Rallis India Limited

Q3 FY'21 Earnings Conference Call

January 19, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Limited Q3 FY'21 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. Good day, everyone and thank you for joining us on Rallis India Limited's Q3 & 9M FY'21 Earnings Conference Call. We have with us today Mr. Sanjiv Lal – Managing Director & CEO; Mr. Nagarajan – Chief Operating Officer and Mr. Ashish Mehta – the Chief Financial Officer.

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

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

Sanjiv Lal: Thanks Gavin, and good afternoon everyone. Thank you for joining us on our call today. I have alongside me Nagarajan and Mr. Ashish Mehta, our CFO.

Let me begin the call by highlighting the key operational developments following which Ashish will walk us through the financial performance for the quarter. To begin with, we believe that the Rabi season despite the cyclone that we had experienced had panned out reasonably well. The cyclone did result in some disruption, excess rainfall, some crop damage across certain geographies, but the market environment broadly has been fairly encouraging and growth has been conducive. Amidst such positivity, we believe that the domestic agro chemical industry is growing in the range of 10% to 11% during the current fiscal year. The overall pace of growth though may taper down compared to what we have seen in the past couple of months.

Moving on to Rallis specific developments, we are fairly pleased with our performance for the quarter having delivered a topline growth of 7% and operational profitability growth of about 8%. The performance is broadly in line with our stated objective of prioritizing growth by introducing new products and widening our distribution reach. With regard to new products, we have been guiding the introduction of at least 2 new 9(3) products for the next couple of years and as most of you must be already aware we had introduced one product KRIMAN during the first half of this fiscal. One more will follow in Q4. In addition to that, we have also launched two new fertigation products under our crop nutrition portfolio with the brand name Aquafert which are addressing the Grapes crop as well as vegetables. We have also introduced two bio pesticides. This is the new category that we have entered during Q3. We have also introduced an in-licensed product during the year, soybean herbicide by the name of Enzip**.** And as you are aware, we have identified wheat and soybean as segments that we need to strengthen our portfolio.

Moving on to the International business, having registered highest ever sales of all products barring Metribuzin in H1, I am pleased to report that the business momentum continues to remain strong. Enquiries for product volumes from customers remain encouraging and the order book for majority of our products remains robust. We continue to operate at full capacity for most of our key products namely Hexaconazole, Pendimethalin and Acephate as also Metribuzin. We have debottlenecked the capacity of Hexaconazole during H1 and further added to the capacity of Pendimethalin.

Moving on to Metribuzin, volumes for the same have started picking up. Order book as well is gaining traction and we maintain approximately 15% market share globally in Metribuzin. We are planning for the reorganization of equipment so as to put all Metribuzin production into a single plant with some additional features of mechanized material handling during February to April. And to mitigate this planned disruption, we have been working towards building up inventory of Metribuzin and also have also planned to coincide it with our usual maintenance shutdown in April. Also in an attempt to diversify and further strengthen our International business, we are also looking at adding two new products under this business during H2 of the next fiscal year.

Moving on to contract manufacturing, we believe the current business environment provide the good opportunity for us to expand our manufacturing in the segment. Government's agenda towards driving indigenous manufacturing augurs well for the business. In terms of the existing products, as indicated in our earlier calls, demand for PEKK will continue to remain soft and with the airline industry showing some rebound, we expect that over the next one year things should start normalizing. We are also looking at seeing how we can expand our product beyond the aviation segment to derisk our business along with our key customer for this product.

Moving on to the seeds business, having delivered 7% growth in H1, our performance for Q3 has also been satisfactory. Hybrid maize has reached approximate Rs.100 crore milestone along with paddy which was already Rs.100 crore category for us. Volumes of mustard seeds as well have been quite encouraging. We have launched two new products in maize, one in bajra and one in chilli during the first half of this fiscal. Further our collections continue to do much better compared to the previous year. The R & D pipeline is also shaping up well, with strategic crops such as cotton, rabi, maize and vegetables. And as we already mentioned that the R&D process will take its own time and in the couple of years we do expect to start seeing results from the work being done by our teams in Hybrid development. On our CAPEX, I would just like to say that we had announced projects worth approximately Rs.525 crore of the Rs. 800 crore earmarked for the expansion. The proceeds are directed towards building a formulation plant at the Dahej Chemical zone, a multipurpose plant at Dahej SEZ; debottlenecking existing products; a new R&D center in Bangalore and investments in automation; digitization of our manufacturing operations as well as modernization and expansion of affluent management systems. All these projects are on track and we expect to propel the growth post completion.

To conclude, I would just like to state that the business is shaping up well. We are making steady progress towards achieving our desired objectives of delivering growth and creating value for our stakeholders. We are undertaking required investments to enhance our product offerings, reducing raw material dependence on China, and developing new product offerings for the domestic business as well as seeds. Seeds are also improving steadily, and we are targeting new products and segments which should help us address the present seasonality in the business.

And with that I would just like to request Ashish to talk about the financial numbers before we open it up to the Q&A. Ashish, over to you.

Ashish Mehta: Thank you, Sanjiv and a very good afternoon to all who have joined this call. First I will summarize the overall results for the Q3 FY21. Revenue was at Rs.570 crore registering a growth of 7% over the previous year's Rs.533 crore. EBITDA at Rs.60 crore versus Rs.56 crore in the same period in the previous year registering a growth of 8%, profit before exceptional item was at Rs.56 crore versus Rs.48 crore in the same quarter in the previous year registering growth of 15%. Profits for the quarter impacted due to one time charge of about 8 crore on account of substandard and non-saleable stocks. Exceptional items include profit on sale of assets.

I will now give a brief of how each of the businesses performed during the quarter under reference. The crop care revenue was at Rs.529 crore registering an overall growth of 5% over previous year with a volume growth of 10% and a price correction of 5%. International business, demand challenges in Metribuzin still continued in the third quarter as well. However, revenue was at Rs.184 crore versus Rs.182 crore in the same period in previous year. There was a good volume growth of about 18% with a price correction of 17%. Major volume growth seen in Acephate tech, Hexa and Metribuzin 75 WDG. We saw a very small volume growth in Metri tech as well.

In the International business, contract manufacturing registered a revenue of Rs.30 crore versus Rs.48 crore in the same period in previous year. There was a drop in our polymer business and we continue to see the same trend in FY22. In the seed division we registered a topline of Rs.41 crore versus Rs.30 crore in the same period previous year. This was largely driven by volume growth in maize and bajra, coupled with better price realization. Profits for the quarter was impacted due to one time charges of roughly about Rs.6 crore on account of substandard stock. Plant growth nutrients and organic manure registered a topline of Rs.36 crore versus Rs.33 crore a growth of 10%. Due to better working capital management, cash from operating activities was at Rs.201 crore. Cash and cash equivalent as of 31st December stood at Rs.382 crore versus Rs.263 crore in the same period previous year. Overall working capital days improved to 79 days versus 83 days in the previous year. Inventory levels were high compared to previous year largely due to stocking of critical raw materials planned Metribuzin stocking to meet the demand for Q4. However, receivable days improved to 73 days from the previous level of 97 days. Work in the new formulation plant at Dahej Chemical zone is at full swing and we expect to start commercial production by end of March 21. Work on setting up the new MPP plant at SEZ plant is also progressing satisfactorily.

Thank you, we can now start the Q&A Session.

Moderator: Thank you very much. The first question is from the line of Aditya Jhawar from Investec Capital.

Aditya Jhawar: Couple of questions sir, firstly, on the export. Sanjiv, you mentioned that in this quarter there was a plan to increase a further CAPEX of about Rs.65 crore. So does that mean that we got some incremental new orders in this quarter which can translate into revenue in the next couple of years? And related to that is that keeping this new CAPEX announcement, what is the annual CAPEX planned for FY21 and FY22?

Sanjiv Lal: Aditya, in terms of our CAPEX plan, maybe I will just request Ashish to fill in on the numbers. See, much of our project work is now at a fairly advanced stage when it comes to projects like the new facility at Dahej Chemical zone. So the cash outflows will now start happening during this quarter as well as well as overflowing into the next quarter. So there is some skewness which is going to happen during FY22 and apart from that our capacity expansion for Hexaconazole is complete, Metri is complete except for this reorganization which I mentioned and also some increase in capacity for our Pendimethalin plant which we have also undertaken. Apart from that other products at Ankleshwar all that will also get completed in terms of capacity expansion latest by April of this calendar year. So our ability to book more orders against our capacity is certainly increasing. We had also set up additional facilities at the Dahej SEZ during the last financial year which we may not have spoken about related to some of the WDG formulation and SC formulation for Metri and that capacity has started getting utilized with some of our exports of the WDG, Metri WDG already happening during the current Q3. We have already been able to meet some of the export requirements of our formulated Metribuzin product for which we had got the registration during the course of this financial year. So Ashish, do you like to add to the CAPEX spends?

Ashish Mehta: Aditya, this Rs.65 crore largely relates to the additional CAPEX we had sought from the Board on the MPP project. The earlier one it was about Rs.80-81 crore and we have sought additional CAPEX for the MPP which is being set up in the SEZ zone, all others were are of small amount pertaining to capacity expansion or process debottlenecking

The second one is that for the 9 months, the actual CAPEX outflow is about Rs.90 crore while we have issued purchase orders around about Rs.150 crore so far. But the cash flow is only Rs.90 crore. We expect in the next 3 months for this current quarter the cash flow should be around Rs.40 crore to Rs.45 crore if not less and then the balance cash flow will happen in the next financial year. I believe in the first quarter of next financial year there will be a higher outflow of cash. Overall for FY22 as we are in the process of finalizing our budget, we expect a larger cash flow than what we would be ending for the FY21.

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

Tarang Agrawal: Two questions from my side. Both on the seeds business. First on the revenue, what has led to this 38% volume growth. Is it you all have gotten into new markets or is it gaining market shares? Just wanted to understand the underlying reasons for this volume growth in maize and bajra because I have seen it in Q2 as well and now we are witnessing it in Q3. And the second is on the margins.

So despite a significant volume growth and even if I adjust for the Rs.6 crore of substandard stocks we have actually seen an EBITDA decline in Q3. So what cost element went up for the EBITDA decline in the seeds business. So these two questions from my side.

Nagarajan S: To address your first question about the contributors for the growth, we have had some increases in our maize and mustard, what we mentioned in the note. But really speaking I don't believe there is anything fundamentally that has actually contributed to that beyond these increases that we have got in this particular year and remember that these are actually on a really small base of Rs.30 crore that we had. So we are not seeing that as structurally something has changed. On the second question, what you said, if you adjust for the one time charge, you are saying that the EBITDA for the seed business has gone down?

Tarang Agrawal: Yes, it has gone down from, if adjusted for the Rs.6 crore it is still negative Rs.16 crore against negative Rs.11 crore in the same period last quarter.

Nagarajan S: Maybe Ashish, you want to respond on the EBITDA after adjusting for the…?

Ashish Mehta: If I compare it with the incremental increase of revenue by Rs.11 crore, there should have been equivalent increase in the EBITDA and the percentage also. But there is a onetime charge and also there is a cost increase in terms of employee cost due to alignment of policies of seed division with that of crop care division (post merger of Metahelix Life Sciences Ltd). That also has an impact and then there are certain expenses on sales promotions and marketing and other activities and all that. That is why you see a little bit dip in the margins.

Nagarajan S: At an overall level we have not seen any major fundamental change in the operations of the business. Like what Ashish said, we have definitely harmonized our policies after the merger between the seed division and the rest of Rallis, there has been a cost push on account of that.

Moderator: The next question is from the line of Ritesh Gupta from Ambit Capital.

Ritesh Gupta: Just two questions from my side, one is that on the Metribuzin pricing side, what is the outlook there on the

Metribuzin pricing side? And the second one that I have is that in terms of pure gross margin improvement in the crop care division, what has driven that gross margin improvement? Is it just product mix improvement or is it some sort of API prices led gain?

Nagarajan S: So, on the Metribuzin prices, certainly we are finding that they are firming up in the last few months. So if you really look at this year versus last year, so Y-o-Y if you did a comparison, 9M FY21 versus 9M FY20 what we are finding is that there is a significant drop that has happened in terms of the Metribuzin prices. On an average, the prices last year were about Rs. 2100 per kg. Now it is about Rs. 1300 per kg, this is Y-o-Y 9 months to 9 months. So you can see that it is a 40% kind of a drop. But if you see within the quarter, that is within Q3, from the beginning of Q3 to the end of Q3, there is a firming up that we are seeing. We do expect that this will continue. This trend will continue and we do feel that overall the Metribuzin prices will look up compared to how they have been in the last 9 months.

Second point, what you were asking is about the gross margins, the initiatives that we have taken. So yes, I think we have actually taken different initiatives for different businesses. So with regard to the domestic business, what you said is absolutely correct. We have had some mix focus. We have tried to sort of focus on some of the larger GC products wherever possible of course and that has helped us in terms of improving the GC. We also have, to be honest, witnessed extremely volatile raw material prices in quarter 3, in fact even higher than they were in Q2 or Q1. So what we have done is, we have also therefore adopted a very close approach to pricing of our products wherever it has been possible to transmit the cost increases. We have done that. Of course it doesn't mean that in every product we have done that. In certain products actually altered our prices downward as well. But on an overall basis I would say that we have taken pricing action wherever feasible as well. So those are broadly the two initiatives as far as the domestic business is concerned. As far as the International business is concerned, as Sanjiv already mentioned, the demand outlook has been quite positive from a volume standpoint. So even in the case of Metribuzin, the demand has actually been quite good and we have been able to, as Ashish mentioned, reach the same revenue levels as last year, same quarter, Rs.182 crore- Rs.184 crore. Despite the prices ruling significantly lower as I mentioned in the case of Metribuzin they are 40% lower but in other cases they have been lower too. But there what we have tried to really focus on is in the other products, wherever it has been possible to offset the significant reduction that has happened in Metribuzin, both on the price front and consequently on the GC front**,** try to address it in the other products and we have been successful with few of them. So overall we have been able to maintain the GC levels at a similar level as last year, overall for the international business, although in the case of Metribuzin we have had a significant price pressure. So effectively you could say that it is a bit of pricing action and focusing on what we can do under the demand conditions that prevailed with regards to other products. So that is really what we have done in the international business. So broadly these are the initiatives that have helped in the GC front.

Ritesh Gupta: And just on the MPP plant expansion that you are doing, these are largely to do with the capacity expansion in some of the APIs that you are doing, I mean Acetamiprid, & Lambda Cyhalothrin etc. Is it where the MPP expansion is going in or this is for contract manufacturing bid which where it is doing. I am talking about the Rs.65 crore expansion.

Nagarajan S: No, that Rs.65 crore expansion is for setting up a completely new MPP plant which is not for expansion of existing products like Lambda Cyhalothrin what you mentioned, but it has nothing to do with specific contract manufacturing. It is about what you can call export business.

Ritesh Gupta: Just a clarification on that, you are building that plant to basically seek business on the contract manufacturing side?

Nagarajan S: It could be utilized. It could be useful from that standpoint as well. But really speaking we also are looking at new products that we can produce from that multipurpose plant on an exports basis, not necessarily on a contract basis.

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

Varshit Shah: Sir, my question is a) the kind of growth you have reported is 15% in domestic business. Is it largely the same, the domestic B2C business as well. That is my first question and what was the key driver of this growth, was that largely because of the product mix which you earlier alluded to, resulted in higher realizations because you sold up better margin products and niche products. So what was the reason for this kind of 15% growth because it is quite significantly higher than the industry average?

Nagarajan S: Yes, we are seeing that. Actually largely on the B2C business as you know that is the principal component of our domestic business. To some extent I think the product mix has helped. But I think it is also the volume throughput that we have had. In fact much of the growth we would attribute to volume increase. Remember that we have had a rather positive Rabi season and we have also been well prepared I should say with regard to the availability of our products. So I think it is largely driven by volume. To some extent yes, because of the portfolio mix. But portfolio mix has a bigger role to play in the margins more than in the topline.

Varshit Shah: And was there an additional, let us say, pest attack demand, pest pressure Y-o-Y which resulted in higher volume growth or largely it was at the same level?

Nagarajan S: No, in fact pest pressures in some cases have actually been little lower. So I would say that it has been, I guess we have been able to focus on certain geographies, little bit more closely. We have been able to generate a lot more demand. I don't think the pest pressure has been higher than last year.

Varshit Shah: You would also have benefitted from the expanded distribution which you have created, so even that would have contributed to this. Would there be significant contribution, I mean I am not asking for a number but would that have helped you to grow faster than the market?

Nagarajan S: I think that is to some extent also contributed. It is a combination of more than the channel expansion, it is also about the demand generation. You know with regard to our crop advisors, we have actually had lot of difficulties as you know in the first two quarters because of the lockdown. Some of that started reviving towards the end of Q2 and in Q3 also we were able to do a little bit more of physical movement. So therefore demand generation as well as trade enhancement, yes.

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

Abhijit Akella: Just a couple, one is on the capacity expansions that you have talked about, the Acephate, Hexaconazole and all the others. If you could just characterize the market demand supply environment for these? Are we seeing firmness in the market environment or is there any risk that our expansion could lead to some kind of situation similar to what having with Metribuzin a couple of quarters ago?

Nagarajan S: In the CAPEX program that we have got, no, I don't believe we envisage anything. We have Acetamiprid & Lambda Cyhalothrin that is not something we envisage any major pressure. In fact Hexaconazole expansion has been completed and as Sanjiv already mentioned in the opening remarks, that is also running now at full capacity. We do expect it will continue. Pendimethalin capacity expansion, we do not expect the kind of situation that we witnessed last time around with Metribuzin. No, I don't believe that we will expect that in the foreseeable future.

Abhijit Akela: And the second thing was just on, in your opening remarks, you alluded to may be some slowdown in the domestic industry's growth in the next couple of months compared to what we have seen in the last couple of months, so I just wanted to get your sense for whether this season has been more front ended for the industry for Rallis and therefore 4Q could be a bit softer than we have seen in 3Q?

Sanjiv Lal: Abhijit, I think the only point I was trying to make is that overall growth of the agrochemical sector in India is unlikely to be at the fantastic growths that we had witnessed in Q1 and some part of it in Q2 as well, but it is going to be just about 10-11% growth, so ultimately that is what the average for the entire sector will be, so whatever are the placements, stock levels and all, the consumption will be at the 10-11% only.

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

Rohan Gupta: Sir, first question is on your CAPEX, so out of roughly Rs.550 crore CAPEX which we have already done, sir, can you quantify that how much has gone so for in MPP and how much in formulation excluding this Rs.65 crore which we have further announced, so if you can give some number on that? That is first question?

Sanjiv Lal: Ashish will give the detail, but the MPP cash flows are still small because the construction is just about getting started. We are currently completing all the detailed engineering and the construction is going to start. As far as the new CZ formulation plant is concerned, the construction is well on its way, the cash flows have already being articulated by Ashish a little while back and all going well, we expect to be able to commission at least one of the multiple lines during this financial year. That is our target. We are just putting all our resources in place to ensure that happens, but things in these difficult times of this pandemic can change things over the next couple of weeks as well, so we are just working towards getting one of our lines commissioned.

Ashish Mehta: Rohan, for the formulation plant at the chemical zone, about Rs.100 to Rs.110 crore is committed. That is on setting up the 3 to 4 formulation line. That is one big chunk. The MPP is around Rs.120 odd crores. The R&D building is roughly about, including the cost of the land which we have already purchased sometime in August last year is about Rs.90 crore. The Hexa, Acetamiprid and others would be around Rs.65 to Rs.70 crore and the Metri expansion, already completed, there we have already spent about Rs.32- Rs.35 crore and then there are about Rs.15 to Rs.20 crore for the land grading . Overall I am providing a break up of all major capex items

Rohan Gupta: Sir, just on this formulation plant, you are saying this will be completed by March 21, I mean just in a month period and MPP is going to be completed by end of this year, right?

Sanjiv Lal: Yes, we expect it in H2 commissioning for next financial year.

Rohan Gupta: And sir, just second question on this further investment in Rs. 65 crore, though you have clarified that you are looking for CAPEX, I mean this plant is going to cater more to the export, sir, I think that we have yet not decided that what will be the product which will be manufacturing on this and what will be the markets or what chemistries which will be using on this, so I think there is MPP plant investment is more ahead of, I mean it is a preplanned investment, but the product is yet not decided, so should we think something like that and can we have more such plant and more such MPPs to put in advance where we will cater to the market depending on the market scenario later on, but the product may be decided later on, so I am just talking that are we fore-fronting our investment without finalizing the product, is that the thought process are we having right now?

Sanjiv Lal: No, that is not the way Rohan. We do have product which we will be producing in that plant. We have not articulated it, but we do clearly have a product that will go into the new MPP and we did mention that by the time this plant comes up, we will be ready with the commercialization of at least two new active ingredients in this new facility.

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

S. Ramesh: My first thought is, can you share what is the contribution you got from new products launched so far in the 9 months period compared to the same percentage from new products last year?

Nagarajan S: I think what we do track is something called the ITI, the innovation turnover index, so what we can at this point in time share is that at the end of December, this index has reached 12%. Last year, full year, it reached 15%, I am talking about the cumulative number, the 12% will be expected to increase. At this point in time, although we have had a difficult year in terms of being able to do demand generation for the newly launched products of last year, the response has picked up, like I mentioned earlier, we are hopeful that we will cross last year's ITI number.

S. Ramesh: The second thought is, what is the current thought process in the Government on extending the PLI to agrochemicals because we hear a lot about it from different forums, so is there any finality and what are the kind of measures you expect if some clarity is available on that?

Sanjiv Lal: As of now, this is still work in progress on the PLI for the agrochemical sector. Nothing yet has been finalised, but as far as Rallis is concerned, we are not particularly focused on whether the PLI comes or doesn’t come, our plans continue to be there for growing with or without the PLI.

Moderator: The next question is from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Sir, first question is with respect to this CAPEX towards the formulation plant in MPP, could you give us a broad range in terms of what kind of asset turnover that this can generate at peak utilization?

Nagarajan S: Actually, we have responded on similar kind of questions in the past, what we are focused on is not the asset turnover, we evaluate our investments on an IRR basis, so we do have situations where you could have a large asset turnover, but somewhat low margins, but the effective cash flow from that investment may be still justifiable, so we really don't compute nor do we managerially use that as a thumb rule for our evaluations.

Chintan Modi: And second question is with respect to the Rs.6 crore of write off that we have taken, is it that it has been reported for the first time or should we treat it as purely as an exception for this year?

Nagarajan S: Yes, it is an exception which is caused because some of our seeds turning substandard.

Chintan Modi: So is this scenario kind of can come up next year also kind of, it is a recurring, but particular to third or fourth quarter or something like that?

Nagarajan S: No, maybe I can just provide a little bit more of a background, so that you can appreciate the context. So when you take production of seeds, you could take it in different seasons, you could take it in Kharif season or in Rabi season. Normally, people take it in Rabi season, but if you do take it in Kharif season, you are actually exposed to a possible risk depending on the weather vagaries, sometimes it works in your favor, sometimes it doesn't. In this instance, it did not work out in our favor. Therefore, we don't expect that it is a recurring kind of an event.

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

Rohit Nagraj: Sir, in the presentation on slide number 7 we have talked about strategic initiatives on domestic business, if you could just elaborate on those four points and what is the timeline with which we are slightly to garner these benefits?

Nagarajan S: Are you referring to the Domestic or International business?

Rohit Nagraj: The domestic business, I mean how do they pan out over the next foreseeable future and what kind of benefit we expect?

Nagarajan S: On the domestic business, yes, I think the first point there is about digital campaigns. We have commenced customer connect through digital campaigns from Q1 actually this year. That is continuing. What we are finding is that there is likely to be a settling down over a period of time in a hybrid mode between physical and digital campaigns, so to be candid I think we should say that we have learned a lot in the process of experimenting with digital campaigns and we will apply those learning going forward and we will end in an end state which will have a combination of physical and digital campaigns. New brand architecture has been introduced for many of our products. About 11 products have been introduced by December. We expect two thirds of our products to be on the new brand architecture by March by Q4 and then the rest of it will follow, the remaining one third. So this is an attempt to simplify our communication and make it much more memorable. So this exercise is underway and it should get completed by H1 of next year. Focus on new product launches and portfolio optimization, yes, we have talked about this in the past. We have identified the gaps in our portfolio. Wheat and Soya bean as was called out are a couple of crops where we do have some strengthening to do. Our R&D is focused on new formulations which will help us as well as we would depend on alliances, co-marketing, other routes in order to introduce those new products. This would be a continuing activity. As the pests evolve, as the opportunities emerge and as some of our products fade out, we will continue to focus on this. Connection between distributors and company, yes, I think this is something which we kicked off about now almost a year and 9 months back. We have refreshed our credit terms, our policies for doing business with the company including the reward and recognition programs. This has got a little bit interrupted, particularly the R & R portion because of the pandemic, but we have tried to kind of do things that can be done digitally or locally. This is something which we would expect will revive in the coming year assuming the pandemic goes away. Refreshing of the distribution channel and adding distributors to enhance growth in underserved geographies, yes this is a very important area of focus. Like we have mentioned earlier, this will be carried out, coterminous with our portfolio augmentation, because we do believe that we need to have both in place to be able to capture the opportunity having the product, but without the distribution is as good as having the distribution and not having the product, so this is something which we will progress. We are not focused here on the number of distributors, we are more focused on being able to capture the opportunity with the quality distributors that we require, so that is really the update. So that will also continue. That will continue because the product launches will also continue.

Moderator: The next question is from the line of Sameer Deshpande from Fairdeal Investments.

Sameer Deshpande: I would like to know this raw material volatility; do we still import from China certain raw materials?

Nagarajan S: Yes, we do. Our imports like we had mentioned earlier is roughly about 50-55% of our total procurement bill, we do have a significant dependence on China.

Sameer Deshpande: Sir, is there any currency fluctuation which were also affecting us?

Nagarajan S: It is affecting us because there is an appreciation of the Chinese currency that has happened which creates a problem for us, yes.

Sameer Deshpande: But we are not in a position to source it from some other country, it is specific to China only we need it?

Nagarajan S : Yes, you are right. See, some of these are available only from China and we have not, in some cases, been able to source from others, but of course there are many other products where we are able to source, but there are a few products where our dependency on China is very high.

Sameer Deshpande: And now the export, last time the product pricing was a bit of a problem, but it seems to have improved, so the outlook for the Q4 in terms of domestic as well as exports, will it be better because last time we had this COVID impact and we had a loss, but this year, will it be better than this latest quarter?

Nagarajan S: I think we have shared the experiences that we are going through. Now, projecting for Q4, I guess we are not providing you a forward guidance, but at this point in time, certainly it is a lot better. The current context is a lot better than what it was in the beginning of the quarter.

Ashish Mehta: I just want to add one thing, because in the last year's fourth quarter, since pandemic happened in the third week and fourth week of March, there were naturally immediate disruptions in the transportation and all that thing and hence it had impacted our dispatch of materials which we have reported also in the SEBI results. Over the last 9 to 10 months, lot of things have stabilized and we don't foresee such type of problems coming into this fourth quarter. I just wanted to add on that.

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

Somaiah Valliyappan: What I am trying to understand is, between domestic and exports how would the number reach, at an overall crop care, we are 15.5%, so how would it reach between domestic and exports?

Ashish Mehta: Let me give you a context, in the export post this sales we don't have any expenses, right, whatever expenses are there on headcounts or other administrative expenses, but in the domestic market you have field force, you have lot of activities going around and all that, so if you were to compare at an EBITDA margin for International business, definitely it will be higher than the domestic business, but when you compare the actual impact, the gross margins would be different, but the EBITDA will be higher for the International business because there were no expenses being incurred post the sales.

Somaiah Valliyappan: So somewhere 200-300 bps higher when compared to the domestic business ?

Nagarajan S : What we focus on is the GC margin, right. On the GC margins on the domestic side, because we have a formulations business, predominantly formulations business which is much more value added compared to the active ingredient exports, B2B exports that we do on the export side, the GC margins tend to be higher on the domestic side compared to the International business. Thereafter, the rest of it we actually focus on a fixed cost basis because that is the fixed cost that we incur in terms of salaries, in terms of sales and marketing, SG&A kind of things and that is the way we actually look at it, so we don't actually break out an EBITDA number between International business and the domestic business. That is why we are a little bit struggling to give you an immediate response, but this is a way we think about it. We focus on the GC and then we focus on the individual elements of fixed cost.

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

Dhavan Shah: Sir, I have two questions, firstly on the seed side, so sir if we look at the last two quarter numbers, that means Q2 and Q3, you mentioned that there is no fundamentally change for the seed business, so if there is no exceptional during this quarter and if we look at the growth for Q2-Q3, it seems a little bit higher, so is there any exceptional things into that or should we assume that this is a normalized thing and we can expect this kind of growth in the coming few years as well?

Nagarajan S: Yes, there is no exceptional thing. You see, in the case of seeds business as you are aware, typically if you look at the Q1 numbers, the way we reported, I am just clarifying this, so that you can get a better view of how you can think about it. What happens is that at the end of Q1, the returns are not fully available in the company, right, because that is still June and the placements are still underway, so what we do is to actually take certain policy based or normative returns which we true up at the end of Q2. So at the end of Q2, that is at the end of H1, is when you really have a good picture about what the returns have been. Similarly, when it comes to Q3 and Q4, you really are having a similar situation because you do have certain markets like Tamil Nadu for example, where it is actually a late Kharif market, so you actually go on normative returns for specific markets and specific crops which you again true up in Q4. So what would be more helpful to look at is on an annual basis or on a H1 and H2 basis. Fundamentally what I was mentioning earlier, there is nothing that we are finding different in the operations of the business for us to be able to call it out to you.

Dhavan Shah: And just follow up to that, out of your overall seed portfolio, which business segment do you foresee to carry double digit growth? Is it Maize or Bajra or Vegetable seed, if you can share thoughts on that?

Nagarajan S: You are talking about where we have had double digit growth this year?

Dhavan Shah: In this year and the expectation as well?

Nagarajan S: Yes, I think as you are already aware we have cotton as a very important focus area for us. This year has not worked out as well as we had hoped. We certainly will have significant growth expectations coming from cotton. Vegetable is another area which we also want to focus on, so those are strategically two important areas where we would expect a strong growth. Paddy has been a strong area and Maize has really done well this year contrary to our original thinking that because of commodity prices being low on Maize, we might have had certain challenges, but really speaking Maize has been quite positive, so one would expect that Cotton, Vegetables, Paddy and Maize in that order as the important growth drivers.

Moderator: The next question is from the line of Deepak Kolhe from B&K Securities.

Deepak Kolhe: My first question is what are the reasons for lower depreciation cost in this quarter and second question is that is it possible for you to provide the domestic formulation and B2B absolute sales figure for Q3?

Ashish Mehta: I will answer the first question. On the depreciation, it is basically a classification of entries, largely arising out of the impact of Ind AS 116 which is a lease accounting. May be I can explain you separately, but just to give a context, if you are having a lease of any third party arrangement and if there is an increase in the number of years over the lease period, then there is a particular way how you account for the lease accounting and then capitalize the rent at NPV value and then start charging of interest and the depreciation to the extent of the revenue at the rent what we pay. So it is basically not an item for the third quarter. Since it applies to the YTD number, if you see the YTD numbers of depreciation it is almost the same, Rs.49 crore versus Rs.48 crore of last year. So it is only a classification impact. It is not that the depreciation has come down because of the sale of any asset or anything like that. It is just a classification.

Deepak Kolhe: And about second question, on the domestic formulation and B2B absolute sales number?

Ashish Mehta: B2B is, you are talking about international business?

Deepak Kolhe: Yes sir.

Ashish Mehta: We don't give a breakup of B2B and international business and also contract manufacturing. We give a breakup of what is the total export versus the domestic sales. That is available in that slide deck. And for the Institutional sales in the domestic market, it is not a very large number, it is a very small number.

Moderator: The next question is from the line of Deepak Chitroda from Phillip Capital.

Deepak Chitroda: First question sir, is about our sales and marketing cost, what is your expectation now as we are now moving towards the normal situation, may be say next 1 or 2 quarters? Do you think the kind of a benefit which you have basically received in terms of digital marketing and all that is going to be increased, the cost will be going to increase over the next couple of quarters, sir?

Nagarajan S: Definitely in terms of travel and communication, there will be an increase because we will be able to have more people travelling. What has happened is that in things like advertising we have also relied on television, for example, a little more than normal, so may be that will be a rerouting of expenditure between different media channels instead of using television commercials, maybe we will depend more on local demand generation activity, so there will be some heads where there will definitely be an increase. There will be some heads where there will be a rebalancing. Things like digital, for example, they are not that high in terms of expenditure at this point in time in our portfolio of sales and marketing spend. They will go up because we do expect that there is a place for digital that we have all collectively learned, so that will go up. Overall, if you ask me, you should expect that the cost for sales and marketing should go up on an annual basis, on a yearly basis.

Deepak Chitroda: And my second question is about some thought process towards FY22, I am sure that it is very early to comment and obviously it largely depends on kind of a monsoon outlook we will have for the next year, but any thought process during that like what will be the demand outlook kind of a growth we are expecting because considering the very high base of FY21?

Sanjiv Lal: This we have discussed in the past also, if you look at overall agriculture in the country over the last many years, year-on-year, the food grain production has been increasing despite the vagaries of the monsoon and we have got multiple agro-climatic regions in the country, so while there may be stress in one part of the country due to drought condition or excessive rainfall, there is some kind of a balancing which thankfully happens in our country which has led to year-on-year increase in agricultural output and even if you see the growth of agrochemical, it has been about 8 to 9% in the past and this year it is because of all the support that has been given to this sector and good liquidity in the market, we are expecting may be 10% to 11% growth. So in a ballpark, I would say anywhere between 8 to 11% is the kind of growth that we can continue to expect year-on-year basis in this agrochemical sector.

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

Sanjiv Lal: Thank you, so on an overall basis, I would say that the Rabi season has been supportive of agriculture. We ourselves had a good outcome so far in Q3. The difficulty of our field teams actually visiting and engaging with the farmers has continued to be there. We do see some improvement in that situation going forward as the case counts in the country are becoming more manageable. We do also expect that the immunization program that the government is taking up will in due course of time bring us back to a level of performance where our people are able to move around more freely, but yes, there are certain learnings that we have all had through this digital approaches which have worked well for us and as again articulated by Nagarajan, we will be looking at a mix of both physical as well as digital interaction with our customers, both at the distributor level as well as the farmer level. I guess that is going to be the new way of working and I think it is something that even the farming community is getting used to, so we hope that this kind of hybrid model of engagement will continue in the future. We look forward to a good tailwind for the rest of the Rabi season and we will meet again in the month of April over a call for the financial performance for the full year. Thank you very much and back to the moderator.