria** So we had an impact in EBITDA terms of Rs. 10 crore because of the raw material shortage and this phasing issue. You can consider 20% to 25% in terms of the margins at a material margin level that we make on this. So on a safe basis, you can consider Rs 50 crore of impact coming from revenue perspective.



**Saurabh Kapadia** The other -- on the international business, the raw material issues. So are we now having enough inventories for the key raw material so that we don't face no production cuts?

**Sanjiv Lal** No, I think we are still navigating through a whole lot of logistics issues out of China. And unless we really have the material in an Indian port, it is very difficult to confirm that we have all raw materials. So it is certainly a bit of an uncertain period, but the team is working towards ensuring that we receive all materials.

**Saurabh Kapadia** And lastly, on the domestic side. So given the better crop economics, do we see that in the upcoming season, there is a possibility of no specialty molecules being more in demand or growth will be better in the specialty molecules and where farmers will invest because they have a higher income level?

**S Nagarajan** Yes. I mean, certainly, I think that is certainly what is our zero base or base level expectation. But I just want to caution that two years back when the pandemic came, there was a feeling that there will be a lot of down-trading that will happen and some of the specialty products, which are, let us say, more premium in nature, may not really find traction.

That was not proven to be the case for a couple of reasons. One, of course, the pandemic was in that time really starting out in the urban areas and maybe the impact in the rural markets was somewhat less. And maybe when the farmer perception also was that when there is a problem, then he was prepared to sort of buy even premium products.

**Sanjiv Lal** I think with the positive commodity price trend that we are all seeing, the farmer will invest in his crop.

**Moderator** The next question is from the line of Abhijit Akella from Kotak Securities.

**Abhijit Akella** Yes, So one was regarding the inventory buildup in the Seed business that you had talked in the opening remarks. If you could just quantify what the value of that inventory is and whether you envisage any need for any further inventory write-offs in coming quarters?

**Sanjiv Lal** So while the inventory levels are quite high because of the high sales return that we have got, we have made a provision during Q4. And depending on how Q1 pans out, we will take another call on whether we need to make certain provisions on seeds as well. Subhra, you'd like to add something more?

**Subhra Gourisaria** Yes, so our inventory levels in certain hybrids, depending on the way the season is, we will just review the requirement in Q1 if there is any requirement for provision.

**Sanjiv Lal** The issue, is that on the illegal cotton side, our understanding is that the availability is likely to be even higher than last year of illegal cotton. So we do certainly see this challenge not disappearing during the course of the year.

**Abhijit Akella** Okay. And sir, my second question was with regards to the new molecule that you announced, Difenoconazole. So if you could put some color around what the market size or potential there is and what kind of position or market share Rallis might target in that?



- Sanjiv Lal** So, this will build up over-time, as you're aware, that it has to go through a registration process in the key markets. So, all the process has been commenced for getting registration. So I would say, in the initial two years, we may be able to only export it to certain markets where there is some flexibility in terms of registration.
- Flexibility, what I mean is that the process is easier. So, it will build up over a period of three years. So first two years is likely to be low -- but it's a good molecule. So we expect that in year three and year four, it will start really scaling up. We are building a Multi-Purpose plant, so we've got alternate products, which will be used for capacity filling.
- Moderator** The next question is from the line of S Ramesh from Nirmal Bang.
- Ramesh S** My first thought is, if you're looking at your focus on rupee value and volume growth and the potential negative impact on margin, so it means you're looking for a trade-off at some point. So when do you see your asset turns improving to a level where your strategy of focusing on absolute EBITDA that your volumes will offset any pressure on margins and thereby, we can see growth in the EBITDA and PAT level. What is the kind of time line you envisage?
- Sanjiv Lal** So the margin pressures, we expect them to continue. In fact, we are out-looking at least for Q1 to be soft. Of course, there will be a makeup during Q2. So we will expect a good H1 performance.
- And as far as the margins are concerned, as mentioned, we will be trying to pass on as much cost inflation in the pricing of the product. But we have to be realistic in terms of the competitive pricing. We will of course be prioritizing our growth and capacity utilization of our assets to the maximum extent possible. Would you like to add something more, Subhra?
- Subhra Gourisaria** So, in terms of asset terms, we anyway commission any capacity looking at the IRR of the plant and that is something that we will constantly target. But many of the Capex investments that we have undertaken are in the process of commissioning, and that's something that we will constantly keep looking as to how to improve the asset turns
- Ramesh S** Okay. So can you share what is the value of the assets you have capitalized as of March '22?
- Subhra Gourisaria** So that has come through in the balance sheet as well. So our PPE has gone up largely coming -- one of the biggest capitalization that we have done as the CZ plant, which got commissioned in quarter 4 of the year, plus the various debottlenecking that we have done. So our PPE has gone up in the range of INR 140 crore to INR 150 crore. I will tell you the exact number.
- Sanjiv Lal** So in terms of depreciation also in Q4 -- Q1 FY '23 over Q1 FY '22, there will be an increase in the depreciation also when we present the Q1 results.
- Subhra Gourisaria** Yes, coming on the back of the capitalization that we've taken.
- Ramesh S** Okay. So one last thought, can you share the value of the international revenue for fourth quarter FY '22 and full year FY '22.
- S Nagarajan** The overall international revenue is about Rs 780 crore for the full year.



**Subhra Gourisaria** Quarter number Rs 215 crore to Rs 220 crore.

**Moderator** The next question is from the line of Resham Jain from DSP Investment Managers.

**Resham Jain** Yes. Hi, good morning sir. So I have just a question on the overall farm economics, and you did highlighted some of the stuff in the previous comments. But we have seen like three back to back good monsoons. This will be the fourth one, and we have also seen a significant increase in crop prices across board. So just based on your analysis, how much farmer income would have or would go up given the current crop prices in the current context. Will it be like 5%, 10% or will it be like 20%, 30% you have? Because based on that, your strategy of upselling of products might be determined. So just to understand that part.

**S Nagarajan** Yes. Actually, we have a view that there will be a positive improvement in the crop economics. There are multiple levers that play in here, right? One is, of course the sown area, the productivity changes, and then the profitability itself coming out of the pricing, the commodity prices. So if you see at an overall level, yes, it will probably be in the maybe 5% kind of a range. That is what we are feeling. Of course, it can vary from crop to crop. Certain crops can be significantly improved. But all the crops, we do believe, are going to benefit. That is what is our base view, 5% at an overall level.

**Resham Jain** Sir, my second question is on the overall inventory level. How do you see the inventory levels in the market? As you mentioned, you have done sales return and kept the channel relatively in a range-bound manner. And similar to that, I think we are hearing similar stuff from the industry perspective also. So how do you see the overall inventory levels in the industry of agrochemical products?

**S Nagarajan** Certain companies in our understanding certainly have more trade loading in the Q4 of FY '22. From our point of view, we are comfortable. Our levels from a volume standpoint are pretty much similar to what they were last year. Value-wise, they are higher because the values of the prices have gone up. The costs have gone up. But I think in terms of quantitative terms, we are similar to last year and we believe that is a fairly reasonable level to carry in terms of trade load.

**Moderator** The next question is from the line of Rohit Nagraj from Emkay Global.

**Rohit Nagraj** The first question is in terms of the placements for Kharif season. So you've mentioned that there are challenges in terms of sourcing certain materials from China. If that continues for another couple of months, will it have an impact on the placements for Kharif season or are we more or less secured from the supply point of view?

**Sanjiv Lal** No, I think the issue was not general in terms of sourcing out of China. We had a difficulty with one particular input. And I've already mentioned that we are working towards ensuring that we get enough of that quantity so that our plant can run fully. On the other materials, there is no other issue on other items.

**Rohit Nagraj** Got it. So it's only about the pricing and nothing about the availability, if I am right to understand.

**Sanjiv Lal** Apart from one product where we are still working through ensuring that we get material, it is only an issue about pricing. And availability is not an issue.



- Rohit Nagraj** Second question is in terms of the volatility due to interim events like crude has gone up. If the volatility comes down, we've seen historically that the margin pressure is normally borne by the manufacturers. So if the volatility goes off in the next couple of months, is it possible that we will not be able to increase the pricing and that may exert some pressure on the absolute EBITDA?
- S Nagarajan** Yes. No, I think it will be product specific. There will be certain products where we think we will be able to sustain the premiums based on the level of differentiation of those products, but there could be others where there could be more competitive intensity, which can lead to a decline in prices. But we are not actually thinking that as the base case scenario because whatever we are hearing, we are actually finding that the costs are not really abating.
- Rohit Nagraj** Just one clarification on Capex. What is the expected Capex for FY '23?
- Sanjiv Lal** So we are out-looking cash flow of approximately Rs 250-odd crore.
- Moderator** The next question is from the line of Saket Kapoor from Kapoor & Company.
- Saket Kapoor** Sir, in your presentation, it has been mentioned that the steps are being taken to drive top line and bottom line. So sir, if you could elaborate where are we in midst of this drive to improve the top line and the bottom line, and the factors that are negating our steps going forward, maybe the raw material and then also the inventory write-down. So if you could elaborate more?
- S Nagarajan** I think in terms of the efforts to increase our top line or our business overall, two, three levers, which we have been focused on. One is, of course, in terms of increasing the portfolio of products that we have. We are talking about both the domestic business as well as the international business. Second is to have manufacturing capacities to be able to support the increased volume expectations. Third is in terms of our distribution and business development, whether it pertains to the domestic business or to the international business, including registrations in the case of the international business.
- I would say we are in the midst of this journey. As far as the product launches as well as the distribution reach is concerned, Sanjiv already mentioned, the increases that we had in the last couple of years. We still have some distance to go. As far as the active ingredient, our MPP, new active ingredients, Difenoconazole is the first one to come out of the new MPP which we are expecting to commission in the later part of FY '23. But there would be more AIs that we are working on as well I would say that is in a little bit of an earlier stage compared to formulation because formulations, we have been able to make much faster progress.
- In terms of international geographies, we are working in terms of improving our market access through registrations of source inclusion. That is a continuing journey. I would say that is also somewhat at an early stage. So you could say that we are somewhere between early to mid stages in terms of an overall progress. We have still some distance to go.
- Saket Kapoor** So this looks to be even a tougher year taking into account the variables which we are facing, the headwinds which we are facing, they are going to have an overhang on the performance, the factors which are to-date on the anvil.



- Sanjiv Lal** Yes. Let me just give a perspective to that. See, the overall agriculture, whether it is local or global is looking positive, and we've already discussed the factors that are contributing towards the positive outlook. Second, there is a commodity price increase that is getting passed on to the extent possible. The other is that with the expected investment that the farmers will do in agriculture, we expect the volume growth to also happen.
- And as we've mentioned even in earlier calls that as far as our domestic business is concerned on Crop Care, we have got a product portfolio, we have got ground level activities, we have got a distribution network, which we are continuing to build which gives us the confidence of being able to grow better than the average of the domestic industry.
- So we are continuing to outlook a good domestic business. But those volatility and uncertainty issues continue to remain. And with the situation that we're all experiencing in Europe with the Ukraine-Russia crisis, these things are yet to fully play-out in terms of crude oil prices, in terms of price of solvents, price of packaging materials, all these cost inflations will have to be passed on. And to the extent that the competitive pressures allow, we will be taking all those steps that are necessary to protect our profit margins.
- Saket Kapoor** Yes. The small point is about the utilization levels from the new capacity, the one which we have commercialized of late in the month of April and also on the employee cost front. If you look at the total sales, the percentage of employee cost on the total sales, do we look that these employee costs are rationalized or do we think that going forward, the percentage is going to be lower. If you look at it, 9% to 10% is our employee cost.
- Sanjiv Lal** So the employees are our core strength. And of course, this is a business which requires good resources, both at the manufacturing level as well as the field level for customer connect, market connect, market activation and all of that. So we believe we've got a very good team. We have very good employee engagement across our company. With our growth plans, we will get the operating leverage that our employee base will give us.
- So we are extremely positive on our current employee strength. Of course, we have commissioned a new plant -- formulation plant in the Dahej chemical zone. That has been resourced. We are coming towards construction of the completion of construction of our Multi-Purpose plant. That will also be appropriately resourced, so that we are able to fully utilize the assets as we commission the plant.
- Saket Kapoor** So going forward, what would be the contribution to top line? And at what level these capacities will be breakeven, sir.
- Sanjiv Lal** See, for example, the capacity that we have built for our new formulation plant that has got adequate capacity to take care of many future years, and we will keep adding more and more lines as the business needs keep building up. So we will be looking at a reasonably good capacity utilization by the time we get to H2 for the current financial year for our new formulation facility.
- Moderator** The next question is from the line of Somaiah V from Spark Capital.
- Somaiah Valliyappan** My first question is on Metribuzin. You did mention there is a bit of a challenge in terms of high inventory in key markets. So can you just help us understand which





markets you're referring to? And is it something specific to Metribuzin or in general herbicides portfolio there?

- Sanjiv Lal** No, this is specific to Metri in the U.S. market only. And we are now seeing unwinding of those inventories, which is helping in building up our order book now.
- Somaiah Valliyappan** Second question is with respect to China sourcing. So obviously, multiple headwinds there in terms of RM prices, crude is one. And also, could you comment anything on utilization rates in China for these plants? Was it something that was on the lower side? Is this something that you're expecting to get better? How big is this a driving factor? Any excess supply you see for any of the key RMs coming up in China. Could you help us understand a bit more in terms of what are the factors that are causing these RM pressures in China? That will be helpful.
- Sanjiv Lal** From our understanding, I think the key issue, which is really driving availability out of China is related to the way they are managing the COVID pandemic in that country. So it is affecting the operations of some factories. And more recently, the issue is on logistics as some of the ports have been closed because of the spread of the virus.
- Somaiah Valliyappan** And anything on the plant utilization level. So sir, for example, last year, the level of utilization and then probably in the last five, six months, the levels of utilization. Is that something also that has impacted RM supply?
- Sanjiv Lal** So I'm not able to comment on that because we don't have full insight on capacity utilization in China.
- S Nagarajan** In specific cases for some of the raw materials that we are dependent on, we have certainly understood that they have been constrained to closed earlier because of the dual control policy because they are located in certain provinces or now there are challenges arising because of the COVID control, zero-COVID approach. But these are all very, very specific to what we are exposed to not at an aggregated level, overall levels of utilization.
- Moderator** The next question is from the line of Nitin Agarwal from Dam Capital.
- Nitin Agarwal** Sir, my question is on the Seeds business. Two questions. One is, on the illegal BT cotton that you mentioned, the seed menace which is there. I mean, how do you see this thing playing itself out over the next couple of years? I mean, we heard that there was a productivity issue around these seeds. So that would have probably led to farmers probably moving away from them. But your comments seem to suggest on the contrary. So how does this play out in terms of over the next few years in terms of industry getting an upper hand over this issue?
- S Nagarajan** We can say what are the variables at play here. One is certainly that what you're saying, there have been quality issues which have been faced by some of the farmers because these are, at the end of the day, unauthorized sources with rather limited QC procedures. But on the other hand, you do have the other aspect that there are also farmers who have felt that it has been beneficial for them in terms of overall economics.



Of course, we are also aware that there are moves to officially introduce herbicide tolerant and insecticide resistant cotton seeds in the country. So that's the third dynamic or the third variable that is at play. We think that it is not something which will go away in a hurry because this has been building up over the last many years, as you know, and it has reached a fairly large volume, 20%, 25% of the market. So that is why we were mentioning in the earlier part of this call that we think that this is an important aspect we will have to recognize and deal with.

**Nitin Agarwal**

And sir, secondly, on our Seed business, now with all, this being the backdrop in terms of the largest volume sort of crop being under pressure being there in the crop, I mean how are we looking at our own Seeds business over the next, say, three, four years? What kind of crops are you looking at incrementally targeting?

**Sanjiv Lal**

No. In terms of our portfolio, we are not going to be adding to any field crops because we are well covered in terms of the field crops. We do have a requirement for beefing up our Rabi portfolio. So that efforts continue. As far as cotton is concerned, we are being a little more cautious in terms of what we expect from this category. We have launched some very good hybrids in cotton this year. And our efforts are to get good traction for these new hybrids. Diggaz is one of them. And all going well, we expect to be scaling up on some of these new products that we have launched.

But overall, we are little cautious on the cotton category for the reasons that we have discussed. And also, we do have fairly high inventory from the returns that have happened last year, which we will be working towards liquidating during the course of the current Kharif.

**Moderator**

The next question is from the line of Bhavya Gandhi from Dalal & Broacha.

**Bhavya Gandhi**

Sir, I just wanted to understand our production from pyrethroids range. So is the supply chain of pyrethroids unaffected?

**Sanjiv Lal**

See, the only one which we are currently producing is Lambda-Cyhalothrin. And there is a good demand for pyrethroids in the international market as well.

**Bhavya Gandhi**

Okay. But I think Lambda as said, again, gets imported from China because in India, nobody prepares Lambda asset, right? So is this supply chain affected?

**S Nagarajan**

I mean, affected every raw material, which is coming in -- you are right, Lambda-Cyhalothric acid is imported, and there is an impact because of the supply chain difficulties, but not so much as to disrupt the production itself. And in any case, our Lambda-Cyhalothrin capacities are not very, very large. So I think we -- from our point of view, I don't think that's just not such a significant issue.

**Bhavya Gandhi**

Okay. And sir, are we not focusing on pyrethroid range because it's gaining traction globally and the realization also seems to be better compared to our organophosphate compounds. So what's your take on this?

**S Nagarajan**

Yes, synthetic pyrethroids are definitely a good category. And that is why, if you recall last year, we had created -- we had invested in this dedicated Lambda-Cyhalothrin facility. Prior to that, we used to produce it only on a campaign basis out of a single plant, but we do recognize that, and this is something which we are factoring into our future strategy as well.



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**Bhavya Gandhi** And my final question, we have entered into a long-term supply agreement with our local partner, right? So will it affect our cost of procurement on a regular basis because it will be always at a higher cost vis-a-vis procuring it from China, right? Does it mean that our margins would remain under pressure for a longer period?

**Sanjiv Lal** No. Actually, there's nothing to suggest that the pricing would be any different from importing the material. So we are not seeing that as an issue.

**Moderator** The next question is from the line of Vishal Biraia from Max Life Insurance.

**Vishal Biraia** Now that you are looking at alternate sources of procurement of key starting materials and deals. So how would the reliance on China moving over the next few years?

**Sanjiv Lal** Currently, we have about 50% of our key starting materials coming from China and we will certainly be looking at reducing this dependence over the next two to three years. And as mentioned, one material we have already to a large extent derisked, which will be sourced locally from FY '23 to a large extent, and also two other materials which we were importing, although smaller in volumes, those will be also locally sourced. And a fourth key intermediate, we will perhaps be undertaking at our own facility. So for that, we will commence some capital investment towards Q3. So I guess over the next couple of years, our dependence on China will be significantly reduced.

**Vishal Biraia** So would it be fair to assume that in, say, the next four years, it would be less than -- it would come down to about 20%, 25%.

**Sanjiv Lal** Well, we don't have a number to that. Perhaps we can work it out. And during our next quarter call, we can give some outlook on where we expect our import percentages to be. Perhaps in the next quarterly call, we will update on the outlook we have for key raw material sourcing from local suppliers or non-China suppliers.

**Vishal Biraia** Okay. And the other thing in terms of the new kind of contracts that you are entering into in terms of the procurement of raw materials, so how are these contracts getting structured in terms of these are on pricing -- I mean if you could elaborate as to how will be pricing structure?

**Sanjiv Lal** No, these are for different materials structured differently. And we would not like to get into specific contract structures.

**Vishal Biraia** Okay. But in general, is there a change with the kind of volatility we've seen, the kind of operation that we've seen even for the whole value chain? So is there a move that everybody is moving to a very short-term contracts and just the pricing are determined on -- I mean on say, monthly business or fortnightly basis, anything of this sort?

**Sanjiv Lal** No. I would just like to say that whatever arrangements we are getting in for local supplies, these are all long-term arrangements. These are not spot arrangements.

**Vishal Biraia** Okay. How would the price be determined? Price would be negotiated for that particular batch of products or pricing would also be linked to long term arrangement?



**Sanjiv Lal**

I think it will not be prudent to get into those kind of details, except to say that what is important is for securitizing key starting materials. And I would just like to say that it is an overall trend that you see across the industry, not specific to Rallis, that each organization is looking to derisk the supply chain given the kind of difficulties that have been faced by practically everyone, whether local or global. Everyone is looking at making their supply chains more resilient. And to that end point, Rallis is also working towards having alternate sources rather than being dependent on one specific country.

**Moderator**

Thank you so much. I would like to hand the conference over to the Management for closing comments.

**Sanjiv Lal**

Okay. Thank you. So thank you everyone for joining this call. And as mentioned, there is a positive sentiment as far as agriculture is concerned, both globally and domestically, given the commodity prices and the monsoon outlook. We are also positive on our growth outlook on our Crop Care business, both domestic and international. On Seeds, our focus is to ensure optimal placement with adequate caution and to liquidate the large inventory that we are carrying and for which we, as I mentioned, tried to put in a prudent commercial interventions with good market activation.

And while we did not previously give a forward-looking statement, as mentioned in my opening remarks, we expect a soft Q1 as the volatility and uncertainty will continue on input availability as well as raw material pricing front, which will affect margins.

So with that, thank you very much till we meet for the Q1 results three months later. Back to the coordinator.



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