Rallis India Limited

Q3 FY20 Conference Call Transcript

January 17, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Limited Q3 FY20 Earnings Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India.

Gavin Desa: Thank you. Good morning everyone and thank you for joining us on Rallis India Limited's Q3 FY20 earnings call. We have with us today Mr. Sanjiv Lal - Managing Director and CEO, Mr. Nagarajan – 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 discussions maybe forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation. I now invite Mr. Lal to begin proceedings of the call.

Sanjiv Lal: Thanks, Gavin and thank you all for joining us on our Earnings Call and wish you all a Happy New Year. I have with me Mr. Nagarajan – our Chief Operating Officer and Ashish Mehta – our Chief Financial Officer.

As you would be aware, during the quarter we have received the NCLT approval for merger of Metahelix into Rallis and hence our results reflect this in terms of the standalone performance. The previous quarter has also been recast to reflect comparative results. Let me begin the discussion by highlighting the operational developments, after which I will request Ashish to walk us through the key financials.

As you would have seen, we have had a good quarter with revenue growth of about 28%. Positive farmer sentiment which has really been supported by a good monsoon, good availability of water has resulted in increased acreage for the current Rabi year-on-year as well as supported by good produce pricing in the market. This has all helped in our domestic markets. Our international business continues to perform well during the quarter. More specifically on the Rallis developments, starting with the domestic business first, our efforts in recent years have been directed towards introducing new products and strengthening our distribution network. We have launched 2 new products during this quarter and our intention is to maintain this momentum of launching at least 2 new products every year over the next couple of years.

The trade terms that we introduced in Q1 continues to support our partnership with our distributors and has also resulted in a positive impact on our cash flow. I am pleased to announce that the Board of Rallis has approved setting up of a new state-of-art R&D facility in Bangalore to further drive our growth with a significant step up in our product development for crop protection, crop nutrition and seeds research. We are optimistic that such efforts should help us maintain the revenue momentum in coming years.

Moving onto our Seeds business:

We recognized that our current product basket is largely skewed towards Kharif crops and as such, we are working towards building up our presence in the Rabi segment by focusing especially on maize and mustard crops. We have crossed about 100 metric tonnes of hybrid mustard this Rabi and further, we are also undertaking significant efforts towards developing our vegetable portfolio. These efforts should help us improve the balance in our seeds portfolio for driving further growth.

Regarding our International business:

The segment has seen and continues to see good traction underpinned by new product registration in Latin America, North America and Asia. We are presently working on 2 molecules for our contract manufacturing. We are undertaking steps to leverage our tie-ups with global innovators to expand this part of our business which currently is restricted to only 2 molecules. The other focus area for us in the international business has been to strengthen our alliances and we are again constantly looking towards broadening our product base and branded molecules through co-marketing arrangements. We are making steady progress in this regard and are confident of scaling up this segment in the coming years. Further, we are also actively looking at the opportunity to register our own brands and increase the revenue from the formulation business.

Regarding our CAPEX program:

As most of you are aware, we had announced our intention to invest approximately Rs. 800 crore over the next couple of years for strengthening our domestic and international business. As indicated in our previous call, we had completed the first phase of Metribuzin expansion and expect to complete the second phase production and be able to commercialize it by February of 2020. The overall expenditure incurred towards Metribuzin capacity has been approximately Rs.25 crore. The completion of the expansion will further consolidate our presence in the Metribuzin market, and we are also investing for backward integration in certain intermediaries which we are currently importing.

To conclude:

I would like to reiterate that our growth agenda is on course. We expect our product portfolio to be much more balanced and growth oriented in the coming years. Further, our revised credit terms should also help us with our growth agenda. Our International business continues to perform well and we are hopeful that the completion of the CAPEX will further provide a leg up for this business and further drive growth.

I would now request Ashish to walk us through the quarterly financial performance. Over to you, Ashish.

Ashish Mehta: Thank you, Sanjiv and welcome to all and wish you a very Happy New Year.

To begin with, I would like to say that the financials are drawn on the merged entity since Metahelix has merged with Rallis. I will also walk you through the standalone of Rallis crop protection and crop nutrition business separately.

For the consolidated financials, Revenue at Rs.534 crore, registered a 28% growth over the same period last year. Profit before tax was at Rs. 48 crore against Rs.20 crore, in the same quarter in the previous year. PAT was at Rs.38 crore versus Rs.14 crore for the same quarter in the previous year

For the Rallis standalone which is a merged accounts, revenue was at Rs.533 crore, registered a growth of 28%. Profit before tax at Rs.47 crore against Rs.19 crore of previous year. PAT at Rs.37 crore against Rs.13 crore of previous year.

Total revenue for the quarter for the crop protection and crop nutrition business was at Rs.503 crore and registered a growth of 30% over previous year. Majority of the growth coming through volume growth across domestic and international business; however, we did see some price correction in some of our molecules both in domestic and the international market. Our new products Ayaan and Zygant were well accepted by the farmers and witnessed a decent scale up.

In the International business, there has been a good volume growth both in Acephate and Metribuzin; however, there were pricing pressures which resulted in price correction and the pressure is expected to continue in the fourth quarter as well. Some orders from the overseas customers were prepone. Due to our continuous focus on collection and with the support of new trade policy announced at the start of the year coupled with tight control on inventories, there has been a decent improvement in our working capital days. Cash from operating activities improved substantially to over Rs.300 crore as compared to previous year.

Our Investment plans for capacity expansion are progressing well. As mentioned earlier, second phase of expansion on Metri Technical is expected to commence production by February 2020 and we will see its full utilization in the next financial year. The progress in the setting up of the new formulation plant at Chemical Zone Dahej is satisfactory and we expect the commercial production to start by FY21. To meet the demand of some of our existing products and build the facility for future requirements, the Board formally approved an investment of Rs.150 crore for specific project for capacity expansion and this is part of that Rs.800 crore investment plan which was announced earlier.

The revenue from seeds business at Rs.30 crore registered a modest growth of 4% over previous year. We can now start the Q&A session.

Moderator: The first question from the line of Viraj Kacharia from Securities Investment Management Pvt Ltd.

Viraj Kacharia: Just I had couple of questions. First is on the volume growth for the domestic market. Can you provide some color in terms of split between the growth in base products and new products in domestic crop protection and how much of the spillover you would have seen from the Kharif being extended in Q3?

S. Nagarajan: We have in the first nine months of the year, not just in Q3, we have had good response to 4 of the products which we had previously announced that is Zygant, Ayaan, Cameo and Trimbo. So those 4 products, in addition of course Sarthak and Impeder were launched in Q3. Our overall revenue from these has been above Rs.50 crore for the 9-month period. So that is the contribution of the new products in the domestic formulation business.

Viraj Kacharia: And in terms of spillover of the Kharif being extended in Q3 typically what kind of impact it would have in Q3?

S. Nagarajan: See, it is a little difficult to estimate the precise impact. We feel that for couple of weeks there was an extension that happened in the month of October. But it is little difficult to say because to separate out the effect of the spillover is not that easy.

Viraj Kacharia: Second question is on the inventory situation, both for us and the industry. How are you placed in terms of inventory in crop protection for key molecules? And to it, you mentioned about this unreasonable price war, you know. So, if I just talk about domestic market, which are the key molecules we are kind of seeing this price cuts? Is the kind of input cost moderation sufficient enough to offset the margin impact? How should we see that forward?

S. Nagarajan: If you are referring to our channel stock levels, we feel quite comfortable with the level of stocks that we are carrying in the channel. If we are talking about our own company level inventory, they are actually lower, I should say compared to the similar period last time, though we don't give out the balance sheet figures now in Q3, but directionally they are actually better than where we were last year. In terms of price pressure in the market, I think the Rabi sentiment is quite positive. We have had price pressures in selected molecules. We also, as you correctly pointed out, had some decline in raw material prices as well. We are actually finding that some of the actions that we have taken in terms of focusing our portfolio on some of the better margin product have actually helped us and we feel, we have actually done better in terms of margin compared to last year, GC margins I am talking about in the domestic business for the same period Q3.

Viraj Kacharia: Okay. Just last question. For the key base molecules like Tatamida or Sonic Flo, or Takumi, how does the price of volume trend be, in last couple of months for us?

S. Nagarajan: See I would like to refrain from talking about specific product volume trends for competitive reasons am sure you would understand that.

Viraj Kacharia: Ok if we talk about in general then, the price trend and generally are we seeing pressure on those products as well or…?

S. Nagarajan: There are a mix of products. There are products where we have strong brand and those products we certainly find less pressure. There is a demand from the farmer and as I said this Rabi outlook is also one of the important factors where the sentiment is quite high, both at the trade level and the farmer level. But you are right, there are certain other products which are somewhat less strong. Again, I don't want to say weak but I would say less strong in terms of brand position. Certainly, the price pressure exists in those molecules, those formulations.

Moderator: The next question is from the line of Rahul Jain from Credence Wealth.

Rahul Jain: Firstly sir, on the gross margin side, so we have added our operating margins move up sharply and with the kind of top end growth, operating leverage seems to be kicking in. But on the gross margin front, on your year-on year-basis we are still down by almost about 1%-1.5%. So, if you could just try to, if you could understand, is this stable gross margin or we see some improvement coming in or is this the margins being down probably because of some inventory, high cost inventory which we would have carried from the previous quarter?

Ashish Mehta: Impact on margins are on account of two fold- firstly due to high RM cost and secondly due to pricing pressure. We have also seen some price relaxation in select RM cost over last few months.There has been some impact of high inventory cost on our margins as they were purchased well ahead of our requirement as supplies of these materials were very erratic and uncertain and this was done to ensure our units were up and running to meet customer demand. We do see some pressure on pricing to be continued in the 4th quarter as well

Rahul Jain: But do we see this trend changing sooner or it will take some time?

S. Nagarajan: If you see the price pressures in the International market, there are certainly price pressures that we are witnessing in the International market, consequent to the various effects which are well known in terms of US weather etc. So, these price pressures are not fully offset by raw material cost reductions. So, these are actually absolute pressures on the margin, this is apart from the price reduction sympathetic to raw material price drops. So effectively I think there would be, we would expect price pressure and margin pressure to continue on the International side. On the domestic business, there will be I think for those set of molecules and certain set of formulated products where the brand levels are somewhat lesser, brand strength is somewhat lesser we would expect it to continue. So, I don't think we can say that we are looking at an improvement in a hurry.

Rahul Jain: Sir, and lastly with regards to Metribuzin, last quarter we had mentioned that particular raw material prices for Metribuzin seem to be coming down. There was some correction on one of the raw materials. And also, our additional capacity had come in in the last quarter and further we are having about 500 tonne in February. So, if you could just tell us something more on Metribuzin in terms of both the product demand, product pricing and the raw material availability as far as Metribuzin is concerned.

Sanjiv Lal: As far as the raw material availability is concerned, it has eased considerably over last couple of months and also the price of some of these key ingredients have come down as well and that is also reflecting in softness in the price. There is also some buildup of inventory which has happened in certain markets which could give us short term impact in terms of our shipments for Metribuzin. But we see that more in terms of short term issue, rather than any significant structural issue.

Rahul Jain: And the demand continues to be good for Metribuzin?

Sanjiv Lal: Yes. We expect it to be good. I mean there is short term issue in terms of high inventory in certain geographies, but that is expected to be only short term. This is really arising out of unseasonal rains in the US.

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

Prashant Biyani: Sir, how has been the domestic industry growth in Q3?

Sanjiv Lal: Well, as you know, Rallis is the first with results which are out. I can only say that the monsoon effect, the water availability effect, the positive sentiments in the market will have a positive impact on most of the agri players. So, I guess we will have to wait and see how they report their performance. As of now our view is that there is a very positive sentiment with the trade and the farmers, so that could have a positive impact on the entire segment.

Prashant Biyani: And is it also reflecting in terms of higher liquidation from the farmer side? Liquidation I mean retail sale of agrochemicals. Is that also going strong?

Sanjiv Lal: Yes, I think that has already been responded to in the previous question that was asked. In terms of our own inventory levels, we are seeing a reasonably good control that we have on it. So, we will reflect only on our own position on this. We will not comment on any of the others in the industry.

Prashant Biyani: Okay. And sir there was some initial remark regarding preponement of orders. So that had happened in Q3?

Sanjiv Lal: See, what I had mentioned in my previous calls also that our International business, you know sometimes we may have some bringing forward of a shipment or deferment of a shipment and our base is reasonably small. So even 2-3 shipments getting adjusted here and there suddenly gives a swing to the quarterly performance. So, I would say that we must look at cumulative performance of our international business because of the small base that we have on our exports.

Prashant Biyani: And just one last question, this Sarthak and Impeder would be catering to which crop and which disease or weed?

S. Nagarajan: Impeder is for wheat and Sarthak is for grapes**.**

Moderator: The next question is from the line of Dhavan Shah from ICICI Securities.

Dhavan Shah: My first question is about the overall segmental wise numbers. I mean, we have seen decent growth in herbicides as well as insecticides and fungicides. So basically, would it be possible to share the key products which is driving the strong growth across these three segments, apart from this Metribuzin we understand that because of the new capacity herbicide has performed well. But in insecticide and fungicide would it be possible to share the growth numbers, the key products if you can share?

Sanjiv Lal: We got a basket of products in each of these categories and they are all intended for certain crop segments and pest segments. I would say that most of these categories have shown a decent performance, and we would not like to get into any specific molecule at this stage but our own assessment is that all these three categories in fact the other category of plant growth regulators and soil conditioners also, all of them have done fairly well.

Dhavan Shah: Okay. And for the international market, we were about to commercialize the Metribuzin in December. So, we extended by around two months. So is this the strategic decision because the Metribuzin prices are down. So, is it like so and if you can share the Metribuzin prices for Q3 vis-à-vis Q2?

Sanjiv Lal: Actually, you are right. We had intended to have our plant up and running by December. So, it has actually got delayed by just a couple of weeks. I did mention that we will start the commercial production in the month of February. So, there was just about a may be a 2-3 weeks delay. And yes, there is some pressure which is there in terms of inventories which I also mentioned. So, in a way it is not really impacting our overall sales for this particular category. There has been some softness in price. So, we have seen couple of dollars getting knocked off in terms of the selling price from this category.

Dhavan Shah: Would it be possible to share the price if it is okay from our side?

Sanjiv Lal: We would not like to get into specific pricing, except to say that there is some softness in the pricing. We do have some arrangements with some of our customers in terms of contract pricing.

Dhavan Shah: And can you please share the CRAMS revenue for Q3?

Sanjiv Lal: CRAMS revenue for Q3, we have not specifically shared that, except to say that there is some delay in our shipments for PEKK and this is really coming out of higher inventories for this polymer with our customer. So, some of that volume has got deferred into Q4.

Moderator: The next question is from the line of Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar: My question is pertaining to raw material availability issue for certain products. Has the availability eased out and how should we see the raw material inflation from here on?

Sanjiv Lal: Yes. I would say that for some of the raw materials there is still some pressure. But for our key products the pressure has substantially eased.

Nitin Gosar: And you call out Rs.25 crore investment that is for Metribuzin and Rs.150 crore incremental investment, that is going in for raw material backward integration?

Sanjiv Lal: No, this is largely for expansion for some of our other key products and new products which we are requiring in FY21 and beyond. So, we will be doing the expansion of those capacities in the next couple of months.

Nitin Gosar: Okay. So, within Rs.150 crore there is no number related to backward integration. Is that the way one should look at?

Sanjiv Lal: Backward integration number had already been approved by the Board for which the work is also started. So, we will expect that to also get commissioned during the next financial year.

Nitin Gosar: Okay. So, to put it together, next financial year we should be seeing CAPEX of Rs.175 crore or more than that?

Sanjiv Lal: Well, it would perhaps be more than that. But of course, when the expenditure happens, it doesn't all happen in one period of time. The expenditure will be over a period of time. But yes, in terms of commitments, in terms of CAPEX, the commitments on the table are close to about Rs.200 crore apart from whatever has been already actioned.

Moderator: The next question is from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: Sir, I have a question on your contract manufacturing business. You mentioned you are working on two molecules. Sir, would that be the generic molecule or would be with the innovators and would that be intermediate or so at what stage are we working with the innovator?

Sanjiv Lal: Dhaval, just to clarify. We have only two products that we make as part of our contract manufacturing portfolio, have only two and we are still looking for getting the partnership for doing additional molecules. So, this is work in progress area for us and we expect that during the FY21 we would have something to share in terms of additional products which we may want to add to our portfolio for contract manufacturing.

Dhaval Shah: Got it. So, this would be intermediates or the technical, I mean the active ingredient part of the trade?

Sanjiv Lal: We are agnostic to that. It could be an intermediate, it could be an active, so contract manufacturing is that we will be doing on a peer to peer basis only for one specific customer. But we are open to doing both actives as well as intermediates for a good partner.

Dhaval Shah: And this will be innovator agro chem or it will be a generic agro chem?

Sanjiv Lal: So again, I think it is difficult to take these decisions. It depends on what our partners want us to do for them.

Dhaval Shah: Got it. And couple of agro chems are going off patent as well in next many years. So, are we also tapping that opportunity? So how are we playing that opportunity?

Sanjiv Lal: I think in our earlier calls we have talked about the work which is being done by our R&D team on organic synthesis for some of these off - patent molecules. So that activity is very much underway and as I had also mentioned that we will be significantly expanding our R&D capability, we are going to be building a new R&D center. So, we will be kicking of that work during Q1.

Dhaval Shah: So, sir, incrementally a lot of growth should come from contract manufacturing for us, for Rallis?

Sanjiv Lal: Well, we see it as an important area because one of the strengths of Rallis is in manufacturing and we have been focusing largely on what we require for our own business and we will be looking at contract manufacturing for helping us quickly expand our topline. So, it is the line of business which will be helpful for our overall growth agenda.

Moderator: The next question is from the line of Varshit Shah from Emkay Global.

Varshit Shah: Sir my question is slightly on the working capital side. I think we have improved our trade terms but I missed the earlier comment mentioning some Rs.300 crore number. So just wanted some clarification around that. Is this the

Rs.300 crore incremental improvement in capital or something I am misreading out here?

Ashish Mehta: Varshit, what I mentioned was the cash generated from operating activity, at Rs.300 crore on a YTD number which is a marked improvement over previous year's 9 months. Since balance sheet and cash flows are not reflected in the results, I just wanted to mention the highlight. On the inventory it is not that the working capital has gone down by Rs.300 crore. I didn't say that, it is only the cash from operating activities. This time there was an improvement in the working capital days overall.

Varshit Shah: Right. So, this on a 9 month basis you are saying or…?

Ashish Mehta: 9 months.

Varshit Shah: Okay. And sir what would be the key reason for this improvement? Is it the trade terms only thing or is it the demand factor also slightly playing out in this?

Ashish Mehta: It is a mixture of all.

Varshit Shah: And sir my second question is on the gross margins. So, I just connect to the earlier question. So, I think you had mentioned that there is some realization pressure in some molecule and some of that is offset by RM cost rationalization. Going forward in Q4 and probably FY21, what is the direction you are looking in terms of gross margins on an absolute basis for our key molecules? Do you see that coming under pressure or is it still a wait and a watch mode depending on how the RM plays out?

Sanjiv Lal: So, I think, again I just reflect back to our earlier conversation on this subject. We are very focused on growth and therefore we will of course try and make sure that any improvement which we have in terms of our raw material sourcing prices and all get reflected in our product pricing and at the same time we have to be competitive in the market as well. We cannot be disconnected from what is happening around us. So, we will be looking at our growth agenda as the key driver. Margins and all will certainly be an area of focus, but I think we will keep adjusting our margins as the business requires for our growth.

Varshit Shah: Alright. So just to maybe add to that question, so we have seen quarter-on-quarter improvement in gross margins. Is it that you have passed, this despite you have passed all the RM cost benefit or probably you have let go off, kept something in the company and partially passed on the benefit?

Sanjiv Lal: No, I think it is not as simple as that. There is also a product portfolio that we have and certainly some of the products in our portfolio have a higher performance and the willingness of the farmers to pay for this higher performing product will also be there. So, it is a mix of that as well.

Moderator: The next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Sir, what is the price trend that we are seeing on the pendimethalin and acephate because as per your last con-calls the pricing was on the declining trend. So, are we seeing the similar trend or some improvement on that side?

Sanjiv Lal: So, in terms of pendimethalin there is softness and it has continued into Q3 as well. As far as acephate is concerned, I would say it is more stable now. It has shown some increasing trend, but we are now seeing a more stable performance on acephate pricing, but pendimethalin, it is still continuing to be soft.

Bajrang Bafna: And sir, what about the backward integration. You know, when you have indicated that it will be somewhere around next financial year, but what sort of margin impact that we can envisage considering the pricing of your raw material today? So just some ballpark number would really be helpful for us sir.

Sanjiv Lal: So, the way we see it is that we have justified the expenditure based on a certain expectation of returns and we had also talked about what is our weighted cost of capital and how we are looking at our CAPEX program. So even our intermediates will be in line with our approach towards making sure that they have reasonable margins for the products that we are getting into plus also we have also kept a filter of derisking our sourcing. So, both these filters have been applied when we look at the product that we are getting into and what is the impact that will have on our overall margins. I think I will just leave the response to that.

Bajrang Bafna: Okay. And what will be your dependence post this expansion on China because I think we were 50% plus historically. So now, with this backward integration what we can expect in terms of our overall sourcing arrangement from China?

Sanjiv Lal: Since we are on a growth path, we may find that our percentage imports from China may not substantially change because we will be getting into newer things. So, there would be certain things that we still depend on imports. But yes, there would be at least for the product that we are talking about for backward integration there will be some reduction. We are not saying that we are going to be doing 100% in-house, we will be doing only partly in-house in the first phase.

Moderator: The next question is from the line of Saurabh Kapadia from Asian Markets Securities.

Saurabh Kapadia: Firstly, you mentioned about the softness in pendimethalin, but how is the volume trend for you in the current quarter in pendimethalin?

Sanjiv Lal: The volume trend is good. I mean, I would say order book is absolutely full.

Saurabh Kapadia: Okay. And sir on your inventory side, you mentioned that at the company level the inventory is lower compared to last year and if you see in last two years actually we were holding a few strategic inventories because of the Chinese situation. So now do we see that for next year, the overall inventory level will come down and we are more comfortable at the current inventory level holding, what we are having it?

Sanjiv Lal: See, as it stands today, I would say that the situation in terms of availability of key ingredients, key raw materials has substantially improved. But these things are very dynamic and as a responsible organization we will keep our ear to the ground. First, you know, there have been very disruptive kind of things happening from the key supplying countries and you are aware of the kind of safety issues, environmental issues that have created disruptions, right? So, we certainly see a much better situation today and we will need to be watchful of events which could create disruptions in the supply chain for our key ingredients. Yes, there is some significant improvement.

Saurabh Kapadia: Okay. And sir, you mentioned about the preponement of shipment in export, so can you quantify the additional revenue coming from that preponement of shipment?

Sanjiv Lal: See as I had explained. This month end, quarter end, getting adjusted here and there. In this we are not bothered about that because our base is small. So even 3 or 4 containers moving this way and that way suddenly make the figures look very different. So, let us look at it only on a 9 month performance and as we have talked in our presentation, if you look at the quarter performance, you will suddenly find that the figure of international business is looking very phenomenal. But if you look at the period of 9 months it is the one which really needs to be looked at. I hope you understand what I am trying to say.

Saurabh Kapadia: Yes, and one last thing about the Rs.150 crore CAPEX which you plan to do for the key products. So, what is the timeline by which the CAPEX or the commissioning will be happening and have you identified the number of products, or are those products which are getting off patented or the more of agenda in products, what is the full product profile which you are trying to build?

Sanjiv Lal: So, some part of this CAPEX is related to our existing products and some part of it is related to the newer products and the expenditure we will be starting in Q1 of FY21 and some of this expenditure may go into FY22 as well. So, some of these will be in slightly longer term because we will be building some capacities for the pipeline of the new AIs that R&D team is working on.

Saurabh Kapadia: Okay. And sir lastly on the R&D lab which you are setting up in the Bangalore, so what will be the CAPEX for that?

Sanjiv Lal: So, we are in the process of finalizing that. The whole purpose of building a much larger center is to substantially increase the work that we can do. So, we will be substantially increasing that.

Saurabh Kapadia: But that CAPEX is not yet accounted in your guidance of Rs.200 crore for next year?

Sanjiv Lal: No, we will let you know about that once we have been able to finalize with the architects and other things.

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

Aditya Jhawar: The first question is on the export business. You mentioned that there was kind of a pricing pressure in some of the key molecules. It would be great if you can highlight what could be the reason because of this competitive pressure and are you seeing kind of a visibility where the pressure will start easing?

S. Nagarajan: Yes, so the key reason is, in the International business if I were to summarize it, the inventory overhang in the overseas market notably in US and some of the places which have had excessive rain. So that is the driver why the price levels are lower as the demand in the market is lower compared to the supply. We do think that this is a short term kind of an issue that we will have to contend with, though in the longer term we do believe that things will come back to a more stable trend in terms of requirements of agrochemicals.

Aditya Jhawar: Okay. And you know just better understand this raw material thing, so in the export which is roughly about say 40% of the business, are you experiencing the pricing pressure on bulk of the portfolio or what percentage of this export is seeing pricing pressure and similarly for the domestic business we are saying that there some raw material prices are softening. At the same time there could be some pricing pressure. So, if you can just highlight the proportion of the international business which is seeing some pressure and the proportion of the domestic business which should benefit because of softening.

Sanjiv Lal: So, I would say it is reasonable to assume that with better reliability of whole lot of raw materials, most of the products will be showing some softness in terms of pricing and our customers will also expect some passing on of benefits, of reduced raw material prices. So, we will look at our pricing in our business appropriately.

Aditya Jhawar: So, thanks for that Sanjiv, that was quite helpful. But on the overall domestic portfolio, our portfolio should have a favorable impact of raw material from next quarter onwards, that is the fair assessment?

Sanjiv Lal: See, when it comes to margins, I think Aditya, we need to recognize that wherever it is possible, we would like to support the farmer with better pricing and I think there is also some competitive pressure which will automatically help the farmers in getting better pricing for the agro chemicals that they buy and I would think it is only responsible for the industry to be able to pass on benefits to the farmer as and when opportunities arise.

Aditya Jhawar: Okay. Fair enough. So, on the two products that you have just introduced, if you can highlight what is the target segment they are targeting, what is the potential revenue that we are expecting from these two products?

S. Nagarajan: So, the two products are Impeder and Sarthak. Impeder is a wheat herbicide and that is the segment we are targeting and Sarthak is for grapes. These are products which potentially address large market. I mean, we can let you know the numbers later, but I am not been able to immediately tell you, but these are pretty large markets. But these are also highly contested markets. There are other players also.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Sir, only one question. Sir, wanted to understand slightly bigger picture on the export side. How are we thinking about it for the next 3-5 years, we are currently focused on 4 products plus the CRAMS with global MNCs. So, and we are doing lot of registrations in international markets. I mean, are we thinking about derisking this international business and growing through registrations and will that be primarily led by B2B or we need to also set up the marketing network in other markets and scale up there, I mean what is the game plan?

Sanjiv Lal: As of now we don't have any plans for us for setting up our own distribution networks in other countries. We will really be working with partners and as I had mentioned that we have also actively working on getting our registrations, some of them we have already got. So, we will be doing our branded sales in some of these markets.

Dhwanil Desai: So, our dependence on this 4-5 products will lead you over a period of time as and when we get its partnership growing and selling those branded products, right? Is that a fair assumption?

Sanjiv Lal: So, I would say that this a good way of derisking. So, rather than only selling active ingredients we would also be getting into rather expanding our registration base sales with our brand.

Moderator: The next question is from the line of Nihal Jham from Edelweiss.

Nihal Jham: Sir, you mentioned that for 9 months our new products have done around Rs.50 crore of sales. I am not sure how that number pertains to the same period for last year, but our innovation index at least till last year was taking a dip. So, I just wanted the feedback that you have been getting from the channel in relation to our new launches and also if there are any missing gaps in our current portfolio?

S. Nagarajan: Yes, I think to your first point, the revenue that I mentioned was only for this year, these products were launched this year. So, the innovation turnover index is actually calculated on a 4 year rolling forward kind of a basis. So last year there was no revenue from Zygant, Ayaan, Cameo and Trimbo. These are the four products that we have launched till H1, Sarthak and Impeder of course came in Q3, they are just in the process of stabilizing and ramping up. In terms of portfolio, certainly we do believe that there are areas in our portfolio which we can strengthen and the Impeder is an example of one such product, in the wheat crop herbicide segment we have felt that there is a need for us to improve our offerings and that is what we are focused on and this is one of the products that has been launched. There are other areas as well which we have identified and we would be focusing on them as we go by.

S. Nagarajan: The formulation pipeline which we have been talking about, that we will be bringing in two products every year, the basis for that is to identify what are those portfolio gaps that we have. The work is happening around that for our own in-house 9(3) development.

Nihal Jham: Definitely. Sir, just on the quantum of launches that you mentioned of around two a year, as I understand in the past, maybe we have done more a number every year and even competition does around say 5 to 6 launches a year. So, is there a chance that may be the distributor or the retail level more launches from the competition could be a concern?

Sanjiv Lal: While we are talking about two and if you look at this year itself, we have already done 6. So, we are just saying that look minimum of two is what we expect that we will be able to bring to the market and of course, we will look at opportunities as and when they come up in terms of putting a new product into the market, into our portfolio.

Rohan Gupta: Sir, on this, can you be little more specific about the Rs. 150 crore which you were talking about in terms of its revenue potential and the kind of margins which will be having in this CAPEX?

Ashish Mehta: As, we have earlier also said that any CAPEX we do, the IRR will be much above the hurdle rate, hurdle rate is our WACC, which is WACC plus the business risk premium around 16%-16.5%. These products, the capacity expansion of the existing products and some new products as Mr. Sanjiv said, so we see the full potential of the investments coming out from FY22. Some of it will come in FY21, but the full potential will start coming in from FY22 onwards.

Nihal Jham: But this project will be completed by end of FY21?

Sanjiv Lal: There will be some spill over into FY22 as well.

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

Nirbhay Mahawar: You mentioned Metribuzin investment is around Rs.25 crore, this is for 1,000 tonne or 500 tonne?

Sanjiv Lal: This is for 1,000.

Nirbhay Mahawar: So, without getting into the pricing detail, would it be fair to assume that we would be generating 2.5x to 3x our investment out of it, sales turnover?

Ashish Mehta: Yes, because see the investment of Rs.25 crore is only for setting up some of the main equipment. It doesn't require full utility and all that thing. So, in a manner you can say against 25 the turnover would be at least 2x or 2.5x, it will be correct to mention that way.

Nirbhay Mahawar: Okay. And for this chemical plant which we are setting up, which is going to commission in FY21, would it cater largely to the domestic or international or mix of both?

Ashish Mehta: Yeah, it is a formulation domestic business.

Nirbhay Mahawar: And on the timeline, would it be like on the second half of FY21 or will it…

Sanjiv Lal: No, we are targeting commissioning in Q2.

Moderator: The next question from the line of Abhijit Akella from India Infoline.

Abhijit Akella: One clarification about the outlook for 4Q and Kharif now, given the very strong environment that we are seeing, do you see the sort of spilling over into 4Q and do you also see any sort of underlying reason for support for the Kharif season as well, you know the water levels etc.?

Sanjiv Lal: I think we will be really doing lot of crystal ball gazing if we start taking about Kharif for next year. But yes, I mean Q4 will have the residual effect of good Q3. So that will certainly be there and we still need to see what are those forecast which are coming from the various agencies regarding El Nino and El Nina going forward. So, I think maybe there is something we can discuss in Q1, early part of Q1, what we expect to see in terms of next Kharif.

Abhijit Akella: Right. I appreciate that. Just to clarify, regarding the domestic versus international revenue breakdown from the slide in your presentation, if I calculate the numbers it seems like domestic grew about 38% this quarter and exports grow about 24%. Is that broadly in the right ballpark, sir, just to confirm?

Ashish Mehta: Yeah, you could make that correct assessment, I would say.

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand Capital.

Sanjaya Satapathy: Sir, I have been hearing this Rs.800 crore CAPEX plan. My first question is that will it all be made through internal accrual, one, and how it will be kind of phased out, in the sense should we assume some kind of Rs.150 crore to Rs.200 crore kind of CAPEX per annum?

Sanjiv Lal: I think it will be safe to assume that about Rs.150 crore is what maybe the cash which will go out every year for the capital program.

Sanjaya Satapathy: And it will be met out of internal accruals?

Sanjiv Lal: As of now it appears that we should be okay with our internal accruals.

Sanjaya Satapathy: And sir, is there a possibility of you getting the new tax benefit of 15% on any of the projects that you may envisage?

Sanjiv Lal: No, as of now we are not looking at that at all. I think we really need to be setting up a completely new business. We have a lot of land, so it means giving up that land and rebidding for it, I mean overall it may not be something that would work for us.

Sanjaya Satapathy: And sir lastly, is it kind of possible to get, give us a sense like after all this CAPEX program is over, will there be a dramatic shift in revenue mix towards CRAMS or something else?

Sanjiv Lal: See, it is very difficult to say. I can only say our intention is that our contract manufacturing and you may call it CRAMS portfolio which is I would say relatively small, needs really to be accelerated. So, we would certainly like to see it in a much better place 3-4 years from now.

Sanjaya Satapathy: I mean, the other way to ask this question is that, out of this Rs.800 crore how much will go towards CRAMS?

Sanjiv Lal: So, we will invest as appropriate. As of now since we don't have anything to talk about we think it is not very wise to be putting some number there. But I can only say that we will not hesitate to put investment on the ground to accelerate our contract manufacturing business.

Sanjaya Satapathy: Understood. If I can ask the last question that you have done well in a non-kharif season and you started by saying that you are typically you are more kharif heavy, so my question is that, what is the proportion and is there a way that you will also look to kind of diversify your kharif and rabi exposure?

Sanjiv Lal: So, I think one thing is important to recognize and this is for everyone on the call, we must recognize that this year we have had a very favorable monsoon with rainfall which has been higher than what has been forecast. And therefore, there has been a very good tailwind that we have got this year. If you compare to what happened last year, Rabi was extremely weak. So therefore, we have to see our performance with respect to what happened last year because since we are looking at quarter-on-quarter compared to the previous year, so we need to keep that in mind that last year Rabi was particularly weak.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: Sir, on Metribuzin have you seen any changes in the comparative dynamics for Metribuzin as well as for competitive products? Anything that one should sort of watch out for also?

Sanjiv Lal: Yeah, I think today what happened is, lot of players who have got into this business, I think it has been an attractive category. So, we have a lot of competition in this category today.

Nitin Agarwal: And sir, what implication does it have? Does it have implications because we are adding capacities in terms of our ability to sort of sell all the volumes we have on Metribuzin or do you think it is largely going to have an impact on the pricing which is going to be there on the product?

Sanjiv Lal: There will be some impact on the pricing. I do not see any impact on the volume of business that we do. These are products which are, in a way commodity, but other hand hey are also specialty because the product needs to meet a certain impurity profile which every manufacturer cannot meet and with many of our overseas partners we are registered as a source and we meet the impurity profile that the customer requires as per the requirement of that particular country. So, while there maybe availability of product and competitive pricing, as far as we are looking at it, we do not see any impact on the total volume of business that we expect to do going forward.

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

Somaiah V: Sir, on the supply side, so you have mentioned the situation has kind of improved. Just wanted to understand, I mean do you see this is more on the structural side, as in new factories coming up in China or new capacity is coming for your existing raw material requirements or is there any seasonal angle to it, generally 2H is relatively softer or something. So just wanted to understand the structural and cyclical angel to this improvement in this supply side.

Sanjiv Lal: See, from what we are able to understand is that certainly some capacities have now come on stream and there was a lot of correction that has to be done in the various chemical parks that was there especially in China in terms of they having to undergo various reviews by the regulators and all. So, some of the capacities which had actually shut down for these inspections would have come back. That will also ease the availability of product.

S. Nagarajan: So, both the factors. Actually, structural, what Sanjiv already alluded to and cyclical also because of the reduced demand for the end product in the US market there has also been an inventory overhang there leading to less requirement. So, I think it is a combination of both, structural -new capacity coming on stream - as well as short term characteristic.

Somaiah V: Helpful sir. Sir, I mean with respect to US, I mean you have mentioned that in the developed markets lot of inventory overhang being there. So, the recent trade deal between US and China, so you see any expectation for inventory kind of getting eased out, I mean on the phase 1 of this trade deal. So, you see markets getting improved in both and specifically in US, do you see any improvements from this recent trade talk?

Sanjiv Lal: I think we need to really understand what this phase 1 deal between the two countries is and how it would impact us if at all. So, I don't think we have received any feedback on that because we have simply not studied it yet.

Moderator: Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just one, on the domestic side, given that you have seen a good growth this year and I can understand period was soft I think that is what you have alluded to as well. Is there something changing on the industry side, as like competitive intensity kind of phasing out or some bit on the rural inflation side given that rural inflation also has been going up. So, commodity prices probably improving a bit. Is there some correlation to that as well which probably could sustain let us say even in the Kharif for next season rather than just like being a base effect?

Sanjiv Lal: See, the competitive pressure I think we should only expect it to keep increasing and it is also good that there is competitive intensity. But I think what is favoring is better product pricing for the farmer which is also helping in his own cash availability. Also, what we are finding is, many of the farmers are actually willing to invest in the more effective product as well and that is certainly very helpful when it comes to better outcomes from his own cultivation. So competitive intensities will continue to increase and we welcome that and farmer being more prosperous is good for the entire segment because his ability to invest in his crop is also very good.

Moderator: We will take the last question from the line of Ranjit Cirumalla from B&K Securities.

Ranjit Cirumalla: My question is on the domestic side. Like you alluded in the CRAMS you are now willing to do more of a collaboration activity. Can the same strategy be adopted for the domestic market as well, like getting into more co marketing products rather than depending up on your own registrations?

Sanjiv Lal: See, we are already doing whole lot of partnership for many of the products. The products that we have launched this year are also including some of the co-marketing products as well. So, in fact Trimbo , Impeder and Cameo, these are all in-licensed in a way.

Ranjit Cirumalla: These are in-licensed from?

Sanjiv Lal: From the innovator companies.

Ranjit Cirumalla: Are we in a position to name them, just to have a better understanding of these collaborations?

Sanjiv Lal: I think it's in the best interest of the partnership we will just leave it at that, that we have been actively participating with our partner companies for these molecules.

Ranjit Cirumalla: Okay. And these things should continue in the future as well?

Sanjiv Lal: Absolutely.

Ranjit Cirumalla: Any product sir lined up with the co-marketing for the ensuing Kharif season?

Sanjiv Lal: Well, our discussions always on and we will announce as and when we launch.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Sanjiv Lal: So, just to thank everyone for the questions that they have asked. We trust that we have been able to provide the clarity and thank you all for the positive good wishes that you have given to the company and we look forward to our next call 3 months from now. Thank you very much.