# Rallis India Limited

## Q3 & 9M FY19 Earnings Conference Call Transcript
## January18, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to the –Rallis India Limited Q3 & 9M FY19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen mode only . 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**: Good day everyone and thank you for joining us on Rallis India Limited Q3 & 9 M FY19 Earnings Call. We have with us today Mr. R Mukundan –Managing Director and CEO, Mr. K R Venkatadri– Chief Operating Officer and Mr. Ashish Mehta – Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward looking in nature and may involve risks and uncertainties. The detail statement in this regard is available in the result presentation sent to you earlier. I would now invite Mr. R Mukundan to begin proceedings of the call.

**R Mukundan:** Thank you Gavin and good afternoon to everyone and thank you for joining us on the Earnings Call of Q3 of Rallis India Limited.

Let me first start by saying that in an overall context Rallis has a specific fit for its parent and there is a specific purpose which it serves. It is part of the specialty chemical portfolio of the parent Tata Chemicals which has got three vertical basic chemistry, specialty chemistry and consumer products and within the specialty chemistry portfolio Rallis looks at the farm focused chemistry, this is part of the ongoing strategy exercise which we have commenced and part of which we have also shared with you all as part of the presentation.

We see Rallis having two broad pillars one is what we call the domestic business which is entrenched around the domestic Indian farmer and providing solutions for him and the second pillar which is not limited to India, but is linked to every part of the world is the one which is centered around the power of chemistry and solution coming out of chemistry. In terms of Rallis as you know it has proven R&D capability and has a wide distribution network and extremely strong connect with Indian farmers. It is present across agricultural value chain and as a strong product portfolio and when I speak about Rallis this is a consolidated portfolio which includes Rallis and Metahelix. We believe in the coming years it will witness significant acceleration in business across parameters. There is a significant amount of transformation going on in the company as we speak, and these are directed to focus and gaining market share within India across the entire product portfolio by leveraging its R&D capability and digitizing the value chain through the digital agri program.

At the same time, we are also undertaking strengthening the R&D focus and development of molecules and solutions-based approach in the international business.

Some of the key steps on the domestic front: Strengthening our distributor network across key growth markets, restructuring dealer incentive structure, better alignment of reward and targets and expanding the credit period for select products and improving connect between distributor and top management. The above measures will help us address the issues which were impacting the business in the recent past and pave the way for future growth path. Further we are also focusing on improving product portfolio by increasing the share of specialty product in overall mix.

In addition, we are also focused on increasing our connect with farmer playing an advisory role with what suggestions and solutions we can offer and what kind of package and practices can deliver better perform productivity. Metahelix also holds an important position in the market & has got strong brand connect with farmers and we are delighted to say that the Board of Rallis and Metahelix have yesterday taken a decision to merge these two businesses to offer a complete suite of offering to Indian farmers while maintaining their unique R&D capabilities and strengths and combine that with farm advisory which will deliver across the value chain.

Moving on to the International business:

Rallis chemistry and execution capability is second to none. We are preferred partner for several global innovators both in B2B and contract manufacturing they are poised to deliver strong growth forward. Within B2B business we are focusing on altering mix by stepping up the share of alliances overall mix and we also believe that all requisite capabilities for meeting requirement of global AgroChem players. As far as contract manufacturing is concerned, we have two main products in our portfolio one is PEKK which is polymer chemical and Metconazole which goes into agro chemicals and we are also working on few more products in the pipeline even as we speak.

Further as you are aware, we are investing in capacities for future in growing our domestic and International business. In this regard as the first phase of our expansion in Dahej the board yesterday has cleared an investment of about Rs.100 odd crore to be invested in a formulation unit to start with which will also over a period of time specific technical and the intermediates for those technical in addition to those technical and this is going to be invested in Dahej in a phased manner. Our estimates are that in about five to six years' time we will be investing close to Rs.800 crore in this site, but the first phase of Rs.100 crore has been cleared by the board. So there is an ongoing transition within the company in terms of refocusing and reenergizing the company towards growth, but operationally there were certain headwinds which we did face.

On the overall front, I must say that while the revenue did grow the large part of the revenue growth has come due to price increases taken which was mainly to offset the cost increases. However, in terms of the overall gross contribution it has remained largely flat even with the price increase has taken which effectively has meant that the gross contribution margin has dropped almost by 2.5% to 2.6% point.

In addition to that during the year we also had one or two one-off during the quarter which impacted us especially around one-off adjustment we had to make in our CPA stock and also on debtors we had to provide extra provisioning of Rs.2.5 crore because we believe the market is slightly on a weak footing in terms of the cash flows and we have to provide for these debtors on the basis of number of days and that does not change because of the condition of the market. While these debtors will come back to the company this is a policy driven adjustments, we made under INDAS.

So overall if one leave those one-off which has impacted the company, the company has managed to stay almost on a flat wicket on a GC basis while growing the revenue which was driven by the price increase, but the bottom line is impacted by one-off which needed to be taken during the quarter because of the situation in the market and certain adjustments to be made as per policy. Leaving that aside we do see that the future of this Company is absolutely on a right wicket as it has got strong relationship with farmers, the product portfolio pipeline is strong and the investment commitment from the board is extremely strong and we remain committed to growing this company to its leadership position once again.

With this I will ask Ashish to say a few words from the financial perspective because we take questions from you all of you.

**Ashish Mehta**: Thank you Mr. R Mukundan and good afternoon to everybody. I will briefly touch on the financials standalone and consolidated. As Mr. R Mukundan said there has been an increase in the revenue, but largely the revenue came from the price increase. There has been a one-off impact on the margins because of some high returns coming into the third quarter. As you all know IndAS requires provisioning of certain sales return estimates based on the ground realities and what the management had estimated in Q2 those realities did not fructify and as a result some additional returns had to be taken back which also impacted the margins and secondly on the interest cost because of the pressure in the cash a little working capital loan had to be taken while the increase is not significant, but we are conscious of that and the focus definitely will be on collections and strengthening the pace of the working capital.

On the debtors provisioning this is more because of the expected credit loss model as provided by IndAS which is more of a statutory requirement. Management is very confident that this charge which is there as a one-off will surely be reversed in the next quarter as efforts are there to regularize and focus more on the collections. On working capital it is still an area of work for us and management believes that in the next quarter both in terms of the inventories as well as the cash position will improve. As informed the Board has also approved lot of investments presently two or three investments are going on in terms of increasing the capacity of our existing molecule where we see lot of growth coming in the International market and we believe in three to four-month time the production will start and revenues will start flowing in. For the investments with that has been cleared by the board about Rs.100 crore we are confident that we will be meeting the same withthe internal accruals from the amount of money which is still left with us and kept in investments. So overall these are the positions on the financials, and I now leave for any y questions.

**Moderator**: The first question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

**Ritesh Gupta**: Just wanted to know the quantum about the one-off and the other expenses for which the return that you have to take?

**R. Mukundan**: The other expenses one-off let me just put them all at so there are two parts of the one-off let me one is at the EBITDA level. At the EBITDA level there are two elements which is broadly impact of higher returns coming in from the previous quarter. When we finish the previous quarter there was an estimation done and the reality turned out to be much sharper than what we have done estimate. So to that extent I think if you see 9 month number that is a fully adjusted number rather than looking at the current quarter and that impact is about Rs.4.9 crore at the EBITDA level and on CPA which is the one new product we are trying to launch in the contract manufacturing we have to take a one-off hit of Rs.1.43 crore on certain stocks that is as per the policy. So it gives you broadly about Rs.6.5 crore was the hit at the EBITDA level. If you dive deeper into one element of that EBITDA is also this element of other expenses where there is a difference of about Rs.5 odd crore. One part of that Rs.5 odd crore is Rs.2.5 crore is about is debtor provisioning which is as per the IndAS standards which also will be reversed in a large sense because when we did have an internal review of these items we are fairly confident of the recovery, but it has not happened with the same speed with which we would have normally done.

**Ritesh Gupta**: And all the numbers that you have talked about we are talking on a nine month basis we are not talking on a quarterly basis.

**R. Mukundan**: This is for the quarter so all this hit have come in this quarter.

**Ritesh Gupta**: And if you can just talk about initiatives that you are talking about I think the presentation also touched upon it a little bit on the product side and then on the dealership and the marketing side if you just dwell a little deeper I mean how you are looking to kind of increase the share of specialty products in your portfolio I think you are talking about some new dealership and new incentives schemes for the dealer etcetera if you could just touch upon both of them.

**R. Mukundan**: See broadly on the domestic front we are going to be introducing several new products and several of the products we have introduced have started showing results and we would be focusing on those in the coming years and building portfolio. So in between I think we did have a bit of hiccup with respect to our new products and new product launches, but that is getting fixed as we speak and you would see that new products continually coming and that being supported with initiatives for dealers and distribution in the system. Secondly, I think we also have gone digital agri through the Drishti program but that is going to be backed up very shortly with digitizing internal systems which is what just speaking from the experience of Tata Chemical we have done in terms of automating the entire distributor management system and sales force automation both those investment you will see in the coming years. So that is on the fixing the internal areas for the domestic market as far as the international market is concerned we do see for two, three of our products a very strong market demand both in Pendimethalin as well as in Metribuzin and both these products what Ashish referred to and another 500 ton capacity is coming on stream of Metribuzin as we speak. We are also thinking of whether we can add additional 500 tons subsequent to that coming on stream. I think the 500 ton should come on stream by June of next year and additional capacity once we clear in the month of March by the time we finished the budgeting exercise that is all should be on stream by December of current year. So we would be seeing about 1000 tons of Metribuzin. On PEKK and Pendimethalin similar exercise is on because these have pretty strong demand in the global market and we will be adding capacities there. In parallel we are also consolidating as I said in Dahej our entire formulation and adding new formulation capacity is Dahej in addition to what have in Akola and some of the formulation being done in Ankleshwar and Akola is also being moved to Dahej for consolidation as well as streamlining the process of supply chain. There is a whole host of work in streamlining work which is going on for the domestic market.

**Ritesh Gupta:** The new Rs.100 crore plant which you are talking about it is going to cater to the domestic market or is it understood that it is more of exports what my understanding is?

**R. Mukundan:** Firstly the formulation unit is a first phase. I think formulation unit will cater to domestic market and the phase two we are adding technical capacity which will cater to international market, but that technical is going to be the phase two in our view will be close to about Rs.170 odd crore Investment, the numbers are not firm, but I will come back to you with specific number by next quarter by when we would be clear. Part of that is also to get some supply security on the intermediates which we are currently facing headwinds because of the China situation.

**Moderator:** We have the next question from the line of Amar Mourya from Emkay Global.

**Amar Mourya**: Just to take this CAPEX plan question I mean what you had indicated is that the first phase is largely going to be of formulation phase where we will be catering to the domestic market, so in this first phase largely the formulations will be for the existing product line or there are some new combination product which we are planning into this?

**R. Mukundan**: Yeah there are new combinations there is a combination of some existing lines moving from as I said Ankleshwar and Akola plus we are also introducing new product lines. Also this line of formulation being invested is going to be state of the art. We are really upping the quality of our formulation unit so that it caters to the most modern standards and uses the latest packaging and formulation technology available. So, it is being done in a manner that it moves couple of steps ahead of standards where our current facilities are.

**Amar Mourya:** And sir in terms of the cost benefit ratio like after doing this kind of Rs.100 crore kind of investment what is the kind of cost benefit as we can see into this plant?

**R. Mukundan:** See I think it is not to be taken specifically on the Rs.100 crore, Rs.100 crore certainly has a good amount of return we have seen internally, but I think if you look at the entire capacity profile which we are looking at in terms of current molecules and future molecule and formulation demand. I think as I said this is not just Rs.100 crore it is part of overall plan of investing close to about Rs.800 crore on that site and it is being done is four steps. The first step is Rs.100 the second phase we will come to you fairly immediately by March another Rs.173 and the returns are fairly in the similar profile as current return on capital employed.

**Amar Mourya:** You had talked about some new product getting launched in next three to four months what is that?

**R. Mukundan:** We have got about three to four new products which are in various stages of approval and as they get approved, they are all in the final stages of clearances from the regulator. I think as it get cleared it will enter the market, but we are preparing ourselves for the next season.

**Venkatadri** There are couple of products which are at the final stages of getting approved, one is rice stemborer that we brand named it as (Zygant that we are expecting the registration anytime when the CIB meet plus we have also got the registration approvals of couple of combinations with Kresoxim-methyl which came in the last CIB so that will be also relevant for the kharif season so they are basically fungicides. So these are the three new products that we are going to be launching in there are another two more which are in the pipeline once the registration comes through then we are hopeful of getting it sometimes in February or March and if it comes in around that time then we will also look at that for introduction in late Kharif.

**Amar Mourya:** And these three products one is rice and this two combination products are largely what herbicides?

**V. Ranganathan:** No, fungicides.

**Moderator:** We have the next question from the line of Sameer Shah from Valuequest. Please go ahead.

**Sameer Shah:** In terms of the other initiatives that you have taken in terms of team are there any changes that we have made?

**R. Mukundan:** So in terms of team fundamentally I think we are wanting to close out the first level of integration between Metahelix and Rallis which hopefully we will get the approvals in about nine months but I think the harmonization and the building of the teams will be running in parallel as we speak, so that is the first step. Secondly I think we have added couple of specific skills in the Company which is showing partly as increased in the employee cost, but I think the returns out of that skill sets will be excellent for this Company going forward so we will add skill sets cutting across our R&D, supply chain and marketing (and couple of people also in production who have joined us recently).

**Sameer Shah**: So this Innovation turnover index that we track that had suffered in the last few years so how many products in terms of say product launches?

**R. Mukundan**: So the way we have looked at it in part of the strategy is which are the under invested and under supported products in the portfolio already. There is lot of juice left in the products which we already have which is the priority number one which we want to fix and grow because there the growth potential is almost immediate which is why I spoke about Pendimethalin and Metribuzin and PEKK these are all products where the market demand is good what we need to fix is off take and capacities. We are running today at full capacity in almost all these products. So that is not going to move the needle on innovation index at all it is about what we know well, we do well, that is it and the second one about the new product pipeline Venkatadri already highlighted there are certain combination products and there are certain partner products, alliance products which we are bringing into the market. In addition to that this pipeline has been examined for the next year and also the pipeline exists for year after. So we will absolutely strengthen the products pipeline and we will come back to you as and when they reach a stage they are relevant for discussion and market launches. In terms of the International market again we are looking at process chemistry of certain molecules and certain prioritization has been done of 17 molecules of which the first phase we are focusing on three molecules process chemistry to be done internally and these are all herbicides, fungicides molecules which we are looking for as part of the registration based global sales.

**Sameer Shah**: Sir if you can talk about this Chinese price pressure and how we are tackling that?

**R. Mukundan**: There are two kinds of pressures one is Chinese price pressure the second pressure is certain intermediates few of the large international players on whom we are depended on. So as far as the Chinese pressure is concerned, I think some of these areas we are thinking of investing ourselves into capacity.

**Venkatadri**: See clearly there is an issue of availability from China as well also the increase in cost. In this particular season what has also happened is that while the cost went up translating it back into the domestic market especially has not been very strong because of the seasonal and headwinds that the industry has been facing and it is not only Rallis the entire industry has been facing the Rabi so far has not been very attractive. So clearly what we need to do is that to secure ourselves for the future that is why we are looking at some of the intermediates of the products that we are already making how do we really secure ourselves so that we are not subject to the issues that we are getting on currently. So these are all our existing molecule so this backward integration are not for obviously not for the newer molecules because they will be worked on later, but these are for existing molecules that we are anyway like for example if you look at it for example Kresoxim-methyl that we are making so we are looking at how to get into the backward integration we are also exploring for the other products as well.

**Sameer Shah**: So basically, we are tackling it by kind of trying to backward integrate and say prioritization of molecules.

**Venkatadri**: Clearly see in the longer term it is become very clear and this is something which I think is evident all across that we need to get more into the supply chain have a better handle on the supply chain by backward integration only then we will be able to handle both the upside that is possible because of the demand in the molecules that we are in and also to make sure that we are not getting squeezed by the cost increases from for example you know very clearly that the DMPAT which is another critical raw material has been on the upswing whereas the price into the market on acephate if I take up a very specific example where the prices have not been of the usual that as an industry we would be able to take. So these are some examples of the cost pressure and like I explained in Kresoxim-methyl we are exploring how to get into a backward integration.

**R. Mukundan**: Broadly let me just add to what Venkat has said our approach and strategies is broadly running in two distinct directions. In the domestic market it is the breath of the offering or how wide the offering is, what is our range. As far as the international market it is going to be diving deep in few molecules and having world leading market shares in few molecules with complete security right up to the intermediates and the starting molecules for them.

**Moderator**: The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

**Rohan Gupta**: So, my first thing is sir that in last five years the company has done CAPEX of close to Rs.270 crore and you just announced within one hour that Rs. Rs.270 crore CAPEX Rs.100 crore yesterday and Rs. 170 crore probably in two phase. I believe that definitely the Company has been understanding the requirement of this CAPEX, but was there any reason for the continuous delays which has been done and now immediately after taking it over you have started working on that and you also mentioned that close to Rs.800 crore to be spent in five, six years including this Rs.270 crore. I just want to understand that where the company in terms of next lag of growth heading? Will Rs.270 crore a lot of this is going to be backward integration probably but what will be the next revenue growth driver for the company.

**R. Mukundan**: So, the revenue driver as I mentioned is the current molecules which are certainly a large amount of market where we have leadership position that we are going to drive in the international market. As far as the additional molecules are concerned we have prioritized 17 molecules out of which we are working on 3 as and when we are ready to launch them, we will come back to you. And when I spoke about

Rs.100 in the next phase of about Rs.170 odd crore both these are actually with the current set of products which need capacity. Now at least this has been my learning in the couple of reviews I have done that we need to invest fast in these areas because they are immediate areas of opportunity and clearly it is an area we do not want to lose out. I do not want to comment about anything which in the past because the company is actually debt-free and I think financially there is nothing coming in the way of the company in its ability to grow. If you look at the capabilities, I did say that we are adding the bench strength in couple of areas in R&D, in process engineering as well in sales and marketing, but these are capabilities which are also very core to Rallis which it already had. So, all in all I think it is just matter of having the ambition and moving forward I think the team is very confident of delivering and moving forward in the direction.

**Rohan Gupta**: So, definitely it seems that we have probably under invested in last four, five years, but do you see that we have lost some opportunity because of this being late in the cycle and I think that in a 'Make in India' or chemical manufacturing picking up in India from taking market from China other companies have already started picking up and have significantly invested, so do you see that we are somehow late in the cycle and that may affect some of our growth?

**R. Mukundan**: Not really, I think we are not late at all in any cycle because cycle is a normal trend running for next 10 to 15 years. So, this is not an event which is going to vanish in next three, four years and our investment patterns if I look at it is about 18 months to 24 months most of the investment start paying off. So, clearly there is room for investing for next six years because you can then reap the benefit for the next 9 years going into 15 years or so. And in Indian market in terms of its ability to provide process engineered solutions for all the molecules which are there and some of them coming off from the patent into generics. I think we have got all the capabilities and we will work and work even harder going forward. I think this is a very much a beginning of the cycle. So, I do not think we have lost much of the runway as yet.

**Rohan Gupta**: So, just a last on the strategy front only so definitely we are building our own capabilities and investing by our own, but given the Tata Chemicals parentage with a strong balance sheet of both Tata Chemicals and Rallis, do you see that even the opportunity are so high and so fast that can any acquisition or any inorganic growth opportunities in a chemical space?

**R. Mukundan**: So, to be fair I will limit my answer to what Rallis used to do. So, in terms of seeds we will be looking actively at certain targets, certain acquisitions which are very much on our screens. And as far as Agrochemicals is concerned we will look at it only if it is a bolt-on. Currently we think we have line of sight to a solid growth which is internal, but if there are some interesting bolt-ons which come we will certainly look at it. Let me highlight for example the organic entry into API in my analysis and this is not to be taken as a firm view going forward maybe more difficult than an inorganic approach and we will look at that options certainly for specific segments, it is not going to be all across. So, in the core area of agrochemicals I think we will look internally as much as we can in terms of own growth. If certain interesting opportunity comes, we will certainly have a look at it, never say no, but what it looks like is certainly we need certain bolt-on acquisitions in the area of seeds and also this entry into API through CPA on our own. I think it is not giving us the scale and the rate of growth in that space is bit too slow and it may warrant certain moves which maybe beyond organic.

**Moderator**: The next question is from the line of Abhijit Akela from IIFL. Please go ahead.

**Abhijeet Akela**: I just wanted to clarify a few things that I did not get very clearly earlier on in the call, so with regard to the one-off items you spoke about I got Rs.4.9 crore as sales returns, Rs.1.4 crore as write-off on CPA and then could not exactly understand where this Rs.2.5 crore provision for doubtful debts came is that?

**Ashish Mehta**: So, the expected credit loss model there is a way of calculating as to what could be the expected loss on the sales what you have made, based on that this provision has been made. Going by the past experience of last five years, we do not have a single case of any item being taken as bad debts. While internally we have a policy of providing for any debtors or receivables which are beyond certain period, but then it gets provided if it crosses a threshold ageing limit and then when it gets collected it gets reversed. So, this provision was more out of a statute requirement than an actual scenario so that also has an impact.

**R. Mukundan**: I think the clarity Abhijit is that the Rs.4.9. Rs.1.43 is separate line item and Rs.2.24 is a separate item. They are not subset of one another.

**Abhijit Akela**: So, this Rs.4.9 plus Rs.1.3 is above EBITDA and Rs.2.2 is below EBITDA is it correct?

**R. Mukundan**: No, they are all forming part of EBITDA only let me re-correct that. So, let start by saying there are four elements which are impacting EBITDA, but two of the elements are lying inside the line item called other expenses which you see in the SEBI sheet and those two items are Rs.2.24 which is the debtor provision and there is an increased cost which is on account of certain initiatives you have taken in terms of IT, digitization and all which we have commenced this projects and that is costing about Rs.3-odd crore which we have sanctioned during the quarter and there is a difference between what we spent last quarter and what we are spending now. So, that takes care of Rs.5.24 crore odd increase which is lying inside others. There are two other items in addition to this which are impacting EBITDA that is CPA write-off of Rs.1.43 crore and impact of high sales return which is Rs.4.9, is that clear.

**Abhijit Akela**: So, the CPA write-off will come under (COGS) cost of goods sold and the sales returns would obviously be knocked-off against sales itself.

**R. Mukundan**: Yes, but it leads to loss of margin so it will get knocked- off.

**Abhijit Akela**: And CPA is the pharma products that we had launched last year?

**R. Mukundan**: I think this is what I commented earlier on CPA, so we are examining several options in that area. One option is that we do feel API is an interesting area, but I think just doing one molecule and just doing it organically not giving it the right kind of thrust so we may look at options beyond just organic that is one way. In any case as far as CPA is concerned and the direction in that one newly molecule is concerned we will take a call whether it is the right way to utilize our assets or we have to utilize those assets towards products which are profitable in our portfolio and are well-established. I think that call we will come back to you by the month of March.

**Abhijit Akela**: One last thing the raw material cost trends could you just comment on where we stand now, I understand that chemical prices have started to come off in many places so how do you see that shaping up in the March quarter and then beyond?

**R. Mukundan**: There is a slight drop-off, but one of the things we are very conscious some of the key molecules we are in we are looking at the strategic drivers behind the input raw material and if these strategic drivers to our detriment we are looking very hard how to backward integrate and secure ourselves. So, that is clearly a work which we are doing so that we are not left to the vagaries of the market and we do not have to explain every quarter what is going on. So, if your question is are the margin percentage is going to come back, I think it is a bit of early day give us time till March we will let you know exactly what the position is at that point.

**Abhijit Akela**: Lastly, is it possible to share a breakdown of the revenue growth between the price inflation versus the volumes and also between the domestic and the export business?

**R. Mukundan**: Let me give me a brief color, Ashish can add more. The brief color is the bulk of the increase in the overall revenue has come through price increases and in the international business the way it has played out is that price increases the volumes have been flat.

**Ashish Mehta**: Just to add what Mr. R. Mukundan said our price increase has been there largely in the international market. It also has the impact of FOREX also because if we have to compare previous year versus this year the FOREX movement also had a little bit of a positive impact on the revenue.

**R. Mukundan**: On the domestic front let me also highlight this that in the domestic market, the market has been very weak which has not allowed in several products to pass on the cost increases in terms of price increase and that has been the situation we have faced. We do not know when that will correct itself, but that is the situation in the market.

**Moderator**: The next question is from the line of Aditya Jhawar from Investec. Please go ahead.

**Aditya Jhawar**: Sir you mentioned about the rejigging strategy in terms of product launches if you can help us understand that as a strategy what real change, we have implemented in terms of the thought process of the new product launches? How many do we plan in terms of section 9(3) and section 9(4) launches going ahead every year for the next two to three years?

**R. Mukundan**: We will come back with those specific number in the next call. I think suffice to say that we are going to be looking at continued focus on expanding portfolio and also entering in the international market in few molecules where we will be leaders.

**Venkatadri**: Also what I would like to say is that like we have always mentioned when we talk about any of these launches, we primarily look at where we have either a 9(3) of our own or anything from alliances. The co-marketing is not something which we highlight too much. So, between these two we have got a rich pipeline and we have been telling you minimum two to three launches will take place year-on-year which will be differentiated products and that I am reiterating that so you will see that happening year-on-year.

**Aditya Jhawar**: Sir you also mentioned about expansion of distribution network sir if you can help us understand I mean say quantify what percentage of distribution you have added how much touch points you have added this year something of that sort?

**R. Mukundan**: So, we will come with specific targets on that and specific numbers in the next call, but suffice to say I think we are very clear that there are strong products and relatively weaker market so we can begin to penetrate. So, we are looking at that very seriously and the work is going on as we speak.

**Aditya Jhawar**: Sir finally question again on margins, the pressure from China has been consistently there for couple of quarters, so what percentage of our raw material or say as a percentage of sales are source from China how the number has moved in the last couple of quarters? Did we develop alternative supplies from India or you indicated that backward integration would come in the next couple of quarters if you can give some colors on that?

Venkatadri Just to fill you back on the distribution part of it, like we do every year we do the distribution network mapping and what we had done specifically in '18-19 was we had relooked at the numbers and all the distributors who are not really adding value to us many of them were small guys, but long tail we did kind of take them off and we did add a number of them who are much larger in size so that is something which we did in 18-19 and again this is an exercise that we typically do at the beginning of or the fag end of the year for the implementation in the next year. So, we will be doing a similar exercise now in February and March and then take it forward for implementation. On the import percentage see as a strategy for the last couple of years we have noticed that China is being very unpredictable. So, one of the critical things that we work on is how we develop alternate sources within India. So, one of the key targets that we work on is import substitution – one is developing local venders and second getting multiple supplier for the same product even if it is coming from China. So, that is something that we have been doing on an ongoing exercise. What we are now saying is that for some of them we now need to make it ourselves rather than keep only looking at alternate sources. So, while alternate sources from India would continue, we are also going to be investing in backward integration.

**Moderator**: The next question is from the line of Ajay Bodke from Prabhudas Lilladher. Please go ahead.

**Ajay Bodke**: So, I have two requests firstly, I would request the management to kindly mention the one-offs either in the press release or in the investor presentation because the group companies like TCS and Tata Motors have taken a lead in embracing transparency and that is a first suggestion. **R. Mukundan**: Noted, we will take that into account.

**Ajay Bodke**: One question I have on the Rs.173 crore of Phase-2 CAPEX that you have mentioned the details of which you will be announcing in March, what is the funding that you have in mind will it be entirely through internal accruals sir?

**R. Mukundan**: We have funding capacity we have tested it. I think both Phase-1 and Phase-2 will be internally driven and we do not see any need for any additional support and the balance of the number with the phasing will come back specifically whether we need to have a temporary pump up in financing is arranged, but clearly it is not going to be diluting any equity at present point of time.

**Moderator**: We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

**Vishnu Kumar**: Sir, these investments that we have spoken about in terms of formulation and technical, if the technical prices were to say immediately improve and supply availability from China fast forward two years and even then under the stress case will be still generate reasonable returns I just want to understand your thoughts under the stressed case how things will play out?

**R. Mukundan**: I think very clearly, we have done this with the current and slightly tighter norms being applied and we do not see the norms dramatically going worsening, but even under slightly more stress case it is perfectly fine.

**Vishnu Kumar**: So, you did mention that you are looking at I mean you are looking at being global leaders for two, three chemicals, could you explain which one of those and what price advantage would we have over China at this point in time?

**R. Mukundan**: I think already we have advantage in several of these molecules like Metribuzin or Pendimethalin. I think it is for us to have the capacity to go out and get the contracts and get the registrations it has nothing to do with any competitive pressure on that. I think if I really look at it the cost structure and the revenue model which exist for these molecules clearly it is ambition and how much we want to go and get.

**Vishnu Kumar**: Finally, you did mention that you are also looking at global registration I think I just heard that statement as well, so would we now go also register globally in certain countries I want to understand that part?

**R. Mukundan**: Yeah, we are doing it.

**Venkatadri**: This is you know that the registration process internationally is a long game so we are in it. So, many of our molecules are already registered in some countries I am talking about the big ones and many of them are at the fag-end of getting the approvals. So, we expect some of that to kick-in, in the coming years and we are continuing to apply for registrations in many places.

**Vishnu Kumar**: Okay if my understanding is right you are mentioning that we will do B2C registration in certain geographies and we will sell directly under Rallis brand name?

**V**enkatadri See the point is that what the flexibility that you get is that there are two types of registration. One is a source registration and second is your own registration. In a source registration you are kind of stuck with that particular party who is buying from you, but if you get your registration even if it is not B2C it is B2B but you have flexibility in selling to more parties in that particular place that is what we are now talking about. The B2C part of it there are certain things that we are looking at but they might be in geographies which are more amenable to the way we are working.

**Vishnu Kumar**: And which geographies these B2B we are registering?

**Venkatadri**: Clearly there are only three large geographies the big boys are only US, Europe and Brazil.

**Vishnu Kumar**: Sir finally, on the domestic market if you could just stress on the current stress in the market which geographies are doing well and how do you see the inventory system going into next year and there are also talks about potential El Nino next year just want your thoughts there?

**Venkatadri**: See very clearly, I think you know much better than I do because you track all the companies in the sector and clearly, we have seen that this particular year we have had lot of stress in Karnataka, we have had stress in Telangana, Andhra we have seen stress in many of these states. We have had a big problem in Gujarat if you remember so many states have had Punjab, Haryana also in parts of Kharif. So, if you look at it almost half of the country has been on a pressure during the year that is something which is reflected in higher stock levels across the industry. Going forward very clearly, the way we all need to work out is that we cannot run away from the fact that monsoon will go up and down, the important thing that we are working on it how do we de-risk ourselves from the vagaries of monsoon, is there a way we can mitigate ourselves.

**R. Mukundan**: Let me step in I think this whole initiative of digitizing and sales force automation and automation tools it improves the agility. I think we cannot say that all over India the weather has been bad. Obviously, food grain production would not go year-on-year up if weather all over India is going to be bad and we cannot say reservoir levels all over India are going to be low. I think agriculture will continue to grow irrespective of what market is and we have to figure out a way how do we respond well in a manner that we are able to be more responsive and quick and move the products to the market segments and sector where it will be needed. Secondly, I think we need also to have array of products which are at different price and value points which the farmer can access. So, these are issues which we will deal with as we move along. It is a constant story which I get to hear in this space about weather being a big issue. If it is an extreme drought weather is an issue, but I think normal vagaries which happen I think should not be an issue each company will create out its own model and we are working on our model which is to focus on stress free districts very clearly and on the stress district have a predictive approach to selling which means we will have greater agility and ability to predict where we need to place our products. Placement itself will be depended on that, but as far as the next year is concerned I think there are conflicting signals and we will keep a close watch on that.

**Moderator**: The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

**Ranjit Cirumalla**: I have just couple of questions earlier during the year, looking at the stress at the user end we have kind of relaxed our working capital to extend some credit to the dealers and probably during the Q3 we have also witnessed some pressure on the cash flows and Mr. Ashish has eluded that the interest was also to the extent on the higher side in this quarter, so just wanted your thoughts going forward whether you would continue to be accommodative to achieve growth or would there be any change in the policy?

**R. Mukundan**: As far as my suggestion to the team and what the team is going to focusing on is that we need to give credit to credit worthy distribution channels and where it is warranted. So, in my mind giving credit is not a bad idea, giving credit without enough securitization or enough credit checks is a bad idea and close monitoring of the credit is always important when you give credit. So, we will be looking at these internals systems and we will give credit as it is appropriate to the market needs. I think helping channel to sell better and sell more they are after all our partners and we need to have partnered approach with them. But that does not mean that we leave money on the table and run a credit risk which is unmanageable. So, let me say this as a Company we would be balanced in our approach on credit in terms of release of credit but very risk averse in putting systems in place to ensure credit loss does not take place.

**Ranjit Cirumalla**: The second question is on more on the marketing aspect now since the growth aspect is very clear and is more on the company strategy, we have a very strong network and connect with the farmers. So, we are also looking at exploring the co-marketing tie-ups in future?

**R Mukundan**: Let me put it like this our preference is for own products and secondly, through alliances where we own the brands, but certainly comarketing will be used where we have to fill in gaps tactically as well as strategically. So, there is not a 'No' so there is going to be portfolio of three approaches, but if you ask me what will be the shape of the puzzle five year going forward. Five year going forward the shape will be that it will be larger proportion will remain and own and alliance and there will be smaller proportion and co-marketing but it does not mean we will not do we will continue to do comarketing.

**Moderator**: Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.

**R. Mukundan**: Thank you everyone for joining the call. I first take the feedback about doing not having a long gap between the results and the call. We will do it as quickly as possible. Today was unavoidable because of the function which many of us had to attend especially since the investments are going to happen in Gujarat. We thought it is best to attend that and we did take this call as soon as that function was over in fact we are doing this call from Ahmadabad not from Mumbai, but I just want to say that I have deep faith in this company that is one of the reasons why Tata Chemicals bought the shares of this company and it is subsidiary and we will ensure this company is fully on the growth path and delivers returns to all stakeholders.