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Rallis India Limited

Q2 FY23 Earnings Conference Call Transcript

October 20, 2022

Moderator:

Ladies and gentlemen, good day, and welcome to the Q2 FY'23 Earnings Conference Call of Rallis India Limited. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you, and over to you, sir.

Gavin Desa:

Thank you. Good day, everyone and thank you for joining us on Rallis India Limited's Q2 FY'23 Earnings Conference Call. We have with us today, Mr. Sanjiv Lal, Managing Director and CEO; Mr. Nagarajan, Chief Operating Officer; and Ms. Subhra Gourisaria, Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result presentation shared with you earlier.

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

Sanjiv Lal:

Thanks, Gavin. Good morning, everyone. I have alongside with me Mr. Nagarajan, our Chief Operating Officer and Ms. Subhra Gourisaria, our CFO.

We will start with a brief overview of the industry, before I move to Rallis' specific developments.

On an industry level, Q2 was a challenging period for the domestic business as adverse monsoon patterns impacted trade and on-ground



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activities and the effect of the monsoon is well publicized. But just to recap, while the overall monsoon during the season remained 7% in excess of normal compared to the 1% deficit of the previous year, distribution remained erratic with 13 subdivisions experiencing excess rainfall, 17 receiving normal and 6 remaining deficit.

Delayed monsoon and erratic distribution impacted sowing, which was 1% lower compared to the previous year. Sowing activities, notably rice was down by 4% year-on-year. Pulses was down 6%, Oilseeds down by 2%, while Coarse Cereals was up by 5% and Cotton sowing was higher by about 6%. Despite uneven distribution during the monsoon season, water storage levels across reservoirs stood at a healthy level. Higher reservoir levels, coupled with good soil moisture augurs well for the successful Rabi season.

As far as international business is concerned, the industry has had a good performance till now.

Moving on to Rallis specific developments, starting with our headline numbers. We reported a revenue growth of 31% over the previous year, driven largely by our international business. Performance of domestic business, as mentioned earlier, was mainly impacted by monsoon vagaries, which has led to lower spraying activities, in turn, leading to a lower volume growth.

EBITDA for the quarter stood at Rs.118 crore, leading to a margin of 12.4%. Margins has improved versus last year due to the higher growth. PBT margins are lower with respect to last year, driven by higher depreciation and lower investment and other income. While we did undertake calibrated price hikes during the quarter, the overall quantum wasn't commensurate with the higher input prices leading to lower profitability, specifically in our international business. On the domestic front, we were able to maintain our margins through a focus on mix and pricing. Profit for the quarter stood at Rs.71 crore against Rs.56 crore during the corresponding period last year.

Moving on to individual businesses, starting with domestic. As indicated, the overall environment has been challenging for the industry as erratic monsoons, lower pesticide sprays due to excess rains and somewhat low pest infestation across some regions impacted overall volume growth for the business. Key Paddy growing states in Eastern India, UP, Bihar, Jharkhand and West Bengal received deficit rains, leading to a decline in sown area. In addition to Paddy, we also had instances of Cotton crops getting damaged in key states, including Maharashtra and Gujarat and Telangana as well due to excess rains.

While herbicides continued to perform well, especially in North India, sales of insecticides and fungicides remained muted. Some of our herbicides like Tata Panida, Pepe, Honcho and Riceup, though have registered double-digit growth. In terms of our initiatives towards introducing newer products, we have so far introduced two 9(3) products and four 9(4) products during the year. These products are largely



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directed towards scaling up our presence in Cotton and Paddy. Furthermore, we are also working towards expanding our distribution network and also working closely with the e-commerce channels.

Moving on to the seeds business. While the overall environment remained challenging, I'm pleased to report that some of our newer launches, particularly Diggaz, a Cotton hybrid, has seen a sharp pickup in volumes on a year-on-year basis. While the overall numbers are small, 1.7 lakh packets we sold versus 20,000 packets in the previous year.

Another positive development is regulatory approval from two states for Biosafety Research Level trial (BRL-1) related with two of our genetically modified events in Cotton and Maize. Both these are herbicide-tolerant as well as insect-resistant. Furthermore, we have started trials on Maize in Karnataka and hopeful of commencing trials on Cotton in the subsequent Kharif season next year.

As far as international business is concerned, we have seen a sharp growth in business with volumes improving. Utilization rates for Pendimethalin, Kresoxim Methyl, Acephate remain elevated, underscoring the key demand for these products. Metribuzin sale has started showing early signs of pickup, following normalization of inventory. Also, as indicated in earlier calls, we continue to focus on growing branded formulation sales in Southeast Asia and Africa. We have submitted several applications for dossier registration in Asia and are also engaging in business development discussions in U.S. and Turkey.

In terms of contract manufacturing segment, we expect PEKK shipments to commence from Q4 of FY2023, after a gap of 2 years. The two recently won CM contracts, contract manufacturing business opportunities, which is, in a way, reflects our commitment towards reviving and growing contract manufacturing business, will take 2 to 3 years to reach meaningful scale. As indicated in previous calls, we are also working towards reducing our dependence on China for meeting raw materials for some of our products. And I am happy to report that we have made good progress in that area. We are now sourcing 100% of our requirement of 2 of our products locally, though these are relatively smaller imports. Also, for two of our more important intermediates, for one, we are now sourcing 20% of the requirements locally and targeting sourcing 80% of the other intermediates locally by the year-end. These two intermediates we used to import 100% earlier. We have entered long-term understanding with the suppliers for one of these products, and while the commercials may be on par with the import cost, uncertainty over availability of raw material will cease, which will help us better plan our production cycle and meet customer demand.

To conclude, we expect the business to pick up pace in the second half of the fiscal. Higher reservoir levels should aid Rabi season and remunerative global agri commodity prices should aid the international business. As far as Rallis is concerned, we believe commissioning of new capacities, introduction of new products and wider distribution reach



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positions us well to meet the requirements of our customers, both locally and globally.

With that, I'll now request Subhra to give us the detailed financials. Over to you, Subhra.

Subhra Gourisaria:

Thank you, Sanjiv. Good morning, everyone, and thank you for joining us today for our Q2 earnings call. Let me quickly walk you through our financial performance for the quarter, post which we shall commence the Q&A session. Starting with the top line, our revenues for the quarter stood at Rs. 951 crore as against Rs.728 crore generated during Q2 FY'22, which is a growth of 31%. The growth was largely driven by the strong performance of our Crop Care business.

Domestic business registered revenue of Rs.608 crore, higher by 18.2%, primarily due to the price hikes undertaken earlier during the year. Volumes during the quarter were largely benign as far as domestic business was concerned, as erratic monsoon resulted in lower spraying. International business reported a growth of 67.4%, led by both volume and value. Seeds business generated revenue worth Rs.28 crore during the quarter.

EBITDA for the quarter stood at Rs.118 crore as against Rs.88 crore generated during corresponding period last year. Margins stood at 12.4% as against 12.1%, higher by 30 bps, largely on expected lines since the quantum of price increase wasn't commensurate with the increase in raw material prices. Profit for the quarter stood at Rs.71 crore as against Rs.56 crore for Q2 FY'22, higher by 26%.

Moving on to the business-wise performance. Domestic business operated under a challenging environment. Uneven monsoon distribution impacted sowing activities for key crops during the season, primarily Paddy and Cotton. Paddy constitutes a significant component in our portfolio and hence, the overall lower sowing could have impacted our portfolio more than some of our peers. While herbicides continue to perform well for us, sale of insecticides and fungicides were lower than our expectation.

The growth in domestic business as such is largely value-driven as we have carry-forward pricing taken earlier during the year to offset the higher input costs. Despite external challenges, we continue to make steady progress in our attempts towards introducing new products, both 9(3) and 9(4), and expect the momentum to continue during the year. Furthermore, these products are targeted towards plugging the segment gaps in our portfolio.

Moving on to the seeds business. While Q2 is our seasonally small quarter for the business, we have seen revenue worth Rs.28 crore for the quarter. Overall business environment continues to remain challenging for the seeds business. Though some of our newly launched products have done well, we have seen significant pickup in sales volume for Diggaz over last year.



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Our strategy for the business, as we mentioned in the previous calls, continues to be focused on liquidation, cost optimization and more robust evaluation of new product pipeline advancements. We also accounted for higher provisions on inventory in seeds, adding up to Rs. 25 crore during the first half of the year. We may see more of such effects coming during the course of the year, as we streamline the operations and recognize such provisions so that the business can become more focused on new portfolio going forward.

As far as international business is concerned, we have seen a good growth of 67.4% during the quarter, driven by volume and value both. We continue to see good demand for our products with plant utilization rate for most of them being at optimum level. Sales of Metribuzin as well have started to improve gradually. Going forward, growth could be largely volume-driven as realizations may trend lower with raw material prices cooling off. Our strategy for this segment, as we have indicated, involves increasing our customer set and sales of formulations, which will help assure both volume and margin in the business.

Lastly, we started sourcing raw material for some of our products locally, which not only helps us in lowering our dependence on China, but also helps prepare better, plan and production and inventory purchases. As you might have seen, we have experienced challenges on working capital front, especially with the increase in receivables for domestic formulation business.

Given the overall challenge of delay in monsoon and poor cash flow in the market, our collection days have gone up. However, we do not foresee any risks here and we continue to focus on our efforts to improve it in Q3. Receivables have also been impacted by our decision to stop the discounting for one of our key international customer. Inventory has albeit been controlled, several actions, including optimizing production basis dynamic sales requirements, reduction of lead time across key materials and also lower impact of prices sitting in the inventory now. To meet the interim cash needs, we used short-term borrowings. However, the release of cash from operations, we expect the cash flow situation to gradually improve.

A quick word on Capex before I hand it over to the operator. As indicated in the previous call, our overall Capex for the year should be Rs.250 crore, of which we have spent around Rs.100 crore during the first half.

To conclude, I would like to reiterate that we are undertaking requisite steps towards growing both our business, domestic and international, new product launches, local sourcing of raw materials, scaling up of capacities and wider distribution reach positions us well to grow our business and improve overall profitability going forward.

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



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Moderator: The first question is from the line of Prashant Biyani from Elara Capital.

Prashant Biyani: Sir, can you bifurcate top line growth between value and volume?

Subhra Gourisaria: So as we said, international business is largely split between both volume and value,. But domestic business, it was more price-led with volumes being in low single-digit.

Prashant Biyani: And, sir, for the Rabi season, cost-wise, do we have high-cost inventory vis-a-vis prevailing prices? Or we would be competitive enough vis-a-vis the current prices because prices have been trending downwards in China? So traders might have an upper hand if there's high-cost inventory.

Sanjiv Lal: No. More or less, we have tried to work down our high-cost inventory,. So I think we are in a much better position today than what we were maybe three months back because we have had to take some lower margins, especially for liquidating some of the high-cost inventory that we were holding.

Prashant Biyani: Other costs are broadly under control for us, but on the gross margin by when do we think we can turn the tide because for the last three, four consecutive quarters we have seen a reduction in gross margin?

S. Nagarajan: I think we have to disaggregate our business into two parts, Crop Care and Seeds. So within Crop Care, I would say, if you look at domestic and international, again disaggregatedly, if you look at it on the international front, we have had challenges in Q2 and also in H1, partly contributed by the high cost that we had some inventories in our hand and of course, contributed also by the competitive position in our markets where the price levels we could not kind of transfer the raw material cost increases. So the impact of the high-cost inventory like what was mentioned, we have whittled down that inventory. So that effect is something which is now behind us.

However, of course, in terms of the forward market, the competitiveness could continue in the international business. If you look at the domestic business, I would say that while we have not been able to fully pass the costs forward, the cost themselves are abating right now. So that is actually a little bit more positive situation. Now, separate from the Crop Care business is the seeds business. In the seed business, certainly, I think we have some distance to go.

Like was mentioned, we are in the process of optimizing our expenses so that we are able to improve the profitability. And also, we are also recognizing some of the inventory provisions and so that also has an impact in terms of the margin levels. So these are the broad drivers and these are the areas we are focused on. Specifically, in terms of how long it might take, it's a little bit hard to say, but I think I would say that domestic is a little ahead, international is following and then the seeds is behind in terms of the trajectory of improvement.



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- Subhra Gourisaria:** Prashant, the other thing which impact us when the raw material hikes are high, your percentage margin will always come under pressure because your pricing goes and sits in the denominator. So in terms of percentage, it will always look a bit slow compared to the earlier quarters.
- Prashant Biyani:** Sure. And lastly ma'am, internationally in which geographies are we seeing pricing pressure?
- Sanjiv Lal:** There is certainly some pricing pressure which we are seeing in Brazil. And otherwise, I think, for most of the international business it has been, I would say, a very good year if you see the results and performance of many of the international companies. But there has been pricing pressure for us at least in Brazil.
- Moderator:** The next question is from the line of Aditya Jhawar from Investec Capital.
- Aditya Jhawar:** My question is again on the margin front. Now specifically, if you can give us some light in the sense of few parameters. When you look at raw material pricing, there is an expectation of freight cost reduction and you mentioned that the inventory, the high-cost inventory overhang is no longer there. So what could be the impact of expected pricing? So that is one. Second, on the same margin front, in the export business, there is a big currency depreciation as well. So the pressure that we have seen is over and above the positive impact of currency depreciation or the currency depreciation impact is yet to come into our numbers.
- S. Nagarajan:** So margin, yes, the high-cost inventory is pretty much behind us, but I think in terms of the margin pressures for us, we would say it is in specific pockets where we also have pricing challenges. As you would appreciate, the combination of the products that we sell and the markets where we sell, that is really the combination that can determine the level of pricing flexibility that we could have. Like was already mentioned, in Brazil, we do find pricing pressures for the products that we sell.
- We are also finding pricing pressures in the Southeast Asian market for another product that we sell. And these are large products from our point of view. And therefore, the margin pressures are continuing there. However, for the products that we sell in the U.S. market, as well as for the products in the European market, we have had much less impact. I mean, U.S. has been actually having much better pricing flexibility there. Europe is following that. So that is really the situation. So the improvement will also depend, apart from our cost, freight cost and other things, which you're right in pointing out, they are all improving. It will also depend on the prices that we are able to charge in the market. And that is really the variable that's a little bit hard to predict. So I wonder if that gives you some background to how we're thinking about it.
- Aditya Jhawar:** Yes. Absolutely. But the one thing to add on that, do you expect that situation to start improving from this quarter and in second half of the year and going into the next few quarters into the next financial year?



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Are we seeing that the margin trajectory should improve and this is a kind of a bottomed-out margin for us?

S. Nagarajan:

See, that is a little bit hard to say because there are two confounding variables at least. Maybe there are many more. One is, of course, that the commodity prices are still continuing to be pretty high, even in these markets, right? So to that extent, you would expect the crop economics to be quite favorable. However, as you correctly pointed out, there is the broader context of inflation, the broader context of these things playing through into the agrochemical market space itself.

So, as you know, some currencies have, in fact, depreciated far more than the Indian currency. So that makes it that much more difficult in terms of affordability of the farmers in those countries. And that actually feeds back through as pricing pressures to even suppliers. So that piece is a little bit hard to say. We are hopeful that in some pockets where things have not been good from a weather point of view. You had droughts, for example, in Europe. We are hopeful that, that is something that will change. But these are 2 or 3 of the things that influence the pickup rate in that trajectory.

Subhra Gourisaria:

Most of our purchases and even the imports and exports are actually denominated in U.S. dollars. As a company, we are net exporters. So our export size is much larger than the Import book size. So in fact, the currency depreciation, if you ask me, works better for us, especially because we are a net exporter as a company. As far as financial management is concerned, we have a policy signed up by the Board of covering all imports and exports.

So we're fully covered in terms of the current exposures and that's why there is no further impact, which is expected in the subsequent quarter. But as Naga rightly pointed out, if rupee continues to be holding much more steady versus other currencies versus dollar, there could be that impact which we might see in terms of export growth. So that's the only variable there. Otherwise, since our exposure to other currencies is almost negligible, except for dollars, it's almost negligible, we don't foresee any big concern there.

Moderator:

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

Tarang Agrawal:

First on the seeds business. You spoke in your opening comments about some new variety of cotton seed where versus 20,000 packets, you have sold 1.7 lakh packets, did I hear it correctly? And if so, was it a like-to-like comparison versus the full period of last year and this year?

Sanjiv Lal:

You heard it correctly. It is one of our newer hybrids and this has actually performed very well. And we believe that the sentiment in the market for this particular hybrid is also extremely positive, which is encouraging us for scaling it up. But we will be scaling it up gradually, not dramatically. So, we are outlooking doubling our sales in the next Kharif. And this is again a Kharif cultivation. So whatever we had to do for the year is done.



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Tarang Agrawal:

And overall, on your seeds business, I mean, looking at the performance for H1, since H1 FY'20, the business has lagged quite a lot. And if I recall, in Q2 of FY'22, there was some indication about a strategic rethink on the business. So if you could give us some sense on what's happening and what are the challenges that you are seeing on ground, except the obvious that Paddy sowing this half year was lower and it's the biggest proportion of your overall seeds business?

Sanjiv Lal:

Yes. So, in fact, some of our hybrids, which have been doing very well, they seem to be losing favor. So our replacement products have been coming into the market, but they are yet to scale. So that is one issue that we're dealing with. The other issue is related with our vegetable seeds business, which has not been performing in the manner that we had expected despite forming a separate line of business with a separate focus on that. So this has also been reviewed. And we will be scaling back on this specific line of business and merging it with our field crop business. So these are some of the decisions that we will be operationalizing during the course of the year.

Tarang Agrawal:

Okay. On balance sheet, if you could explain, I mean, you did, allude to the cash cycle in the domestic market was poor, so that led to the debtor expansion. But if you could just give us some more details in terms of your debtor days, say on 30 September 2021 in the domestic business versus what it is today because it seems quite a lot. So what is happening on the ground, and if I were to sort of juxtapose it with the fact that your overall Crop Protection business has only grown 8% and that too largely pricing led in an environment where cost push has been significant on the raw material front. If I just combine those two factors, the on-ground situation seems extremely difficult. So just give us some more nuances, it will be better for us to be able to understand what's actually happening on the ground and so far as the domestic business is concerned.

S. Nagarajan:

On the domestic front, there is certainly an increase in terms of outstanding's compared to last year. And that is certainly more than a proportionate increase, which you would expect based on the sales increase. There are certainly pockets in the market where we are finding stress in terms of collections. So that is right. However, like it was mentioned in the opening remarks, we think that it is not something which is bound to create a risk from our point of view. We do expect to collect this. There is an elongation of the collection cycle, and that has been contributed by multiple factors.

As you know, one, of course, is in terms of the Eastern part of the country, there has been a reduction in terms of rainfall. It was a deficit rainfall. Liquidation has got hampered there. And unfortunately, some parts of the Western side of the country have also got impacted because of excess of rainfall and therefore, leading to skipping of sprays. So at one level, there is a pressure that is coming from the sales liquidation, let us put it this way. Liquidation, that is hampered.



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Secondly, even from our own approach, we had moderated some of our payment incentives in the beginning of the year, which, of course, we have since improved upon. So to that extent, we also feel some of that may have also played a part. But having said this, we think that this is something that should revive. Rabi, we are still hopeful of and some of these elongated cycle on the receivable days should settle down. This is our impression.

With respect to your question on the overall balance sheet, I think it's a combination of domestic as well as exports. The receivables there is combination of both. And there, like it was again mentioned in the opening remarks, compared to last year, we had decided to not discount the receivables from one of the international customers and that is a sizable effect also. So I think these two factors broadly cover the overall distributors.

Subhra Gourisaria: Yes. The only one, last one is also international customers, the mix of the customers, because there are customers with varying credit periods and given that international customers in export sales was relatively high in the Q2, that also plays in terms of the amount which is sitting on the balance sheet as on 30th September. But international customers, there is no overdue at this stage, just to mention.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang.

S. Ramesh: My first thought is, again, going back to the increase in debt and the receivables. And if you are saying that some of this is because of the varying credit period in the international business, which has been growing, so if the international business continues to grow at this pace which seems to be the trajectory you're likely to achieve, when do you think that you'll be able to bring the receivables under control and bring down your gross and net debt? Can you give us some sense of what you are doing and how do you expect to bring it under control?

Subhra Gourisaria: See, first and foremost, we're going to look at working capital overall because there'll be some production, inventory will also be optimized. But overall, what we said is, in quarter 3, we will be focusing more on receivables reduction and also looking at how do you optimize the overall inventory levels. Coming back to debt, we did have some interim debt as I said during the quarter. And there might be requirement of more interim debt during the course of the quarter, but we expect the cash flow from operations to gradually improve towards the end of the year.

S. Ramesh: So again, what is the kind of debt do you expect, say, by the end of the year compared to what you have reported for September?

Subhra Gourisaria: I don't think it will be a significant increase. maybe further Rs.50 crore to Rs.100 crore increase.

S. Ramesh: Okay. In terms of your Capex, when do you see the capitalization of these assets adding to your top line and EBITDA? Can you give us some sense in terms of the timeline?



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- Sanjiv Lal:** We expect this to start kicking in from next financial year. We'll be commissioning our new MPP plant this year towards Q4. So we expect the revenue streams to start from FY'24.
- Moderator:** The next question is from the line of Viraj Kacharia from Securities Investment Management.
- Viraj Kacharia:** On the international business. you've reviewed that in some regions you kind of face pricing pressure and in some regions, you've actually seen a good healthy growth in volumes and prices. So if you kind of also talk a little bit more in detail in terms of what are those molecules and those details where you kind of seeing a pressure? And similarly, for say for U.S. or Europe, probably I understand from the commentary of the global agchem, you have seen a very drought type kind of a situation in those market as well. And that's also led to a lot of inventory buildup for those markets. But our commentary has been quite contrary otherwise. So just wanted to understand where is the disconnect.
- Sanjiv Lal:** So, Viraj, you are right, there are some drought conditions and it could potentially be pressure points for us. There are pricing pressures as mentioned earlier from Brazil and Southeast Asia for two of our products, which is basically Acephate and Hexaconazole for these two markets, respectively. And while Europe certainly had a period of drought, our understanding is that the sowing is unlikely to get affected in Europe. So I think it is still work in progress, so to say. So we will, of course, continue to focus on getting our capacity utilizations by positioning material in the market appropriately.
- Viraj Kacharia:** Any perspective we can share on the inventory situation in these markets? I mean, is inventory kind of at the optimal level? Have we seen already quite a sizable inventory for key raw materials in those markets?
- Sanjiv Lal:** Viraj, I don't think we have that kind of good understanding. But qualitatively, the comment that you made that the inventory levels are higher is also our understanding.
- Viraj Kacharia:** And second question is on the international market again. You talked about pricing pressure, but generally, the RM environment has also been on the downward trend. So since the high-cost inventory is now out of the window for us. How should one understand the margin part, especially on the international business for us?
- S. Nagarajan:** So I think the raw material prices are certainly trending down. The freight costs are also trending down. One way to understand, it might be that in certain products which we are selling in those markets where the impact on our pricing is not very high. For those, certainly the margins should be improving. For those markets where we continue to face either an inventory overhang, as you put it, in the market or pricing pressure for variety of reasons, Hexaconazole, Acephate, there the raw material price drop may have to be shared with the customer to stay competitive in terms of our pricing.



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So it would boil down to the mix of revenues that we are able to secure from all these different geographies in terms of the blended margin where we might end up. And in fact, to an earlier question, that is why it was a little bit difficult. There are many factors that influences. And therefore, it's little bit difficult to predict the movement as we go forward. But as you can appreciate, our focus is to try and maximize what we can in these markets where we have a relatively benign situation.

- Viraj Kacharia:** If I can squeeze in one question, you talked about CMO two new products being launched. So are they from new customers or existing customers? Any perspective you can share? What kind of molecules also will they be?
- Sanjiv Lal:** We actually we had mentioned this, I think, in the previous quarter only. This is where we have finalized one contract manufacturing opportunity for a formulated product and the other is for an active material, which will get commercialized during FY'24, all going well, because the registration has to be done by the customer, including adding Dahej-SEZ as the source. So that's why I mentioned it will take about 2- 3 years for getting the revenues to start flowing in from these contracts.
- Subhra Gourisaria:** And these are new customers.
- Sanjiv Lal:** Yes. These are new customers. Yes.
- Moderator:** The next question is from the line of Somaiah V. from Spark Capital.
- Somaiah V:** The question pertains to Pendimethalin and Metribuzin. So can you give a broad range of what is the Y-o-Y price increase in these two molecules that you have seen? That's the first part. And second part is, in terms of the volume growth in these two molecules, how much of this is led by the end market growth? And is there a market share shift that you are seeing in these molecules?
- Sanjiv Lal:** So, Somaiah, in terms of the price range, I think it may not be very prudent for us to share that because these are very customer specific. Pendi, our growth has been fairly good during H1. And Metri, we are seeing the business coming back because there has been an issue over the last couple of quarters where we were unable to get the kind of volumes that we are capable of producing. So, we are seeing some of the Metri demand coming back. Pendi, we may see some softness in H2, but we are trying to work through that with other customers as well.
- S. Nagarajan:** Though, we can't share the price rate change, I can share with you that we have more than 60% growth H1 to H1 in terms of Metribuzin revenues and we have more than 20% growth in Pendimethalin.
- Somaiah V:** So one more question, pertaining to exports only, I mean, let's say, from FY'22, where we are around Rs.800 crore, I mean, in a, say, 3-year time frame, so is there a target that we're looking at probably doubling of revenues, anything like that? And is there models that we are looking at probably more focused on CRAMS or in the current international



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business itself adding more capacity? Any part that you would take to kind of achieve whatever the vision that is there in the export business?

Sanjiv Lal:

So, actually, this has been articulated by us regarding the share of international business, vis-a-vis, our domestic business. Currently, we are at around 33%, 35% of our Crop Care. Crop Protection business is coming from exports. And by FY'26, we expect it to be at around 40%. And this is really manufacture-led exports business. So this will include contract manufacturing, as well as what you may refer to as catalogue sales from our current portfolio and the new AIs that we will be commercializing starting FY'24.

Moderator:

The next question is from the line of Faisal Zubair Hawa from H.G. Hawa & Company.

Faisal Zubair Hawa:

So, how are we doing on the bio stimulants, bio fertilizers and bio seeds front where the next ESG environment, there is so much emphasis on the clean and carbon-free environment coming in. What is our percentage revenue and in 5 years time, what do you see this being as a percentage of total revenue?

Sanjiv Lal:

So actually, we are looking at biologicals as part of our Crop Nutrition portfolio within our Crop Care category. And this category has been growing quite nicely over the last 2 years for us. Even this year, the growth has been fairly decent.

Almost 30% growth has come from this category of Crop Nutrition, which is a combination of biological products, soil health products, as well as water soluble Crop Nutrition products and micronutrients. So this category, we are considering as the Crop Nutrition category and this has been growing quite nicely. It is area of focus for us.

Last year I think we did about Rs.145-odd crore and we are outlooking at least 20% growth in this category even during the current year. We've added products in this category, Mycorrhizal type of products. We've added bio stimulants. We've added some new products to this category. And we will also be coming up with certain products related with the mobilization of NPK from the soil during the course of this year, if not for Kharif next year. So there is a very focused plan that we have on this category and we see it as a future growth engine.

Faisal Zubair Hawa:

And sir, how fast could we have higher teen ROE, ROCE metrics in Rallis?

Subhra Gourisaria:

See, our ROCE in the short-term, obviously, is under pressure for the fact that we are investing in newer capacities, which will take some time to start delivering the full returns and also we spoke about that the working capital is at an elevated level. However, if you ask us our ambition, our ambition is definitely to be in high double-digit in terms of ROCE.

Faisal Zubair Hawa:

Would it be possible like 3.5 years then?



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Subhra Gourisaria: It's difficult to give a time horizon, but as the capacities start getting used up, the ROCEs will progressively keep improving.

Sanjiv Lal: And we will also keep investing further. We have so far committed only about Rs.550 crore out of our Rs.800 odd crore. So our intention is to keep investing in manufacturing capacity as well.

Moderator: The next question is from the line of Yogesh Tiwari from Arihant Capital.

Yogesh Tiwari: My first question is basically on the Brazilian market. If you can give me an approximate list of the product mix between herbicides and insecticides for the Brazilian market?

Sanjiv Lal: So for us, the biggest product that we export into the Brazil market is Acephate and we have got registration for our Metribuzin formulated product in the Brazilian market. So Acephate is moving fairly well and our formulated herbicide formulation has also started picking up quite nicely. We see expansion of that in the next few years. We've also got registration of a formulated Acephate product where we will be starting business now.

Yogesh Tiwari: Sure. So it's like Acephate, we have already started. Metribuzin will take time.

Sanjiv Lal: No, no. Acephate, technically, we are already selling. Metribuzin formulation, we have started and Acephate formulation, we will be starting.

Yogesh Tiwari: Okay. So there is some pricing pressure in the Brazilian market. So is it like there's more pricing pressure on insecticides versus herbicides?

S. Nagarajan: I think it is hard to generalize like this. Certainly, from our point of view, in our portfolio, like Sanjiv mentioned, insecticide is the dominant portion. Metribuzin formulation, which we are selling will constitute very small proportion of the total revenues that we make from Brazil. We are witnessing pricing pressures in Acephate.

Yogesh Tiwari: And one last question on the Crop Nutrition business. So just to understand, if the margins on the Crop Nutrition business would be in line with the overall company margin or it would be higher?

Sanjiv Lal: I think, generally, they will trend a little higher than the overall margins .

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

Aditya Jhavar: Just looking at this changing backdrop between the domestic market and international, if you can give us a sense that what is the current margin differential between both the businesses?

Subhra Gourisaria: It is hard to, call out that what is a specific margin difference because it depends on the products that we're selling. But overall, yes, the margins



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are slightly lower in the international market versus domestic market. But as and when we start improving our share of formulation business, we expect the margins to gradually improve.

Aditya Jhavar: Okay, and secondly, in the international business, what is the current split of revenues between our own branded formulations, the contract manufacturing that we have recently started developing and the legacy business?

Sanjiv Lal: On the contract manufacturing, we will not give that split, but just generally, we are trying to build our formulation business in the export business portfolio. So, that is about 20% of our export business is currently formulated products.

Aditya Jhavar: Okay. So, 20% is formulated. And is there any other split that you can share between the 80% of the export business?

Sanjiv Lal: I think we will limit it at that, Aditya, because we don't have too much opportunity or too much business in contract manufacturing. So splitting it may be a little problematic for us.

Moderator: The next question is from the line of Darshita Shah from Antique Broking.

Darshita Shah: So, I just had one question regarding the EBITDA of the Seeds business. I wanted to understand what would the provisioning look like for the second half of the year for FY'23? And also what kind of EBITDA or the EBITDA loss that we have currently? What is the quantum of loss? If you could provide some range or some take for the years coming, as in for FY'26 or FY'25, if you could provide some range? And for the second half of the year, what is the kind of provisioning are we seeing?

Subhra Gourisaria: See, firstly, we do not give forward-looking estimates. It's difficult to give what the EBITDA would be. But Q3 and Q4 for Seeds is relatively smaller for us. And hence, if you look at even the historical trends, you would have seen that we made loss during this period because the revenues are very small. And because of the cost it comes as a loss. And on top of it, as we mentioned, we are looking at a complete review of all the costs and there could be some additional provisions that maybe necessitated as a part of this exercise.

Darshita Shah: Is there any number in mind? I guess the first half it was about Rs.25 crore. So is there any guidance that you can give me from this number?

Subhra Gourisaria: No, we are working towards it, because we have taken whatever was required at this point of time as part of Q2. So, we've already absorbed that hit, but we are working through the numbers and we'll come back maybe, say, sometime later.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang.

S. Ramesh: So, we heard the growth numbers in Metribuzin at 60% and Pendimethalin at 20%, and you are having a plan to set up an MPP. So



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in terms of the international business, what is the headroom you have in Metribuzin and Pendimethalin in terms of available capacity not utilized? And secondly, can you give us some sense in terms of what is the kind of revenue or additional tonnage you can sell from the MPP, which will be useful for us to build that into our model?

Sanjiv Lal:

So, the MPP, as you'd be aware that we are going to be doing a couple of products there, including the contract manufacturing products that we have. We will be starting small as expected because of the need for registration and all, which has already commenced. So we will see the revenue coming from the MPP a little later in FY'24, '25 and scale up only thereafter. As far as Pendimethalin is concerned and Metri is concerned, you will be aware that we had sort of separated these two plants and made individual plants for Pendi as well as Metri. The net result is that we've landed up with getting, I would say, low-cost debottlenecking happening. So we have now good headroom in Metribuzin plant, as well as the ability to scale up even the Pendimethalin capacity with minimal investment.

Moderator:

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

Tarang Agrawal:

Just on the domestic business, the manner in which the Crop Protection business has moved, how would you rate the on the ground situation this year versus, say, the situation last year or the year before? That's one. Number two, in terms of your receivables for your exports business, if you could give us the number of days that were probably, say, on 30th September last year and what would that figure be on 30 September 2022?

Sanjiv Lal:

So, in terms of on-ground domestic business between this year and last year, I think I would say that it is more or less similar. If you will recall, last Kharif also there was this whole issue about consumption because of the way the rainfall was playing out. In a way, the same thing has played out even this year. Last year, we have seen a fairly large roll-over of inventory into H2. And it is our assessment that there's going to be a lot of rollover of inventory of all agrochemical companies into H2 as well. So there is going to be a considerable amount of pressure in terms of liquidation of agrochemicals in the market.

What is good is that the ground level activities, at least for us is at a very good level in terms of engagement with the farmers and engagement with the trade, something that we had sort of dialed down last year because of the pandemic situation, which is not playing out this year at all. So our ability to engage at the field level, farmer level and distributor level, etc , is much better this year for us. And I guess for the other players as well. So that is, I would say, similar to what was there last year, but in way different.

Subhra Gourisaria:

On the international customers, you asked that what is the impact of the debtors days on hand. So as we said, there is one impact of the higher proportion of sales plus the mix of customers, plus the discounting that



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we have stopped for one of our key customers. So I would say that it is at least 30% to 40% days on hand is higher compared to the previous year. So there is a significant increase in debtors that you have seen coming on account of that.

Moderator:

The next question is from the line of Faisal Zubair Hawa from H.G. Hawa and Company.

Faisal Zubair Hawa:

How is it that we can create better value for the shareholder because we are now being quoted at a market cap to sales of almost 1.4x, which is like a commodity valuation, whereas what we are doing is clearly not a commodity? And secondly, as far as patents are concerned, how many patents do we feel that will come in our favor in the next 1 or 2 years? And how is the Metahelix acquisition really helping us in gaining more patents over the last 2 to 3 years?

S. Nagarajan:

So in terms of the first question, I think from an operational standpoint, we are focused on trying to improve the performance metrics and whether it is in terms of revenue, profitability or return on capital employed and we think that that is the way

S. Nagarajan:

We would work towards improving the shareholder value. As you know, we also have a fairly large Capex program, which is underway, Rs.550 crore out of the Rs.800 crore that we have announced. We have already committed or even invested and the balance is yet to go. So therefore, we would be utilizing the cash generated in the business for investment in the business and apart dividend. With respect to patents, the number of patents that we have and how much we are expecting, maybe we can get back to you in terms of the number of patents that we have.

With regard to the seeds operation, yes, there are a few patents that we have in the seeds operation also. However, as you know, in the last year, couple of years, you can say we are finding that there is a need for us to get the operations of the Seeds business improved in terms of profitability. And that is what we are focused on. We have had some challenges in terms of inventory levels. We have had certain other challenges, which we are working through. So that is really the focus right now and that is why we are having the kind of provisioning and so on that we are going through at this point in time. But Seed business, we are confident that we will come through this phase and we should have some good outcomes over a period of time.

Faisal Zubair Hawa:

And sir, this new Rs.850 crore Capex, will it yield to around Rs.1,000 crore revenue 2 years in?

Subhra Gourisaria:

See, some of this has already got commissioned out of this Rs.850 crore and as Sanjiv mentioned, some of the bottlenecking had happened at lower cost, which has already started yielding in terms of returns. But Rs.850 crore to Rs.1,000 crore correlation is difficult to establish because the investments are across in different pockets.



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- Faisal Zubair Hawa:** And what is our capacity utilization in this quarter 2 at all the plants combined?
- Sanjiv Lal:** Well, for example, our Acephate plant, the utilization is 100%. Pendimethalin has been pretty much close to about 90%. Hexaconazole has been slightly lower because of a lot of inventory of Hexaconazole in the Vietnam and Chinese markets. So, the utilization there has been a little lower. Contract manufacturing plant has been practically running well. So we are getting a good utilization in the contract manufacturing facility. PEKK has been shut for the last 2 years and we will be restarting the plant in Q4 because some orders have started now coming back for this polymer PEKK. So that's a good sign, a positive sign for one of the other products which is important for us in our CM portfolio.
- Moderator:** The next question is from the line of Somaiah V. from Spark Capital.
- Somaiah V:** Sir, what would be our current Pendimethalin and Metribuzin capacity in metric tonnes?
- S. Nagarajan:** So Pendimethalin would be close to 5,000 tonnes per year and Metribuzin close to 3,000 tonnes per year.
- Somaiah V:** And also one follow-up on that. In terms of Pendimethalin and Metribuzin, I mean, we have been doing this RM backward integration, can you just give some color between these two molecules? To what level is the backwardation done?
- S. Nagarajan:** So as far as Pendimethalin is concerned, what we are doing is we have entered into a long-term supply arrangement with an Indian manufacturer of the raw material. At this point in time, their plant is coming on stream, but we are getting about 15% to 20% of our requirement from them. We do expect that, that would trend upwards to 70%, 80% of the requirement. As far as Metribuzin is concerned, we are presently still dependent on imports.
- Moderator:** Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.
- Sanjiv Lal:** Thank you. Thanks for all the questions. And I trust we were able to provide clarity to our Q2 results. And whilst we've had a satisfactory performance during the first half of the year, external challenges, as we mentioned are on the increasing side because of some drought conditions and also inventory levels. Our international business has had a good run till date. However, because of the drought conditions being experienced in many parts of the world, there is an increasing customer skepticism and even we are seeing some overhang of inventory as well as we discussed. We will continue to pursue all efforts to drive maximum utilization of our plants and get volume-led growth, with price growth going to become a challenge as we see it.



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On the positive side, Rabi augurs well and the crop prices are also quite favorable. For seeds, H2 is relatively a small period for us. And the priority for us in our Seeds business is really to focus on Kharif hybrid seed production and the market development activities for a good Kharif season next year. So, we are trying to review all areas of cost and optimize them to develop a more focused and agile Seeds business.

In the process of this review, there could be costs related to inventory and other items, for which there may be a requirement of provisioning, which we will continue to assess during the course of the year. Our long-term strategy of driving competitive growth remains on track and we will keep reviewing all opportunities as relevant. With that, we'll close the call now and wish you all a very safe and prosperous Diwali. All the very best.



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