

Rallis India

Q1FY17 Conference Call Transcript

Moderator:

Ladies and gentlemen, welcome to the Q1 FY2017 results call of Rallis India hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions at the end of today's presentation. Should you need assistance during the conference call please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohan Gupta – Senior Research Analyst of Emkay Global. Thank you and over to you Mr. Gupta!

Rohan Gupta:

Thanks. Good afternoon ladies and gentlemen. I welcome all the participants logged in for the conference call of Rallis India. Thanks to the management for giving us the opportunity for hosting this call. Shankar Sir, Ashish Sir and Mr. Venkatadri Sir, good afternoon gentlemen. Sir I will first request if you can give us the brief about the current quarter that went by, all of us have received the results so if you can just take us through briefly and how the season actually pans out and how do you see that in near term with the monsoon development how do you see the business going forward and then we can follow it up with the Q&A session.

V. Shankar:

Thank you Rohan and very good afternoon to all of you ladies and gentlemen. It is entirely my pleasure to welcome you to this investors teleconference and to take you through the Rallis performance in the first quarter of FY2017.

Now as we all know that well before the commencement of the quarter there were multiple forecasts, which said that this year the monsoon is going to be normal if not a very bountiful, one and this is what we were waiting to hear after two years of agony, having serious deficiency in the monsoon progress. So well before the start of the quarter sentiments were high and it was not only just for agriculture but for country as a whole as the government also looks forward to a better agri season during the current Kharif.

April and May went by with this hope that the set in and the progress would be normal if not on a very positive side but as it happened you recall that due to weather disturbances the southwest monsoon actually set in after delay of over ten days and since its onset the progress was also a little sluggish. So much so that the deficiency at one point in time during June went as high as 25% and though there was progress since then the month ended with the deficiency of 11%.

In sharp contrast the previous year while it was a drought year finally the month of June had a 16% surplus so it had commenced with the band as opposed to what we had expected this year. As many as 21 or 22 subdivisions, metrological subdivisions were deficit at this point in time and as you know the farmers do take a cautious approach when things are progressing in such a manner from a rain's point of view and not funds bitten but twice bitten certainly they were shy and the channel was also cautious.

As expected sowings were quite poor and till June 30 against last year's sowings were down by almost 23%. There was a serious deficiency in the sowings of cotton. Cotton had other problems as well emanating from the white fly attack last year. The fact is that particularly in the north there was a huge negative wave on cotton and end of June the cotton acreage was down by more than 50%.

ANALYST:

MR. ROHAN GUPTA
SENIOR RESEARCH ANALYST
EMKAY GLOBAL

MANAGEMENT:

MR. V SHANKAR
MANAGING DIRECTOR & CEO
RALLIS INDIA LIMITED

MR. K R VENKATADRI
CHIEF OPERATING OFFICER
RALLIS INDIA LIMITED

MR. ASHISH MEHTA
CHIEF FINANCIAL OFFICER
RALLIS INDIA LIMITED

The overall deficiency as I said was 23% in sowings and even paddy, pulses they had to pickup. The other important aspect is crop prices. Thankfully crop prices started looking up and now they are much better than what it was last year whether you talk about paddy or you talk about cotton so that is a good news. In terms of the other important dimension for the business, which is what is happening in the markets price line, inventories were high particularly for generic products and therefore there was a lot of pricing pressure in the market place. Cash is also stressed, all this added to the issues about sowing and the monsoon progress and so on. So one needs to look at the Q1 performance numbers against this background and context because at that point in time nobody could forecast how July would pan out though the general forecast was there that July will be surplus, August will be surplus September will be surplus but when we actually saw June this way people were holding their breath to what would happen.

Our consolidated performance in the first quarter which ended June 30 our total income at 468 Crores was 7% higher than the previous year number of 437 Crores. EBITDA at 75 Crores was higher much higher than 59 Crores of the previous year and profit from operations before exceptional items at 62 Crores was 38% higher than 45 Crores of the previous year.

We had an exceptional items which is from Turbhe proceeds profit of 158 Crores and this is profit on assignment of lease hold rights of Plant in Turbhe which is the net of the cost including our share of premium levied under the repealed Urban Land Ceiling Act of 1976 which we had paid under protest. Now all these numbers which I called out after preparing our accounts in compliance with the Ind AS requirement which is effective from April 1.

Now quick word on the different businesses, as I said on the domestic side we exercise due caution on placement as we normally do but with a very, very sharp focus on the quality of operations and one of the areas which you can see in the numbers as well is we focused on the quality of working capital inventories, receivables and making sure that collections are made on time and the impact of this you can see in our finance cost numbers which is almost down by half.

So as I said earlier prices were little under pressure so our domestic performance is a combination of some amount of volume growth as well as some decrease in prices reflecting the strong negative pressures on prices in the industry. On the international side we actually have had a greater number compared to last year more flowing from some of the contracts which contracted quantities which had to be picked up in the first quarter, so that turned out to be better though international conditions as we know there are huge restructuring activities being attempted at a global arena, conditions in many regions are tough and these things would probably get eased as we go forward into the year.

Coming to Metahelix I think this requires a couple of minutes of mention. Q1 is a seeds quarter. That is how industry operates and certainly for us, and Metahelix now a 100% subsidiary of Rallis performed exceedingly well in this quarter. Our sales grew by 15% to cross 200 Crores. The profit before tax at 47 Crores was 32% higher compared to 36 Crores of last year. EBITDA at 49 Crores actually the margin has improved by almost 250 basis points and this is one point of course, many of you have been asking me that when and how will margins improve in Metahelix operations and so as we pick up scale and momentum this is getting unfolded as I have been saying in the past as well.

The important point to note is that last year was a very, very tough year and the seeds which we sell in Kharif now is generally produced in the fields during Rabi season and last Rabi season went through its own pains of inclement weather and the rainfall not happening to tune and this seriously affected the yields in our production fields. May be a phenomenon for the industry as well and therefore it affected supplies of seeds of some our key hybrids across cotton, corn and paddy. So we had actually budgeted for our plan for a high number but we had a shortfall in availability and therefore our sales numbers, which I said just now, reflects this shortfall, which was there to be done as per our plan.

The other highlight of the first quarter is we launched a new product by name SUMMIT. It is a novel insecticide. It is a product under patent. It is a green product on higher part of

sustainability. It works well on Lepidopteran insects and on a range of crops, cotton, soya bean, and chilli. Early days. We have just made the launch and we look forward to farmers accepting this product.

Talking about new products we are also looking forward to this season giving us a chance for the products we have introduced in the last two or three seasons to get some good window during this Kharif season. As I look forward into the second quarter, the forecast are anyway there that the July rainfall will be in excess by 7%, August by 4%, September by may be 10% or 15%, the bottom line of course is it is expected that Q2 the rest of the monsoon should be at least normal and this is very important as sowings have picked up now as against the deficiency of 23% we actually have a surplus now sowings up by almost 4% and with the phenomenal growth in pulses by about 40%, paddy has picked up slightly ahead of last year and the cotton deficiency which was about 50% as I said is now down to some 12%-13%.

So the important thing is that crops have come up and therefore sowings are there now whether it is in paddy, pulses or cotton it is first important that agriculture comes on stream, which is what is happening and therefore that augers well for agriculture for the farmers for the country as well as for Rallis and the industry. We do hope that the conditions in the international arena should firm up Brazil in particular should bounce back from what it went through last year and that is also an important part of our business and we will keep a close watch on how that plays out.

Q2 is generally the quarter for crop protection in India and therefore it is a big quarter for us. We also will see the final play out of the Kharif season during this quarter even on the other parts of our business and therefore we look forward to this quarter helping us out after may be at least two years of prime times in the business.

Many thanks for the patient hearing and like always we will have enough time at least an hour or so where I can take questions from all of you and we can chat. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Dimple Kotak from SKS Capital. Please go ahead.

Question and Answer Session

Dimple Kotak:

Sir congratulations on good set of numbers. Sir I just missed on the part that what was the cotton acreage and overall sowing how was it during the quarter?

V. Shankar:

What I said was that when we look at the sowing statistics which is shared by the government it was almost 50% down compared to last year so it was around 30 lakhs hectares versus over 60 lakh hectares same time the previous year and that is because we want to get into some understanding of why it happened. Last year you may recall that there was a serious attack of white fly which is one of the pests which attack cotton and that devastated the crop in Punjab and parts of Haryana and this year right from the beginning government has been cautioning farmers to be very selective in going in for cotton they were also advising on what to do. They had put an embargo on the use of products on cotton. There were only selective products allowed on cotton and farmers themselves were not sure what would happen because last year of course the scientists say that very severe attack happened because of the very peculiar weather conditions, there was a good onset and followed by three weeks or more long dry spell, which is what advanced the attack of white fly when cotton was on its very nascent stages, which completely caused havoc in the yields and caused lot of losses for the cotton farmers.

Now cotton is a crop, which is one of the biggest crops for the industry so almost 25%-30% of the industry products are focused on cotton so it is a big ticket for the industry, big ticket for Rallis as well so that kind of a drop in acreage automatically you would expect some cautious placement by industry and certainly we did and that is how the Q1 performance or numbers has to take into account all this context. Now since then of course as the rains improved and spread because at that point in time one was a little worried on what would happen in Maharashtra, Telangana etc., which are also very big cotton markets, Gujarat is another where still rains are not very healthy there so the whole worry was whether in all the other states also whether cotton acreage would take such a big beating and Maharashtra if you recall we have had terrible water problems and we were even worried about drinking water and not just for cotton agriculture but since then this dramatic turnaround in the first three weeks of July or I would say the first 15 days of July when this deficiency of monsoon from -11 turn to a surplus of 4% now of course we have lost that surplus it is about even kept regardless of that this dramatic turnaround completely changed the attitude and so many belts are actually good cotton belts, farmers have come up and picked up the planting. So as on July 22nd therefore the cotton acreage has moved up to from 30 to 86.8 and last year it was 99 so the deficiency is just about 12% plus.

Dimple Kotak:

So the acreage has increased, the cotton acreage so as of June where does it stand Sir?

V. Shankar:

June was 30-lakh hectares.

Dimple Kotak:

Versus last year?

V. Shankar:

60.

Dimple Kotak:

Okay and even sowing you said were down by 23% overall?

V. Shankar:

Yes.

Dimple Kotak:

Thank you so much Sir. That is all from me.

Moderator:

We have the next question from the line of Viraj Kacharia from Security Investment Management. Please go ahead.

Viraj Kacharia:

Thank you for the opportunity. Just I had couple of questions. You mentioned about pipeline inventory still being higher because sowing being subdued if we were to compare in terms of in relation to the end demand how much would be the pipeline in the system right now?

V. Shankar:

There are no official figures of these. Every company does its own estimates but we know for sure that pipeline inventories are higher but the situation is easing because now with the start of the usage of the products by farmers and therefore in due time it will ease out now because of the higher inventories what is for sure since the prices were under pressure there is always an impact of higher inventories and no clarity about the end demand or usage so still rain started picking up I think that anxiety and pressures were there that was the pricing pressure.

So I would not really venture to give a number but certainly inventories were higher and have to ease out during this quarter.

Viraj Kacharia:

Okay and if you can give split between domestic and international arenas?

V. Shankar:

See on an average we are about 30% international revenues and normally it is good to take stock at the end of the year because there are different season, different crops different countries, should not be actually worrying about how that percentage goes month-to-month or for quarter-to-quarter.

Viraj Kacharia:

Sir what I was trying to get, I was just trying to get a sense on the growth in each of the business? Like how much roughly in domestic would have grown and how much international because you did mention that international have kind of grown?

V. Shankar:

Yes, that is what I am trying to say that the Q1 domestic if you consider the context and I did say that it is placement time and I also did say that international business had some contracts which are to be completed so these are all very specific events so we should not really over brain that domestic was muted, international was higher and therefore actually the situation now is the reverse. There is a lot more buoyancy in the conditions in domestic than I would say for international so you should not over brain the numbers that international is better than domestic. So we have to see it in the total context actually.

Viraj Kacharia:

Okay in this the last question was on the international, you mentioned there was lot of restructuring going on globally so can you elaborate what exactly you mean by that? Does it mean more in the end demand or given the kind of?

V. Shankar:

No, I cannot elaborate more than what you read in the papers and I read in the papers. It is all from media news about what the big six are thinking and doing so I was referring to that actually.

Viraj Kacharia:

Thank you.

Moderator:

Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli:

Thank you for the opportunity. Sir is there any spillover sales in the second quarter for seeds?

V. Shankar:

There are no spillover sales. What happens is that the first quarter is a very big quarter for seeds. What we do is we as an industry and Rallis as well we get the seed arrivals beginning January, February and we process back etc., and beginning April we start placing the seed so there are some summer usage and then of course depending on the onset of the monsoon the Kharif tilling and sowing etc., the usage starts. So by the time we are end June it is supposed to be kind of peak sowing time usage etc., and then depending on the momentum it will then go on to the second quarter and based on how the season has progressed in each crop

whatever we have placed that will get used up and most companies what they do is if depending on the progress of the crop if there are any unsold or unused inventories typically companies do not keep in the market place because seeds are live materials. We pick it back and we bring it and then test it for quality for keep it ready for the next season depending on the type of seed it will live for one year two years or three years it depends on that. So typically what happens in the second quarter is if it is a good season then a lot of what I place in the first quarter would get sold out. If it is a bad season then a substantive quantity or a big quantity of what I placed in the first quarter may not get used out and will need to be picked back. So the second quarter we actually provide for an estimated sales return and depending on the actual situation on the ground, the impact will be there. It could be a plus. It could be a minus so that is what is the standard flow of things. That apart there are specific crops and requirements in the second quarter as well but it would not be as big as what we have placed in the first quarter. So second quarter number would be what we sell in the second quarter with the requirement of the second quarter and the plus or the minus of the first quarter.

Chirag Dagli:

Sir second question was on the domestic pesticide usage given that cotton is relatively lower this season and cotton being very large in the overall pesticide pie, is there any specific impact on Rallis domestic pesticide business?

V. Shankar:

As I was saying earlier that the cotton acreage finally has rested at about let say it will rest at around 10% plus but it is not such a bad drop. In any case today in India the cotton acreage is huge. It used to be around 9 million now it is upwards of 11. Already we are talking about a big delta, which is happening in cotton, so even when I say there is a 10% drop it is not that it is a big killer in that sense. What is more important is this cotton acreage how is it going to perform, if the yields are good, if during the cropping season during the next let say three months or so during the progress of the crop there is enough need for agri inputs and solutions that is what will drive the business in the industry that is what we need to be watchful about. If the progress in the crop is very poor do not bother about the acreage. Nobody is going to spend money on agri solutions or agri inputs so I think that is one factor which needs to be kept watch on very difficult to say now except I can say that the indications and the forecasts are good so we are expecting that cotton crops, cotton care extra will be much better than what happened last year. So the first factor is about the acreage itself where I told you it is not as bad as minus 50 it will be probably down to minus 10. Second is the health of the crop, which as I speak looks to be better poised than last year. The third and very important part at least from Rallis perspective is yes, while we have a big stake in cotton we also are very strong across other crops notably paddy, pulses etc., now these crops acreages gone up. Most of the products are not they are driven rather than crop driven. So if you take say a molecule like Acephate which goes on sucking pests so it goes on sucking pests so wherever it appears you can sell, and Rallis is present across almost all crops which is why I said the factor No.1 is whether agriculture is coming up and whether sowings are happening and whether acreage is coming up. Now that is looking good and that is what will drive agriculture and therefore agri products and agri business. So from a Rallis perspective there is no great worry that cotton can be down by 10% as long as the cotton which is there, let us say about 10 – 10.5 million hectares if it be a healthy or robust that itself is a very good thing and if that has gone into corn or soya or pluses or in some places paddy those are also opportunities for us.

Chirag Dagli:

Thank you so much.

Moderator:

Thank you. We have the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar:

This question is more related to the numbers financials because of Ind AS now we are supposed to replicate the excise duty also during the quarter so just looking at the excise duty number and I believe this is more pertaining to the domestic market that too largely limited to agrochemicals this excise duty is up by almost 6%-7% YoY should that be an inference for the agrochemicals business or there is something more to it also?

V. Shankar:

Sorry, if you can repeat that again?

Nitin Gosar:

Should that be an inference or indicative for the agrochemical business or there is more to the agro excise duty number apart from the agrochemicals?

V. Shankar:

Ind AS has two or three classification issues as far as revenues are concerned, so one is excise which goes up there are couple of items which are now got to be reduced from revenue, so there are some pluses there are some minuses also and I would say as far as Ind AS is concerned if you look at our published what we have put on the website as well as in the newspapers we have given the impact the consolidated impact for the quarter ended 2015 from a bottomline perspective that gives you a sense that as far as Rallis is concerned that is the breadth of impact which it has. Just to read out from the newspaper advertisement which we put 40.1 as per Ind AS is 42.57 so that is about a 2 Crores is the impact.

Nitin Gosar:

Sorry I think I was not able to put my question in a right frame. My question was more indicating towards excise duty per se which is now getting reported quarterly that has gone up by 6%-7% now in our business model typically we would be paying excise duty only on the domestic agrochemical business is that the right understanding?

V. Shankar:

No I do not understand your question.

Nitin Gosar:

May be I will take it offline. The second was pertaining to the commentary about the big six where the M&A activity is getting heightened. How are we when it comes to our contracts with any of the player to whom we are servicing or are in discussion to services them in future?

V. Shankar:

Good question actually. It is very difficult now to forecast what would happen but I would presume that if any of the big six have a strong strategic relationship which either has been built over years or something which are strong professionally run team is working on any such arrangement in the shorter term may not upset or look at it very differently unless there is again a structural issue. So let me take a couple of examples just to make the point. Supposing it is an agreement or an arrangement whereby Rally says building market for a particular product or molecule in India. Now just because the original source has changed hands overnight they would not like to completely restructure on something, which is happening well on the ground. If at all it is done it would be done through a well thought through procedure in which case that would give us or them enough time that is what I would think. Another example could be on manufacturing. To the best of my knowledge almost all of these companies are looking at outsourcing as their strategy rather than putting new steel into the ground so if company A which is already either having a contract with us or working on a new contract with us or is finalizing, company B would as it comes in would only want to continue it till things stabilize so one possibility is company B could stop that contract because they would like to manufacture on their own. That scenario does not seem to be so evident just now or may have some other plans to restructure and do something else in which case again it may not happen overnight. So while I cannot give you a definite answer this is how future will happen regardless of whether it will be A or B or C, I do not think anything getting very dislodged in a very quick

period of time and given our own competencies and the strengths we are building on we do believe that whether it is A, B or C or neither of them and we have to look at D, E and F we would be able to do or restructure that given a period of time that is the way we are looking at it.

Nitin Gosar:

Perfect, but we do get monetarily compensated just anything ad hoc happens?

V. Shankar:

No that depends on the specifics of that contract so it will really depend on that so if it is for example, a manufacturing contract where there is for defined period of time there is a offtake indications then the question will come in which case even the new entity would say that let us time it out what is the point in stopping something in between.

Nitin Gosar:

Thank you.

Moderator:

Thank you. The next question is from the line of Amit Goela of Rare Enterprises. Please go ahead.

Amit Goela:

Thank you for the opportunity. Sir just one question I have on the tax issue this total taxes which you have paid can we have a split in terms of what was paid for the land and then what was paid for the regular business?

V. Shankar:

We are not giving that split Amit, but suffice for me to say that the components are as follows. Our normal taxation rates we get benefits out of what is provided out of Income Tax Act which means we have weighted deductions on several areas which are allowed by the tax act whether it is research and development or extension activities and so on and we have got some approved projects for which Rallis has a special dispensation. Second is what is available out of again fiscal benefits out of special zones so whatever is applicable to that from mostly international income also applies to us and the third which is applicable in this quarter is of course the rate which applies on long-term capital gains on an index basis so it is a mix of all of these and I would not really suggest that this quarter the rate is used for any future estimation purpose without applying a due consideration of these aspects.

Amit Goela:

Fair enough Sir. Thank you so much.

Moderator:

Thank you. We have the next question from the line of Abhijeet Akhela of IIFL. Please go ahead.

Abhijeet Akhela:

Good afternoon Sir. Thanks a lot for taking my question. Sir first of all just on the Ind AS impact if possible to give us what is the impact on fully year FY2016 financial was just on the revenues, EBITDA and PAT because of the Ind AS restatement? That will be very helpful.

V. Shankar:

The precise numbers I cannot give but on the revenues while there is an adjustment, the delta increase is about the same so if your question is coming from the position whether this restatement has caused a distinct difference in the delta increase that is not the case at least

as far as Rallis is concerned, bottomline impact as I already said to an earlier question it is about 2 Crores for in the opening quarter that is the last year's.

Abhijeet Akhela:

Second just on the seed business you mentioned that you had supply constraint how has the industry done Sir particularly in corn and rice would the industry have grown faster than you because of your supply issues or do you think you have sort of kept pace with them?

V. Shankar:

May be the end of second quarter would be appropriate to answer this question because this Q1 generally all the placements are done. We will have to just see the final usage in Q2 to see how where we are versus the industry. As far as we are concerned we are quite happy with all what we have done. Our dissatisfaction comes from the fact that we could have done more. We had planned to do more. Somehow due to natural events the supplies did not come otherwise the ramp up even for a cotton portfolio was shaping up well and therefore that is the disappointment we have. May be Abhijeet I will come back at the end of second quarter to answer this question back I do not want to take a very wild guess on how industry would have done because see the cotton portfolio itself during the last few months has gone through some major what is the right word, upheaval I can say because of several interventions which have happened in quite a sudden and an impactful manner. Now I do not know whether to see it as a good or a bad thing, our presence in cotton is not as weighty as some of our peers so we are still early in the game but some of these have been very distinctive events which have happened in the last few months. Exactly how it is panning out is one side. On the other side as I was answering to the very first question the cotton crop itself has gone through very volatile time because of the pronouncements against cotton sowing, the cautiousness of the farmers and all of that so it has not been a very even time for cotton and cotton is roughly 50% or more of the industry. So the state of play in the industry I think it is early days for me to make a public pronouncement on a forum like this so I would feel more confident to talk about it may be couple of months later.

Abhijeet Akhela:

Fair enough. Just one last question and I will get back in the queue. The other expenses on the P&L that seems to have fallen Y-o-Y last year standalone other expenses were 57% this time this is little under 50 Crores and obviously both are I guess on Ind AS basis? What is the reason for this?

Ashish Mehta:

We have initiated lot of optimization fixed cost optimization initiatives in our company and that is one reason why the cost has also come down. We also had a impact of solar benefit also coming in to, you aware that the solar power plant was inaugurated last year and the captive consumption that also led to the reduction in the utility cost, so those benefits also flowing in.

Abhijeet Akhela:

Okay, so the new number that we are seeing, this is a sustainable run rate now going forward?

Ashish:

Yes, in a manner you can say so.

Abhijeet Akhela:

Thank you so much Sir.

Moderator:

Thank you. We have the next question from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh:

Thanks for the opportunity. Firstly if you could throw some new light on the new products SUMMIT that you have launched? I mean is it 9(3) product and is it from our own R&D or is it through some tie-up so if you can and what is the opportunity in this segment if you can highlight?

K. R. Venkatadri:

Balwinder SUMMIT is actually the technical name for that molecule is Spinetoram. Spinetoram is an insecticide broad based insecticide. This is a 9(3). We have taken it from the originated is Dove AgroScience. So they have launched in we have also launched along with them it is a joint launch and this Spinetoram is a much superior form and a much more advanced from of Spinosad so you know about Spinosad so which is been there in the country for almost 12 years, so Spinetoram is actually a much broader molecule. As of now the label claim we have is for three crops, which is cotton, chili and soya bean so we are just launching it in these crops and as we go by other crops also would get added so we believe that the Spinetoram molecule is a good very good molecule and it can actually be once we get label claim in other crops it can be reasonably good size.

Balwinder Singh:

Sir you highlighted that Dow has also launched at the same time so you mean in India or it is a new launch globally?

K. R. Venkatadri:

India, I mean they have been selling Spinetoram across the world for many years. It is actually one of their largest insecticide. In India we are launching it together.

Balwinder Singh:

Okay and now coming to the Metahelix if I see your quarterly results there has been a restatement because of Ind AS so if you can just highlight on the Metahelix sales change that we are seeing because I think last year numbers were something around 225 recalling and this year the revised number is something around 164 Crores so what is the change of the Ind AS on Metahelix numbers?

V. Shankar:

Balwinder as I had said earlier there are some reclassifications, which are necessitated by Ind AS. For example, there are some provisions one needs to do on sales returns the way that there are some provisions you need to do if you do credit sales these are all now mandated. There are certain items, which have to be repositioned. For example, the sales are shown in inclusive of excise duty wherever it is applicable. It has been reduced for cash discounts which was earlier shown as a cost so the net impact of all this is the number which we are seeing but if we look at both reinstated the variants or the delta growth or the movement is of the same order of magnitude so that is not changing in our case.

Balwinder Singh:

Okay and regarding this Indonesian JV that you have done from Metahelix side if you can highlight a bit on that?

V. Shankar:

We have been selling for example, paddy seeds in Indonesia for the last few years but the law in Indonesia requires that after a certain period after a few years you need to actually establish an entity to continue operations and that entity has to be a joint venture with a local national and no longer can you just export your seeds out of India you need to locally grow them there. Now in order to abide by the regulations and continue business there we have now complied with all the regulations and from this season we are growing seeds there and then we will be selling from the next season onwards. And as a larger strategy, I can also add to say that over a period of time we would like to build a portfolio around the neighboring countries so that just

like in the portfolio of Rallis overtime we built a healthy international business accounting for a certain percentage of revenues a similar thinking is there in Metahelix also that we build a portfolio of international business which not only gives us a growth opportunity but also will be able to help in case there are any weather related shocks or season related shocks in the domestic market. So that is the thinking and this is a big step in that direction.

Balwinder Singh:

Sir would you be able to share how much money we have put in through that JV?

V. Shankar:

It is not very material.

Balwinder Singh:

Lastly I missed one point if I see Metahelix sales growth on a apple-to-apple comparison basis on a Y-o-Y basis are up 15%, which I think is on the lower side against what we have been talking off some 20-25% CAGR in seed business over the medium-to-long-term so if you can highlight a bit on that why were the seed sales lower?

V. Shankar:

Yes, Balwinder I agree with you. I am on your same side. I am also not happy and if we have not had that supply constraints and we had got the supplies from the field we would have done a number where both of us would have been happy.

Balwinder Singh:

No problem Sir. Hopefully we will do good next year.

Moderator:

Thank you. We have the next question from the line of Parvesh Gupta of Trivantage Capital. Please go ahead.

Parvesh Gupta:

Thank you Sir for taking my question and congratulations and good quarter. So my first question is on your seeds business can you give a break up of volume growth crop wise?

V. Shankar:

No we do not give that except that I would certainly say that we have grown across the key crops.

Parvesh Gupta:

Has there been a volume growth as well?

V. Shankar:

Yes.

Parvesh Gupta:

Okay, which were slightly contra intuitive given that we have seen a lessening in terms of the acreage under cotton?

V. Shankar:

Sorry say that again please?

Parvesh Gupta:

Because the cotton acreages are down and prices have not moved so what I cannot understand have you grown because of market share gain because you were also constrained on the supply of the seeds?

V. Shankar:

Yes, in cotton we have not grown as much as we intended to but we have not declined either because we have done whatever we got or our plans are much higher.

Parvesh Gupta:

Understood, but how do you explain 15% kind of a sales growth in the seeds business?

V. Shankar:

How do you explain in the sense?

Parvesh Gupta:

Because the growth would have been tepid in cotton so are there some other crops where we have seen very good business?

V. Shankar:

Yes, of course we have good business in millet, corn, and paddy.

Parvesh Gupta:

That is all from my side. Thank you.

Moderator:

The next question is from the line of Aksha Syad of Dolat Capital. Please go ahead.

Aksha Syad:

Sir I wanted to know this profit 158 Crores which we have got it from the sale of leasehold rights to Ikea so what are the plans in terms of utilization of those proceeds?

V. Shankar:

We are going to utilize these proceeds only for growth plans of the company so the growth plans will comprise both organic and inorganic growth and it will comprise both investments into infrastructure facilities as well as getting some intangibles or investment into intangible so in short we are not going to use this for a current business we are going to use it for as growth drivers.

Aksha Syad:

So when we say about infrastructure facility so is that a capacity expansion in terms of CRAM.

V. Shankar:

Yes, it will be a capacity expansion for either contract manufacturing or even some of our current products so there will be a growth dimension attached to usage of every rupee of this money.

Aksha Syad:

Secondly on the CRAM side have you seen any progress on that part?

V. Shankar:

Yes, progress is there but progress is also getting dictated by what is happening globally so globally two things are happening as I said earlier one is that companies are spending a lot of time on higher level matters and therefore some of these transactional matters are getting a

little push back. Second is in many countries the operating conditions are going through some challenges and therefore some inventories and some movement etc., is not happening to specifications. Therefore while things are progressing I would have personally liked it and the plan was that it moves much faster.

Aksha Syad:

Okay and lastly on you have mentioned that our metallic businesses have grown by 175-200 Crores so I just wanted to ask whether this is exclusive of excise duty or its inclusive of excise duty?

V. Shankar:

It does not have any excise or sales tax proceeds.

Aksha Syad:

So its completely exclusive.

V. Shankar:

Yes.

Aksha Syad:

That is about it. Thank you.

V. Shankar:

Thank you.

Moderator:

Thank you. We have the next question from the line of Ritesh Gupta of Ambit Capital. Please go ahead.

Ritesh Gupta:

Sir, thanks for taking my questions. I have two questions; one is that there is 30% decline in other expenses it is because of lower discounts or what I mean I did not get it?

V. Shankar:

My colleague Ashish explained it earlier maybe you are not on the call that time.

Ritesh Gupta:

Yes, sure may be I missed it.

V. Shankar:

Okay, what is your second question?

Ritesh Gupta:

Second one is on the pricing front you have said that I think generics are seeing some pricing pressure so do you see on an overall year basis do you see some impact of that on the sales, because earlier sales growth would be say mix of volume and pricing growth this time probably the pricing growth might not come in so would you agree with that line of thought or you would not agree?

V. Shankar:

Pricing as I said has been under pressure in first quarter, we also lost a bit of ground but now with a little stability coming in and costs are also stable and may be they are on an increasing

trend, I am hoping that the industry's stress on pricing will relax a bit and there would not be further lots of ground on pricing. That is my forecast and my hope as well.

Ritesh Gupta:

Thank you so much Sir.

Moderator:

Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Rohan Gupta for closing comments.

Rohan Gupta:

Thanks a lot for your time. I think that we already had a pretty detailed discussion. I think all the questions, which even I also had has been answered. So thank you very much for your time and we look forward for a great Q2 that is an ultimate quarter, which matters to all of us.

V. Shankar:

Thank you Rohan and all of you for your very good wishes for our second quarter. I think it is certainly important for Rallis to do well but more important that as a country agriculture does well and farmers get back their smile on their faces because it has been a tough time for us and we really look forward to all of us getting back on our feet. And also have enough drinking water reservoirs are already up from 18% it has gone up to 35% so we also need enough water for a good Rabi. Many, many thanks it always a pleasure talking to all of you. Good-bye and have a good evening.

Rohan Gupta:

Thank you Sir. On behalf of Emkay Global Financial Services, I also thank all the participants who have logged in for the call. Once again a special thanks to the management to giving us the opportunity to host this con call. Thanks every one.

Moderator:

Thank you very much. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.

-
- Note**
- 1.This document has been edited to improve readability.
 2. Blanks in this transcript represent inaudible or incomprehensible words.

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

DISCLAIMERS AND DISCLOSURES: Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house. EGFSL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). EGFSL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.emkayglobal.com

EGFSL is registered as Research Analyst with SEBI bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years, except that NSE had disabled EGFSL from trading on October 05, October 08 and October 09, 2012 for a manifest error resulting into a bonafide erroneous trade on October 05, 2012. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

EGFSL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (NO)

EGFSL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (EGFSL) have not been engaged in market making activity for the subject company.

EGFSL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

EGFSL or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of EGFSL or its associates during twelve months preceding the date of distribution of the research report and EGFSL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company: (NO)

The Research Analyst has received any compensation from the subject company in the past twelve months: (NO)

The Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months: (NO)

The Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months: (NO)

The Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months: (NO)

The Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report: (NO)

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject EGFSL or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.