Rallis India Limited
Q2 FY21 Earnings Conference Call
October 20, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Limited Q2 FY21 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you, Stanford. Good day, everyone and thank you for joining us on Rallis India Limited's Q2 FY21 earnings call. We have with us today Mr. Sanjiv Lal – the Managing Director & CEO, Mr. Nagarajan – Chief Operating Officer and Mr. Ashish Mehta – the 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 risk and uncertainties. A detailed statement in this regard is available in the results presentation. I now invite Mr. Lal to begin proceedings of the call. Over to you, Sanjiv.

Sanjiv Lal: Thank you, Gavin and good morning everyone. Thank you for joining us on today's call. I am joined by Mr. Nagarajan and Ashish, our CFO. Let me begin the discussion with a quick overview of the sector, post which I will discuss Rallis' specific business developments, after which I will request Ashish to walk you through the perspective on the financial performance.

The agrochemical industry has been amongst the handful of industries that has been able to recalibrate and restore normalcy across business operations following the COVID-19 led challenges. Barring a few issues, the industry is more or less back on track. Domestically, the industry has been fairly buoyant led by normal monsoons and remunerative prices, all of which has resulted in an acceleration in agricultural activities. The current year too is expected to be good with adequate water levels in reservoirs which bodes well for the upcoming Rabi season. With acreage and crop prices both improving, I believe the sector is structurally well-placed.

In the near-term though, talking specifically about the quarter gone by, performance has been largely benign as excessive rains during the month of August and September resulted in lower usage of spray chemicals with lower pest infestation. Paddy and cotton which are the key crops for the sector witnessed lower pest infestation. Stem borer, leaf folder, sucking pests, Brown plant hopper attack was low in paddy and cotton. We saw low pink bollworm infestation in Gujarat, Maharashtra and Telangana. Fall army worm attack also was relatively contingent across India. We believe channel inventory levels continue to remain normal. Further advancement of sales in Q1 impacted overall sales momentum during Q2 as sales figures normalized over the 2 quarters. As such, it is more useful to compare H1 of current year with that of the previous year to get an idea of trends in the domestic market.

Moving on to Rallis domestic developments:

We had a fairly steady quarter as can be seen by our financials. Domestic performance remains strong with a growth of 7%. In our International business barring Metribuzin, many of our key products registered volume growth over previous year. Metribuzin as we have been indicating remained under pressure both from price as well as volume perspective owing to excess inventories in the system. However, we expect things to gradually improve from hereon which would drive the international business. During the first half of this year, we have recorded the highest sales by volume for three of our key export products. However, CM products showed a decline over the previous period. Our approach to prioritizing cash flow has resulted in an increase of cash from operations of Rs. 276 crore versus Rs.227 crore in the previous year. I will let Ashish talk about this in more depth after this opening remark.

Talking about domestic business: As we have been saying in previous calls, our focus continues to be on driving growth by introducing new products and 9(3) products each year over the next few years. After having launched 6 new products last year, I am glad to announce that we have launched one 9(3) product, Kriman during the current quarter. It is a fungicide aimed at great crop for control of downy mildew. We are confident that the new product will help us build on the revenue momentum which has gathered steam following the success of last year's product launches. However, due to the pandemic restrictions, demand generation for products newly launched in the previous year was hampered and hence volume scale up was modest. We have also launched 2 new crop nutrition products – Flobor, a 10% liquid boron and Aquafert foliar nutrition product for vegetables during Q2.

Moving onto the seeds business: Performance during the quarter was largely satisfying following a subdued Q1. We have been able to achieve growth in our maize seeds particularly on the back of strong performance in Tamil Nadu and our maize category crossed Rs. 100 crore in terms of turnover. We are happy with the way things are shaping up in seeds business. We are making steady progress towards building a comprehensive portfolio of our seeds business by strengthening the Rabi segment. Vegetables as well remain an area of focus for the business and I am pleased the way things are shaping.

On our International business: Revenues declined by 29% year-on-year despite the volume growth in many of our key products. Revenue performance was impacted by the pressure presently being witnessed in Metribuzin and due to realization declined year-on-year even on growing products. However, GC margins of revenue have been broadly stable.

Contract manufacturing business was expected to remain under pressure following low offtake of PEKK which is largely used in the aviation business. We remain hopeful of positive developments in this regard over the medium term. While it may take time to achieve the overall desired results in contract manufacturing, we are nonetheless making steady incremental progress towards the same.

A quick update on CAPEX before I hand over to Ashish: We expect to commission our formulation facility in Dahej chemical zone during Q4 of this financial year as some delays envisaged largely owing to COVID-19 led challenges and excessive rainfall at the project area. We also expect to set up our multiproduct plant at Dahej SEZ during Q3 of FY22.

To conclude: I would just like to reiterate that the sector fundamentals are broadly in place. Domestic business continues to grow at a steady rate. Internationally as well, things are stabilizing which would help the overall growth of the business. Our product portfolio on pipeline remains healthy. Seeds business as well is shaping up well. Revised credit terms and distribution refresh is helping us to grow our sales and cash flow. Further, the completion of CAPEX program will help us provide necessary growth momentum for the business. International business as well should improve going forward which would help us to diversify our revenue mix and improve profitability.

With those opening remarks, I will now hand over to Ashish to talk us through the financial performance. Over to you, Ashish.

Ashish Mehta: Thank you, Sanjiv, and good morning and welcome to all on the earnings call of Q2 FY21.

To summarize the overall results, I will first speak about the Q2FY 21. Revenue was at Rs.725 crore versus Rs.749 crore in the same quarter in previous year. EBITDA stood at Rs.117 crore versus Rs.120 crore. Profit before tax before exceptional item was at Rs.108 crore higher than Rs.106 crore in the same period in previous year. Profit after tax after exceptional item was at Rs.83 crore versus Rs.86 crore in the previous year. Previous year's revenue, you should know includes about Rs.10 crore of revenue from pharma AI business which has been since discontinued. For the H1 results, revenue was at Rs.1,388 crore versus Rs.1,372 crore, a growth of 1%. EBITDA of Rs.245 crore versus Rs.215 crore in previous year. Profit before tax was at Rs.228 crore versus Rs.194 crore in previous year and profit after tax after exceptional item was at Rs.175 crore versus Rs.147 crore in the previous year.

I will now give a brief on how each business has performed during the quarter. Crop care, the revenue from crop care which is largely the domestic business, domestic crop care was at Rs.436 crore against Rs.408 crore in the previous year, registering an overall growth of 8%, largely contributed by volume growth of 10% and a bit of price correction downwards. We saw growth in volumes of some of our major branded products like Takumi, Captaf, Contaf Plus, Asataf, Blitox, Tata Panida. Our newly introduced Ayaan has also witnessed a good volume growth. In the International business B2B, challenges in Metribuzin still continued in the second quarter as well. Overall revenue was at Rs.145 crore versus Rs.188 crore in the same period in previous year. There was a volume growth in Acephate tech roughly 17% Pendimethalin tech almost 46% while a drop in volume and size of Metribuzin tech**.**

International business in the contract manufacturing segment registered a revenue of only Rs.10 crore versus Rs.29 crore in the same period in the previous year, largely due to drop in volumes. Demand for PEKK continues to be low in the next 2 quarters and we hope to liquidate the stock by end of Q3 or beginning Q4.

Seed division topline growth was at 29%, at Rs.73 crore versus Rs.57 crore in the same period in the previous year. This was largely driven by volume growth in maize and mustards coupled with better price realization. Overall volume growth has been 23%. Plant growth nutrient and organic manure registered a topline growth of Rs.39 crore versus Rs.32 crore, a growth of 22%. Due to better working capital management, cash from operating activity was at Rs.278 crore versus Rs.227 crore in the previous year. Overall working capital days improved to 65 days versus 104 days in the previous year. Inventory levels were high compared to previous year, largely due to stocking of critical raw material to meet the demand for Q3 FY21. However, receivable days improved to 75 days from the previous 101 days.

Cash and cash equivalents including liquidity investment stood at Rs.470 crore roughly, versus Rs.347 crore in the previous year. Progress on CAPEX, there has been a good progress in some of our major CAPEX. Formulation plant at the chemical zone expected to start commercial production by end of current financial year. The second phase of Metri capacity expansion is over and the plant is now ready for commercial production. Expansion of other active ingredients produced at our Ankleshwar unit is well on track. Work is also going on setting up the MPP at Dahej SEZ zone. The Board has approved a further investment of roughly Rs.70 crore yesterday towards capacity building. Hence out of about Rs.800 crore of investment that was to be done over a period of 3-5 years, as on date we have committed a line of sight of roughly Rs.525 crore, including setting up of the new R&D center at Bangalore. That concludes my opening remarks; we can now start the Q&A session.

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

Prashant Biyani: Sir, first one, clarification on our total International and domestic revenue. Can you share the figures once again for current quarter and last quarter, total International including everything and total domestic including everything?

Ashish Mehta: International is Rs.154 crore against Rs.217 crore of last year. And domestic seed is Rs.73 crore versus Rs.57 of last year. Domestic crop care which includes say the domestic formulation, the PGN, the GeoGreen and the domestic institutional business were at Rs.486 crore versus Rs.451 crore of last year and others which includes Aqua and some other items HHP, it was at Rs.12 crore versus Rs.24 crore of last year.

Prashant Biyani: Okay. And sir have we started to sell anything from our phase 2 Metribuzin plant?

Sanjiv Lal: Well, the plant has been commissioned and it is operational and in fact, we have been running it, but as such the volumes of Metri have only started moving towards end of Q2 and we have also got some registrations for our formulated products also for the International business. So while the volumes have been subdued, The inventories of Metri in consuming markets, which have been the key cause of our lower sales seem to be showing some correction because some enquiries have now started coming in. So we are hopeful that over the next 2 quarters, things should start improving. In the meantime, we continue to produce and build up some inventory in anticipation of sales picking up.

Prashant Biyani: And sir, the CAPEX that we are undertaking for AI, these AIs are relating to backward integration or these are all separate products?

Sanjiv Lal: No, the backward integration while we have kept aside some money for that, large part of the CAPEX is going towards new AI.

Prashant Biyani: And how much are we investing in these?

Sanjiv Lal: So there is a new multiproduct plant is intended for the new AI. Apart from that, as already mentioned, most of the capacities at our Ankleshwar plant have been revamped or are being revamped for completion within this financial year for commissioning. So for products like Hexaconazole, we have already revamped the capacity. In fact, this is one of the 3 products where we registered the highest ever export was Hexaconazole as well.

Prashant Biyani: I mean sir any indication of how much revenue can we have at optimum capacity from these AIs. Just to get some indication because these are all revamped facilities. So asset turn and all?

Sanjiv Lal: Well, the way I would look at it is that today we have been running practically flat out in terms of our capacity and the newer investments for debottlenecking these capacities will help us to service the market better and these are all incremental CAPEX's which are being done to provide balancing equipment for debottlenecking the plant. So the CAPEX involved is important for us but not very significant in the overall scheme of things. The major CAPEX of course is happening in the multiproduct plants which we had mentioned will be commissioned only towards Q3 of next financial year and that will be intended for commercializing some of the work that our R&D teams are doing on exercising these off patented AIs.

Prashant Biyani: And sir any CAPEX numbers of the MPP plant?

Sanjiv Lal: We will come back with these kinds of numbers, but it is going to be a plant which will be able to handle multiple chemistries.

Moderator: The next question is from the line of Rahul Veera from Abakkus Asset Management.

Rahul Veera: Sir, just one small question. I wanted to understand this Rs.70 crore capacity approval that we got from the Board, what would be this for?

Sanjiv Lal: So, this investment is intended for certain additional facilities that we proposed to build including some pre-engineering that we need to take up for some opportunities in contract manufacturing as well as to expand our current proposal on the multiproduct plant. So we had already got a proposal for MPP, but we are looking at further equipment to be added to the plant so that was for expanding the scope of our MPP plant. Apart from that, we are also proposing to buy additional land for our seeds business, so some of these approvals are related with that as well.

Rahul Veera: Sir, any thought process for CRAMS that kind of business where we will be going beyond our agrochem business also, for example where we have done for PEKK for the airline industry, are there any other chemistries we are looking like we are open to source that?

Sanjiv Lal: Well, Rahul to be very specific, we are intending to focus our contract manufacturing on the agrochemical space primarily. That means we will not actively look for business outside of agrochemical industry. But if there is something that comes to us, we will not refuse it.

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

Varshit Shah: Sir, my question is can you decipher the International de-growth of 29% how much of that decline can be attributed to PEKK and Metribuzin so that we can know the health of the business which is ex of these challenges.

Nagarajan S: Let me address it in this way. As it was already mentioned by Ashish, the Q2 revenue of last year, I am just restating it again, for International business was Rs.217 crore and this year the Q2 revenue is Rs.154 crore. So the drop is something like Rs.63 crore. We would attribute 80% of the drop to Metribuzin. So Metribuzin is the single biggest contributor for this drop. Like Sanjiv already mentioned, there is volumetric gain we have obtained in other International products; however, there has been a price pressure in those products as well. So there is actually some reduction if you look at it from a revenue point of view, although there is a volume growth in certain products. Clearly some portion of that is getting compensated by price increase and volume increase in some other products for the International business. But the net effect of that is pretty much a wash**,** if you keep aside the Metribuzin impact. So the Metribuzin impact is the single biggest impact. The second one is of course PEKK. PEKK, we have not been having any shipments consequent to the airline industry pretty much shutting down in terms of CAPEX purchases. We have also mentioned Metconazole which is another contract manufacturing product. We have mentioned it just to sort of indicate that is actually one of the contributors for the difference between Q2 of this year and Q2 of last year. However, that is not a large portion of the difference and we do expect that there is a timing impact in the Metconazole portion which means that we do have confidence that is not an impact like contributed by COVID or anything like that. So really speaking the two big drivers for International businesses drop, one is Metribuzin and the second is PEKK.

Varshit Shah: Sure. My second question is on this CAPEX plan for the year. So in terms of spend for the current year, I think largely the amount is going to be towards the Dahej formulation plant. Any indicative color on what kind of revenue potential that can scale up, I know that formulation plants are highest scalable, so difficult to put number or is it just more like a capacity you have put in place and then this will cater to your domestic growth which is going to come over the next few years**.** And secondly, the main question was on the gross margin expansion. So the gross margin expansion, I think one of the reasons is also that the product mix is slightly more in favor of domestic B2C business which is a higher margin business. So out of the gross margin expansion, how much of it would be more due to product mix and what is the reason for the balance expansion? I mean, is it just a raw material prices coming down or if there is something else.

Nagarajan S: So, on the first question which you asked about our formulation plant, yes, we are expecting the phase 1 of the formulation plant to be concluded by March of this year. There has been some disruption contributed by the rains as well as by the manpower difficulties that our contractors have faced due to COVID. We have multiple lines in the formulation plant. The phase 1 lines will be completed by March as we see it at this point in time. Progressively, there will be revenue loading. The way we have modeled it obviously is in terms of looking at the kind of returns that we can expect from this formulation plant over a period of time, the classical IRR kind of calculation. Revenue profile is based on the assumptions that we have made. So to give you some kind of a background, we do expect many of our new products, new formulations to come out of this particular plant as well as additional requirements of our existing formulations. These would also be expected to come out of the plant. At this point in time, I don't think we are able to very precisely put down let us say the revenue in the first quarter of next year or something like that. So I guess we will be able to come back or project back even better once the lines are in place. As you would imagine, there have been significant challenges because of COVID initially and I think the rains have also contributed to some disruption. So we are right now focused on getting the project up and commissioned, phase 1 commissioned by end of March.

Ashish Mehta: To answer your second question on the gross margins, if I were to talk about the International B2B business, if I remove the Metribuzin impact last year and this year, if I don't calculate that the margin were same as last year for the International B2B business. Even in the product like Asataf or Acephate type, we have realized better prices. There were price corrections in some other molecules, but because of larger volumes going up in the technical as well as some of our branded products like Asataf and Contaf, Contaf Plus where the margins are higher. So the contribution overall was almost maintained at same level or little better than last year and hence it gets reflected in the better margin realization.

Varshit Shah: Sure sir, and just one question, any color you can give on the ramp up of the Metribuzin capacity any tentative plan?

Sanjiv Lal: See, Metri capacity, I would say that we will be able to fully utilize it only towards Q1 of next financial year. As I mentioned, we are building up inventory, as there is also an annual maintenance shut down that is planned during Q4 of this financial year. Where, we will also be doing some amount of resiting of some of our plants and machinery, which will permit us and allow us to expand both the Pendimethalin capacity as well as the Metribuzin capacity going forward in two different buildings. So there is a bit of work that we have planned during Q4. That is why we are building up inventory. But the entire capacity, our expectation will be fully utilized from Q1 of next financial year.

Moderator: The next question is from the line of Rajat Setiya from Vrddhi Capital.

Rajat Setiya: Sir, on the seeds and domestic crop protection side, if we can talk about how has industry performed in this quarter and also what is the situation in terms of inventory in the industry as well as for us?

Sanjiv Lal: In terms of inventory level, our assessment is that we will be more or less normal only, and as far as the others in the industry are concerned, we are yet to see the results and performance of other companies. We did have some inputs coming from Q1 where we had already stated that our cotton seed business had not done as well as we had planned. While some of the others had done fairly well and had shown good growth. So that was a concern for us, that our cotton category has not grown. But this year, our maize has done particularly well. We are quite happy with the way it was performing. Vegetable seeds business is also picking up, as you are aware that we had created a separate business group for vegetables category, that is also progressing along quite well. I will request Nagarajan, if has got any insights to share on what our assessment of competition.

Nagarajan S: Yes. Like what you said, Sanjiv, we don’t have information about how their numbers are going to show up or how their performance is going to be, but as you know, the sowing area has actually gone up this year by about 5% which is actually quite a substantial increase if you look at the trends over the last years, rainfall has been copious. So, we do think that things are quite positive as far as the overall agri sector is concerned or have been positive for the Kharif season. The reservoir levels at the end of September seem to be at the same level as it was last year. Remember that last year also, Rabi was actually a good season, so we do expect this year's Rabi to be similar to last year's Rabi. Generally speaking, I would say that the situation is quite positive. From our own point of view, like we have mentioned in the crop protection business, if you were to look at it on a H1 level because I think, actually there is a movement of material that happened in the quarter and it is a little bit confusing to actually just compare quarters, so we would say better to compare at the H1 level, so H1 in crop protection, we have had actually around 14% growth, if you add Q1 and Q2 together compared to last year, only crop protection. Remember that we have crop care which is crop protection plus the crop nutrition, so crop nutrition has actually grown even better, actually PGN and GeoGreen have grown by close to 30% in H1 of this year, so that is a bit of a surprise for us because if you remember, there was this feeling that crop nutrition products which are somewhat more discretionary in nature compared to crop protection which has a mix of prophylactic as well as curative components, the belief was that crop nutrition would probably be a little bit more impacted this year consequent to COVID and people will probably prioritize purchases of crop protection products, but I think we have been a little bit surprised on that count, which has actually ended up growing better, so we think that perhaps the overall rural economy has been a lot better than at least what we anticipated and that is kind of witnessed in crop nutrition, so we should expect a similar kind of a trend for many of the players. This is from a demand side I would say.

From a supply side, there have been as you know tremendous challenges in terms of making material available in the different retail outlet. Demand generation has been a bit of a challenge, we have already mentioned it that our ability to scale up our new products which we had launched last year has been quite severely hampered because of the absence of physical movement. So a large portion of our growth in crop protection has actually come from what you can call as old products, so this I think is perhaps likely to be our industry front because the new products that were launched last year or even this year would have probably got hampered in terms of demand generation.

On the seeds side, if you again look at it on a H1 basis, we have had a growth of about 7%, we had already mentioned that in the end of Q1 that we were not very satisfied, let us say, with the kind of outcomes that we were projecting at that point in time for our cotton portfolio that has played out as we had expected, so unfortunately cotton has been a bit of a challenge for us. In the industry, we would expect that cotton may have been similar to last year in terms of overall packets sold, but I think what may have happened is that some of the larger players may have increased their market share, so we would say at an industry level, in the case of cotton, there could perhaps have been a little bit more consolidation in terms of the larger players becoming bigger.

On the maize front, I think like what Sanjiv already mentioned, we have crossed Rs.100 crore mark in H1. Maize is our second crop to do so. You are aware that in paddy, we do more than Rs.100 crore. We had hoped that cotton would be actually the second crop to cross Rs.100 crore, but that it has not to be, but I think from the maize front, the understanding we carry is that contrary to again classical expectations because if you remember, commodity prices on maize were ruling poorly, oil prices has gone down, thereby having collateral impact on corn prices globally. All of those have actually been proven wrong, we have ended up actually having almost 25% growth in H1 on maize, but we would attribute this to our product performance. Already, I think it was mentioned that the maize growth has come on the back of our performance in Tamil Nadu where our product mix seems to be quite good. So we would say that as learning from the industry point of view, well differentiated strong performing products may have continued to do well. We don't see that down trading which is kind of the view that was expressed for FMCG, for example, has actually played out in the case of agriculture, so we think that maybe it is a more classical customer response that we have seen, so I hope that gives you a little bit of the thinking that we are having on the industry side for crop care and seeds.

Sanjiv Lal: Just to add one more dimension, while our field teams have been engaging with the trade as well as with the farmers, we have prioritized the safety of our teams over the business and as has been mentioned that the kind of support that was needed for some of the product launches of last year, we could not do that because of the inability of our teams who engage directly with the farmers on the field, but we understand that some of the other industries, there the field teams have been more active in the field, but I think as an organization we have prioritized the safety of our people over the business.

Rajat Setiya: Sir, on the CAPEX side, we have spent significant CAPEX I think for the International business over the last two years, however now compared to our own expectation, demand for the key large molecules have moderated even during this quarter, so is there a rethink of the planned CAPEX for the International business and related to this is, all the heavy lifting in the International portfolio has been done by three-four

RALLIS INDIA LIMITED
A TATA Enterprise

molecules and in the past, we have talked about having pipeline of new molecules. So, if you can talk a little bit about those pipeline of new molecules for the international business and where are we in terms of the commercialization and how big those molecules could be, just to help us in the stand the portfolio construct going forward in this business see over the next 3-4 years?

Sanjiv Lal: In terms of our new products for the International business, I did mention that our new multiproduct plant will be coming up for commissioning only during Q3 of next financial year and because our existing capacities, whether it is for Pendimethalin or Metribuzin, these are all fully booked in the sense that these plants will be running to capacity, so our new commercializations will happen only towards Q3 of next financial year. I may also add that we will go through a process of product registration which have their own cycle time. There are certain markets like Vietnam and Turkey which are easier to access because of a more liberal registration regime which is there in those countries, so the volumes during the initial years will be small which will ramp up over a period of time. I would also like to add that our R&D pipeline for AIs is very healthy and we will start commercializing at least two products during Q3-Q4 of next financial year, so we would be adding into our portfolio of products and as far as the existing product portfolio is concerned, the two key products that we are exporting, this is Pendi and Metri, both of them are herbicides and of course Acephate is an insecticides. Unlike some of the other herbicides which are facing some pressure from the environment largely Glyphosate and Dicamba, there is nothing negative about both these herbicides, Pendimethalin and Metribuzin in the International market, so we see a good growth trajectory for both these actives for herbicides for the International market. Pendimethalin capacity also, we are in the process of expanding, Metri capacity, we have already expanded and once the situation normalizes in terms of our exports, we will take a decision on further expansion of Metri capacity as well. So as an organization we are positive on both these herbicides for the International business.

Nagarajan S: We have also added capacity on Hexaconazole as well.

Sanjiv Lal: Yes, I did mention that Hexa was also the highest ever export that we did during H1 and that capacity has already come on stream.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss.

Rohan Gupta: Sir, couple of questions, first is on this CAPEX front so we have guided for about Rs..800 crore CAPEX, out of that you had mentioned roughly, so for now, Rs. 525 crore has been tabulated that way it has to go, I believe that large chunk of that is going to the Dahej Phase II plant which you are going to commission next year, just wanted to understand a little bit more on that balance Rs. 300 crore because you initially planned that over next 3 years to 4 years, all the money like to be consumed in terms of CAPEX, so do we have some clarity that where we are going to invest the Rs. 300 crore and in terms of products, any developments have happened?

Sanjiv Lal: So broadly if you look at our CAPEX, as you have pointed out that the chemicals Zone the formulation plant will be taking a large chunk of it and other large chunk of it is going into the SEZ where we are building the multiproduct plants. Another large chunk of it is going into the new R&D center, so these are three large tranches of investments that are happening. Apart from that there is a fairly large tranche which has gone in for revamping our existing AIs at the Ankleshwar facility. Additionally, there are a whole lot of investments which we are doing around automation of all our plant and machinery. We are also investing in mechanization of some of the material handling which we are doing, The other investments are for the future which is really the R&D and also for our existing product portfolio to further strengthen that and we

RALLIS INDIA LIMITED
A TATA Enterprise

have also indicated that we will be acquiring land for expanding our seed production facilities to facilitate and enable us to grow that category more rapidly in the coming years as well. Naga, would you like to add something more.

Nagarajan S: Yes, I just want to add one comment Sanjiv for the benefit of Rohan since you asked that question, yes, the amount of CAPEX is between Rs.525 and Rs.550 crore that is our cumulative, you can say the portion for which we have clarity in terms of the Rs.800 crore investment plant that we had and Sanjiv has already articulated it, but one development which I want to also share with you is that there has been a churn in that Rs.525 to Rs.550, meaning we had when we had shared with you in the previous meeting had a certain set of projects which was accounting for the total, we have had a chance to relook at that and modify it a little bit and therefore after modification, it still continues to be at Rs.525 to Rs.550 crore. The figure remains the same, but there has been a change in the constitution of the different projects. Yes, for the balance Rs.250 crore, we will certainly be developing the plans as we go along. Like I mentioned, we have had opportunity to churn the constitution of this Rs.525 crore, we constantly keep doing it and it will happen over a period of time because it is a 5-year plan for that Rs.800 crore CAPEX, Rohan.

Rohan Gupta: Sir, second, once again related to CAPEX only. So sir, in last 6 months, at the country level, we have seen various challenges and even globally also that China, the threat and the dependency on China that the global companies are trying to reduce that and we are also facing some border tension, so that is where we want to reduce our dependency as a country as far as the chemical is concerned, so do you see that in last 6 months, there has been any change in plan or the thought process in your company in terms of investing further in the business and over next 2 years, do you see that there are increased opportunities in terms of investment or any new molecules or the new intermediates which you have identified, in that you plan to go ahead in terms of making further investment in the business in the next couple of years, so especially last 6 months, because lot of things have changed globally as well as in India?

Sanjiv Lal: So you have made a very good observation that lot of things have changed. The Government is also looking at how to strengthen manufacturing within the country, so this whole approach towards Atmanirbhar, Make in India and also they have already announced some PLI schemes for the APIs and for the electronic industry, I understand that the Government is also considering a PLI scheme for the agrochemical industry, so we have also been engaging with the Government on that. So as an outcome of the derisking of portfolios as a country, I think there will be movement and Rallis is very much looking at opportunities for expanding capacity into intermediates as well, whether it is for our own requirement or whether it is to be a merchant supplier of those active ingredients, but those things are still work in progress, we have nothing substantial or material to report at this stage, but I would just like to say that we are looking at intermediates as well, as part of our overall portfolio.

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

Madhav Marda: My question basically was, given this China plus one strategy that is playing out globally, are we seeing increase in enquiries for any more molecules that we can potentially do contract manufacturing for ahead of the existing molecules that we have, is there like any increase in the levels of enquiry for us?

Sanjiv Lal: Yes, there is considerable discussion that is currently ongoing. Nothing has yet been firmed up or chosen, but this is something very much on the discussion table.

Madhav Marda: And the kind of molecules that we will take up would be more on the generic side or we might do more process synthesis kind of work as well, what would be the thought process in terms of what kind of orders we would like to take?

Sanjiv Lal: No, we are very flexible, we are quite happy to do only off-patented AIs. We are quite happy to support any of the global majors even with their intermediates. We have our strength in manufacturing, we have our strength in R&D and we are quite capable of handling the entire manufacturing gamut whether it is for intermediates, whether it is off patent or whether it is for even new innovative molecules, but this really depends on the partner as to what is if that they would like Rallis to support them on, but we are extremely flexible.

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

Abhijit Akella: I just wanted to check sir, there has been some news flow regarding the Chinese, may be cutting generics prices in a very aggressive way to either protect their market share in the generic AIs or may be gain market share, so are we seeing any signs of that and is that one of the factors impacting our realizations on our International portfolio?

Nagarajan S: Yes, I think realizations have been generally under pressure, I wouldn't attribute it to specific reason what you are talking about, like what was already mentioned in the case of Metribuzin realizations have actually come down Y-o-Y by almost 40%, but I think they have also been accompanied by a concomitant reduction in the raw material prices as well, so I think it is on both sides, both on the AI pricing as well as the raw material pricing. We have had similar experience with regard to Pendimethalin as well, so I don't think we could attribute it specifically to the reason that you mentioned, but generally speaking, there has been a reduction compared to last year. That is one of the reasons why our export revenues are tending to be lower despite the volumetric growth in terms of the constituent AIs.

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

Nirbhay Mahawar: Sir, one question on domestic business front, we have seen dramatic reduction in the working capital, I think down to 65 days, just wanted to understand what is going right, is it our company specific development or is it because the terms of credit for the industry was much better?

Sanjiv Lal: So couple of things, one of course is that we did introduce trade terms last year which worked very well for us. We did some further tweaking of the same trade terms which made it even more interesting, but fundamentally I think liquidity in the system in the rural economy seems to be good, perhaps may be the trade is investing more in the business considering the kind of emphasis that the Government has given on agriculture, they are also investing little more seriously in the business, so overall the liquidity in the system in the rural economy is very good. Maybe, I would like Naga to add so that he can give some more ideas as to what is happening.

Nagarajan S: Yes, I think you have said it correctly Sanjiv, I think there is one definitely an external factor, we think that the avenues available for investment of money has actually certainly come down for the general body of trade if you have to call it like that because many other industries are not really providing that opportunity, so that is certainly a factor. What we have done, we have certainly like we have been sharing over the last couple of calls, refreshed our channel policies, we have made it attractive to collect money and even more so we have focused on it in the first half, because if you remember one of the things that I think came up earlier was about our outlook towards CAPEX, we are still fully resolved to drive the CAPEX for the growth and we are feeling that it would be a good opportunity to use the money released from the working capital to fund our CAPEX program, so we are actually focused on collections and collections have significantly improved. That is one factor. Secondly, we have also stocked up on inventory, I think we mentioned it in the investor presentation also, we have actually increased our inventory, raw material inventory I am talking about, to cope with the COVID related challenges and the other kinds of disruptions that we were talking about, so the net effect of all that is that the working capital has gone down to about 65 days from about 104 days I think it was last year. So that is the overall picture.

Nirbhay Mahawar: Sir, one more follow-up on the International business, we have in our earlier communication, we have guided that international business is going to be 40% of our overall revenue mix and last 9 months we have seen decline in that part of the business, so as far as longer term guidance is concerned, do you maintain that International will be 40 and domestic will be 60? The CAPEX seems to be guided for that?

Sanjiv Lal: Yes, I think in the immediate term, the issues we have already articulated, but I think in the medium to long term, 60-40 between domestic and International seems to be a good place for us to have a portfolio of businesses, which can withstand cyclic nature of some of the issues that we may be facing, whether it is a monsoon in India or whether it is floods in some other parts of the world. So, we feel that 60-40 would be a good place for us to be. Yes, over the last 2 quarters, the situation has been adverse really because of the price of some of these International products that we are selling as well as Metri prices which we already articulated. So we had been at around 35% during the last financial year which has got eroded during the last two quarters.

Moderator: The next question is from the line of Amar Mourya from AlfAccurate Advisors.

Amar Mourya: Sir, in terms of this CAPEX which you had guided of around Rs.525 crore, can you give us the breakup for that, how much you are going to spend in formulation, how much in the multipurpose, how much you had utilized for the revamping of Ankleshwar plant?

Sanjiv Lal: So, I did mention some broad areas that our key investments are going into, perhaps if we could just leave it there rather than getting into specifics in terms of rupees, crore per project, so we may not be in a position to share that kind of granular detail.

Amar Mourya: Okay and one more thing, if I tweak the impact of PEKK and Metribuzin in the current quarter revenue, on a like-to-like basis, would we have seen growth in the International business?

Ashish Mehta: Yes, the growth in the main molecules of Acephate has gone up by 17%, Pendi tech has gone by 46%, so while Metri tech volume did come down, but these two products has really taken care of the drop in the volume, so that is. Overall if you remove the impact of drop in Contract Manufacturing and Metri, there is definitely a very handsome volume growth.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Sir, on the domestic business, this was a fairly good season from a monsoon perspective, from a Kharif season perspective, our growth for the year has been about 10% to 12% some of it you mentioned has been impacted by COVID led disruption, my question is two-fold, in a good year like this what should have been an ideal growth for us if this restrictions were not been there and in terms of what pace do you see your domestic business growing for you over a long-term sir?

Sanjiv Lal: If you look at the crop protection industry over the last couple of years, broadly it has been growing at around 8% to 10% and this has been a good year, so one can expect that may be the 8% to 10% will start moving like 10 to 12% growth in this particular sector because there is going to be some amount of time which will be required for the agricultural practices in India to really come at par with global practices and here I am talking about specific consumption of agrochemicals per hectares of land. India tends to be on the lower side, 0.6 kilograms per hectare compared to some benchmark which may be 5, 6, 7 kilograms per hectare, so we are very far away from those kind of international benchmarks of application of agrochemicals per hectare of land, but overall growth, because this is a good year, my assessment and our view is that it can grow between 10 to 12% during this particular crop season of Kharif and Rabi.

Nitin Agarwal: And sir, going forward, do you see any material lift up in this number or this is where one should modeling thinking about domestic growth at 10 to 12% sales growth for us also should be like a ballpark number to run with?

Sanjiv Lal: I think as I mentioned that in the immediate term, it may be 10% to 12%, but in the longer term, it is expected to accelerate even better as the kind of focus that the Government is bringing on doubling farmer income, the kind of support that is coming through the various reform schemes and all, so there is going to be more money in the hands of the farmer to be able to invest better in his crops, to invest both for productivity as well as quality because we certainly feel that the kind of wastage which happens today due to crop loss can be significantly reduced by better agricultural practices. So as the money with the farmer keeps improving overtime, his ability to invest in his crops will keep improving, so this 10%-12% growth will in the medium term go up, of course, over a period of time, it will normalize, but we certainly see the trajectory in terms of growth of the sector, both for crop protection as well as crop nutrition as well as use of better quality seeds these are all the focus areas that the government is also trying to bring about apart from the whole conversation about organic farming, which is there, but certainly organic farming and use of chemical fertilizers will need to move hand in hand, it is not that organic farming will replace use of chemical even in the medium to long term.

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

Ranjit Cirumalla: Just one quick question, the other expenditures were on the higher side during the quarter so just wanted to get some sense is there any FOREX angle to it or it is just a normal thing because during this COVID times, we were expecting a bit kind of a flattish other expenditures, so some bit of clarity on that?

Ashish Mehta: Other expenditure, you see while there would be some savings on travel cost because travel has not happened over the last 4 to 5 months but then again a lot of amount has been spent on reaching out to the trade, the farmers, customers, on e-platform, so while money would have been saved because of no travel or no overseas travel, lot of amount has been spent on this and compared to previous years, I think there is hardly any increase that way in an overall basis.

Moderator: The next question is from the line of Archit Joshi from Dolat Capital.

Archit Joshi: Sir, in the earlier comment you had mentioned that from the other herbicides like Glyphosate or Dicamba are facing certain problems in the overseas market, sir considering that wouldn't our products like Metribuzin or Pendi should be growing, taking advantage of this situation and also if you can share few sense of yours on how the global landscape is looking for this entire pack of herbicides considering that some of the other herbicides also have seen pricing pressure, so if you would like to share any thoughts on that?

Sanjiv Lal: Yes, I think on the herbicides front, there are different products as you know which are having different kinds of challenges, Glyphosate and the Dicamba have very different challenges. From our point of view, we do believe that Metribuzin has a good positive future and that is why we have invested in the capacity expansion; however, at this point in time, there is certainly lull in the demand and we are expecting it to catch up and over a period of time, we feel confident that our capacity utilization like what we can produce will certainly be absorbed by the market. Whether it will substitute Dicamba or Glyphosate, well, that is a very different question, it may not because I think the requirements of different farmers for different particular requirements are totally different, so it won't be an alternative in that way, but it will certainly be having its own market. So that is on the Metribuzin front. Otherwise on the global level I think agriculture in many parts of the world has been somewhat less affected compared to the other businesses. We think that that is showing up in terms of the volume growth that we are getting in many of our products and again remember that the volume challenges we are facing in Metribuzin is not COVID related, it is more related to the weather conditions of last year, so that is not really a result of COVID, so I think at an overall level, the export business looks as it looked 6 months back, whereas I don't think any impact of COVID per say at a macro level. Yes, we would have specific pockets that there will be challenges and there would certainly be supply challenges. We have faced supply challenges as well, but from a demand point of view, I think we feel that it is as it was before COVID.

Archit Joshi: Sir, just an addendum to the previous question, sir, there has been a news flow regarding the 27 products that were banned by the central Government and only the export licenses were doled out in favor of the industry. Sir, in a case wherein the registrations of the product that we manufacture, for example, Pendimethalin, if those are suspended or cancelled by any chance, would that impact our exports with the other clients that we are catering through in the foreign markets, would you have a push back in terms of procuring the material from an Indian manufacturer whose license or registration has been cancelled for a particular product?

Sanjiv Lal: The question of cancelling license for export doesn't arise at all because subsequent to the draft ban order on these 27 molecules, there was a notification which had come that this particular draft ban does not impact any exports, so that issue was not there at all. Apart from that, the Government has still not taken a decision on these 27 molecules and all industry players have resubmitted the required data that had already been made available to the regulator related to the information that they had sought over the last couple of years. Almost 80-85% of the data had already been collected on an overall basis and there is still some data collection which was happening because it takes number of seasons before all the data becomes available, so this 27 molecules ban for domestic is still work in progress. There is no final decision on it and as far as the export of any of these 27 is concerned, there is no issue, whatsoever.

Moderator: The next question is from the line of Rohit Nagraj from Sunidhi Securities.

Rohit Nagraj: Sir, just follow-up of the earlier question in terms of any permanent reduction in operating expenses so have we seen any permanent reduction happening and you have mentioned about the transport cost which has reduced, but any permanent in nature and an addendum to it is again in terms of the expenditure on our HHE initiative and ZLD plants from the CAPEX plan?

Nagarajan S: On the permanent reduction on OPEX, no, I don't think we see any permanent reduction because what has actually largely reduced is the kind of money that is involved in travel. Certainly, there has been some reduction in on ground promotional spend which all got hampered, however, we had to like what Ashish already mentioned depend on televisions for example, television commercials or mass media you can say in order to cope with the challenges, so it doesn't necessarily show up as a saving in an effective way on an overall basis, but we do expect travel to revert to the normal levels post settling down of the pandemic. There will certainly be some changes consequent to things like work from home and being able to do certain meetings and calls through the AV medium and so on and so forth, conferencing and so on, but we think that it will probably be an improvement in terms of or an add on to the way we have traditionally done things rather than really resulting in dramatic reduction because certain activities like field promotion or even B2B engagements with customers for instance require us to physically be present, the online engagements comes up short in regard to the requirements. So on a permanent basis, I don't think there will be any substantial reduction. What was your second question?

Rohit Nagraj: Sir, in terms of SHE and ZLD of our facility?

Sanjiv Lal: On the ZLD, we have two of our facilities which are ZLD, the others are yet to be completely made ZLD, but they are all in compliance with the discharge norms and I had also mentioned that we are doing substantial investment in automation which also helps to improve the safety of the plant and machinery and these are also investments that we are doing. As part of our overall capacity expansion of our manufacturing facilities, we had also included expanding the effluent management facilities as well. So when we talk about CAPEX for growth, it also includes all the CAPEX required for environment and safety management.

Rohit Nagaraj: Last concall, you had mentioned that Metribuzin inventories were high in North America, so what is the current status on that and based on that what confidence does it give to us in terms of utilizing our Metribuzin facility at optimal level by Q1 FY22 as we mentioned in earlier remark?

Nagarajan S: That is true. I think we did witness large inventory levels and how confident are we feeling, I guess the confidence is I would say more than 50% and why is that because as we have mentioned to you received our own registration for Metribuzin in the US market that allows us a larger market aperture, so that is one and secondly, in Q2 while the volumes have been lower than Q2 of last year, the volumes were at the level of about two thirds of last year, so we think that there will certainly be a revival over a period of time and we should be able to utilize our Metribuzin AI capacity to the fullest extent. In addition, I think we have also received our registration for our formulated product in Brazil market, Metribuzin based formulation, solo formulation that will also absorb, though it is a small amount it will absorb in the initial days that will also absorb a certain amount of the Metribuzin AI for that purposes. So I think we are confident.

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

Dhavan Shah: I have a question on Metribuzin only, so would it be possible to share the inventory of Metribuzin in terms of the tonnage and the overall demand of the Metribuzin for the entire market and how long will it take to observe the entire inventory over the period of time and the overall realization?

RALLIS INDIA LIMITED
A TATA Enterprise

S Nagarajan: I am sorry, but we won't be able to share you inventory figures because as you can appreciate, it is competitive information from a pricing point of view, particularly in a B2B business.

Sanjiv Lal: The inventory in the consuming markets, we do not have any line of sight for that at all.

Dhavan Shah: So what is your expectation, I mean how long will it take to absorb the surplus inventory from the market? Will it take 2 quarters, 3 quarters, I mean is there any time frame in your mind, I mean if you can share?

Sanjiv Lal: Last two quarters have been very subdued. We have seen some pickup in enquiries that has started coming now, so we expect that H2 there should be some turnaround of this particular category and our own assessment is that from next financial year, things should be pretty much back to normal.

Dhavan Shah: And out of your announced CAPEX of roughly Rs.525 to Rs.550 crore, so how much of that has already been spent and what will be the upcoming CAPEX for FY22 and 23?

Ashish Mehta: So, this year's plan for CAPEX is around Rs.160 to Rs.170 crore. That is the CAPEX outflow, because of the COVID, some of the CAPEX outflows could not happen, but seeing the progress in the third quarter, now onwards, we believe that we will be able to meet that requirement and the other equal amount or little more would happen in next year.

Dhavan Shah: So roughly, Rs.350 odd crore CAPEX will be spent over the period of these two years, the FY21 and 22?

Sanjiv Lal: Yes.

Dhavan Shah: And roughly Rs.100 odd crore CAPEX has already been spent out of this Rs.800 crore right now or?

Ashish Mehta: Yes, if you see the cash flow which has been reflected in yesterday's results, almost about Rs.80, has been spent on CAPEX.

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

Sanjiv Lal: Thank you everyone for joining our Q2 call. From our perspective, it has been a very good quarter apart from the issues that we have articulated related to our International business. Our domestic business has been progressing quite well in terms of the expected growth. Our seeds business is also picking up. We do continue to have some challenges related with our seeds business for the Rabi portfolio. We did mention in our earlier calls that over the next few years, we should see an improvement in our Rabi performance as well for the seeds business. On an overall basis, Rabi looks promising from a crop care perspective and our seeds portfolio will take its own time as I mentioned. International business, our strong products continued to do well, Metribuzin has been problematic, we do see some signs of its turnaround and on an overall basis, I would say our capital program is perhaps delayed by 2 or 3 months because of the various issues that is discussed in this call, but it is largely intact in terms of the commissioning of the facilities towards Q4 of this year for the CZ and towards Q3 FY22 for the SEZ. With that, it is back to the moderator and thank you all once again.