"UPL Limited Q1 FY-19 Earnings Conference Call"

July 31, 2018

MANAGEMENT: **MR. RAJENDRA DARAK – GROUP CHIEF FINANCIAL OFFICER, UPL LIMITED**
MR. AJIT PREMNATH – CHIEF OPERATING OFFICER - GLOBAL BUSINESS, UPL LIMITED
MR. ANAND VORA – GLOBAL CHIEF FINANCIAL OFFICER, UPL LIMITED
MR. ASHISH NARKAR – SENIOR GENERAL MANAGER-FINANCE UPL LIMITED

MODERATOR: **MR. NITIN AGARWAL – IDFC SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to UPL Limited's Q1 FY19 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal of IDFC Securities Limited. Thank you and over to you, sir.

Nitin Agarwal: Thanks, Vikram. Good afternoon everyone and a warm welcome to UPL Limited's Q1 FY19 Post-Results conference call hosted by IDFC Securities. On the call today, we have representing UPL Management Mr. Rajendra Darak – Group CFO; Mr. Ajit Premnath – CEO-Global Business; Mr. Anand Vora – Global CFO; and Mr. Ashish Narkar – Senior General Manager (Finance) and other participants from the senior Management Team.

I handover the call to the UPL Management to take it forward. Please go ahead, sir.

Anand Vora: Thank you, Nitin. Good afternoon everybody. Welcome to the earnings call of UPL Limited for Q1 Financial Year 2019. Let me start with the key financial numbers for the first quarter. The gross revenues for the quarter ending June have grown by 11% from Rs. 3,723 crores to Rs. 4,134 crores. The gross margin is at 43.3% as compared to 42.7% last year an improvement of 60 basis points. In absolute values gross margin has grown by 12%. EBITDA margin at 20.5% of sales is a 40 bps improvement over corresponding quarter last year. In absolute terms EBITDA grew by 13% from Rs. 750 crores last year to Rs. 847 crores in this year.

In this quarter Interest and Finance charges were at Rs. 175 crores against Rs. 80 crores last year, an increase of Rs. 95 crores. Largely, the increase is on account of Foreign Exchange impact - against the gain of Rs. 50 crores in Q1 for the financial 2018, this year, for this quarter there is a gain of Rs. 5 crores thereby resulting in a higher charge of almost Rs. 45 crores. Rs. 39 crores is attributed to higher interest rate on working capital, interest cost on working capital and this was largely on the back of borrowings in Argentina, Brazil and India. Due to currency volatility in Argentina and Brazil we have opted to borrow in local currency resulting in higher rates of interest. In India there was a higher borrowing, largely because of funds having been blocked against GST receivables.

Consequently, the net profit for the quarter was at Rs. 510 crores (12.3% to sales) against previous year's corresponding quarter's net profit of Rs. 473 crores. The net profit has grown by 8%. If we analyze the sales growth and its components in the first quarter, of the total sales growth of 12% exchange impact was favorable by 3%, thus on constant currency basis the sales growth was 9%. Of the 9%, 1% was due to favorable price variance and 8% was on the back of strong volumes.

The breakdown of revenue by region is as follows. India had a growth of 12% from Rs. 1,118 crores to Rs. 1,248 crores. My colleague Ajit will take you through and give you details of the India growth story. Latin America has grown by 17% from Rs. 737 crores to Rs. 864 crores. Europe grew by 11% from Rs. 585 crores to Rs. 648 crores, rest of the world has grown by 6% from Rs. 601 crores to Rs. 635 crores. North America had growth of 8% from Rs. 681 crores to Rs. 739 crores.

Moving onto working capital performance in terms of day's sales, June 2018 versus June 2017, inventories have marginally gone up from 111 days to 114 days. Receivables have decreased from 114 days to 112 days. Payables were at 131 days last year, now they are at 134 days. So the net working capital which was 93 days as of June 2017 has been maintained at the same level for the quarter ended June 2018.

Debt levels as at end of June 2018 were as follows. The gross debt has gone up to Rs. 7,431 crores as against March 2018 number of Rs. 6,638 crores. The cash levels were at Rs. 2,725 crores versus March 2018 cash levels of Rs. 2,893 crores, so the net debt is at Rs. 4,706 crores, an increase of Rs. 960 crores as compared to that of March 2018.

As you all know, this is due to seasonality of the business, our working capital goes up during the first 3 quarters, so a large part of Rs. 960 crores can be attributed to the increase in the working capital by almost about Rs. 526 crores. In terms of the other cash flows, our cash generated from operations are roughly in the range of Rs. 688 crores for the quarter and this cash has been deployed for Capex of Rs. 391 crores. There has been a Foreign Exchange impact on the loans, which are outstanding, of about Rs. 269 crores and the rest is towards some of the other investments, advances and statutory receivables.

With this I will hand over to Ajit Premnath to provide the business update by region for Q1 FY 2019.

Ajit Premnath: Thanks Anand. This is Ajit here and I will try and give some color to the numbers that you just heard. So, as Anand already mentioned that our sales grew by 11%, Rs. 4,134 crores compared to Rs. 3,723 crores last year in the same quarter. All the regions have contributed with growth ranging from 8% to 17%. The Indian business grew from Rs. 1,118 crores to Rs. 1,248 crores with a growth of 12%. Monsoons in India have been quite widespread, covering almost the entire country by now. By June end the planting was slightly behind normal, about 22% behind normal which picked up in July and got completed in most regions.

As it stands today I think except North East and some eastern parts of the country, monsoon coverage has been excellent. Cotton area is projected to be lower by 10% over last year, while Kharif pulses were lower by 15%. These crop areas have been replaced mainly by Corn i.e. Maize and other crops like Jowar in Punjab. Overall crop stand is pretty good. Higher MSP announced by the government has been very timely and is expected to encourage farmers to maximize production and use necessary inputs to get best yields. Our 1st quarter growth has been driven by key brands like Ulala, Iris, Saaf, Dost Super and Eros.

Successful placement and initial consumption is very encouraging. We also launched Sweep Power, a non-selective herbicide to manage resistant weeds and provide an alternative to Glyphosate and Paraquat. Initial response has been very good. Overall our herbicide portfolio in India had a growth of 60% over last year.

In Latin America our business had a growth of 17% with sales at Rs. 864 crores compared to Rs. 737 crores last year. All the key countries have contributed to the growth, with the exception of Colombia where the first rice season has been very poor due to reduction in rice acreage by about 30%. That is because the country was carrying very high inventories of rice and the prices were too low. This had an impact on our rice herbicides portfolio. We expect the second season to be normal. Advance order bookings in Brazil is also very encouraging which indicates that the market is not carrying excess inventory as was the case last year this time. Several new registrations were received in Colombia, Ecuador, Peru and Mexico which will strengthen our portfolio in these markets. Our sunflower seed business also had a significant growth in Latin America which is Andean region and Mexico. Currency devaluation in some of the countries in Latin America has been a challenge. We are adjusting prices as much and as quickly as possible given market conditions and competition.

Business in Europe had a growth of 11% with sales at Rs. 648 crores compared to Rs. 585 crores last year. It was yet another successful sugarbeet season with high in-season sales and low closing inventories which augurs well for the next season too. UPL has a very strong presence in sugar beet with a very broad portfolio of herbicides and this benefited from the positive market situation. After more than a year of dry weather around the Mediterranean, good rains were received and this improved the outlook for our business in Spain, Southern France and Italy on fruits and vegetables mainly. North Europe on the other hand had a very short spring with a very long winter turning into summer very quickly. This affected wheat and all seed crops. Poor disease pressure led to drop in fungicide consumption and trade is carrying significant amount of inventories. Yields are also expected to suffer due to this unusual weather during the growing season. Overall the European market had a decline of 10% in this quarter.

In North America our business grew by 8% from Rs. 681 crores to Rs. 739 crores. Due to late rains and planting in mid-west were delayed by about 3 to 4 weeks, this affected use of pre-plant herbicides and pre-emergence herbicides. Market is carrying higher than usual inventory for these products. Cotton planting is up by 10% while Soybean and Corn area remains flat at 90 million acres. UPL growth was driven by Lifeline, Penncozeb, Microthiol and Tricor. And business of grain Sorghum also had a growth of 20%.

Moving on to the ROW region, in Africa we doubled our sales over last year. Several new registrations were received in various countries. Wide spread rains in South East Asia helped us grow our business in this region. Growth is mainly coming from Insecticides and Fungicides segments in Indonesia, Vietnam and Philippines. Australia is reeling under severe drought conditions which has affected business. Winter crop is now completely lost, and we hope that with rains during later part of the year, we should get normal summer crop plantings. But it all depends on rains during the latter part of this year.

Assuming normal weather conditions going forward we expect good demand in LATAM for the forthcoming season. Consumption in key crop segments in India is proceeding normally and continued monsoon activity in August will ensure successful Kharif season. Supplies of select products continues to be a challenge due to shortage of raw material and intermediates. This coupled with increase in cost and risk of currency movements will continue to put pressure on margins. We are continuously monitoring this very closely and making all efforts to pass on cost increase to the market as much as possible, but the challenge remains. Thank you.

Anand Vora: Thanks, Ajit. With this we will open up for Q&A.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

We have our first question from the line of Lakshminarayan Ganti from SBICAP Securities. Please go ahead.

Lakshminarayan Ganti: I have three questions. Firstly, if you could give us market growth rates in LATAM, India and North America, if you have that information?

Ajit Premnath: In LATAM, this is not really an active consumption season. It is more in the key markets, it is more order bookings, some pre-placement and readiness for the season which will start in September-October. Therefore, the market growth numbers for the 3 months that have passed are not really available but definitely it has been a better situation compared to last year, since the inventory levels were much lower than it was before.

In North America, the market growth would be in single digits, that is essentially because of delay in the season by 3 to 4 weeks as I mentioned, plantings were delayed in the mid-West region where you have the row crops, this has really impacted the use of herbicides especially the herbicides which are used at planting or before planting. And the market is picking up now, but due to late sowing the season will be short, and we do expect that the market growth will be small, should be in the single digits or low single digits.

India has started off very well. I think we will have a double-digit market growth in India during the last 3 months and we expect this Kharif season to be really very good.

Lakshminarayan Ganti: And second question is that you talked about registration growth in Mexico and some other countries like Peru, Ecuador etcetera. Did some of them contribute to this 17% growth or would you see them come through in the next 2 or 3 quarters? And also, an associated question with this is that given the Brazilian Real decline against Dollar how did you manage this 17% growth? They were parts were favorable but some that are not. So, can you give us a flavor of the quarter that went by?

Ajit Premnath: In terms of registration, some of these markets are pretty small like Peru, Ecuador and all, but the registrations are of significant to us because it really gives us a portfolio strength to attract good distributors. So, in that sense it is very significant. The dollar value of each of these registrations may not be huge but cumulatively they really make an impact and these registrations have come during the quarter, so we see the business, let us say coming out of these registrations going forward.

Anand Vora: On the currency basically, our observation or our experience has been when currencies are weak, local currencies are weak, the farmers are having good expectations because most of the products produced are exported and therefore they have better realization coming through. And as Ajit mentioned this quarter is largely placements which are early placements which we do and the weather is expected to be normal, based on whatever predictions are available. So, the currency decline, good weather is something which has helped, it is encouraging distributors to take the products early and we have been able to place them and that is what is driving the growth essentially during this quarter.

Lakshminarayan Ganti: So, can we expect similar kind of growth trajectory for the next 3 quarters from LATAM, despite all the currency related noise or trade war related, all that, that is happening across the globe, how do you see that part of the business get affected, favorably or negatively? So, many moving parts are there?

Ajit Premnath: Yes, exactly so many moving parts. What will be very important is the weather. I think it all depends, if the weather is normal we expect the season to be good. The commodity prices, Soybean prices might have dropped in dollar terms, but Brazilian farmers are quite happy because the local currency they are still fine and they would be looking at maximizing their returns.

So, I think we do not see too much of a challenge there, but the cost increase that we are experiencing I think we will have to pass it onto the market and that could be in certain situations a challenge, and that is where we are actually putting all our attention to. Early order booking, really indicates that the market inventories are under control. And that is good news at this point of time.

Anand Vora: And we believe that trade war if at all would benefit Latin America, because they have the produce, they have the acreages and they should be able to export to China or anywhere else which US may put restrictions if at all.

Moderator: Thank you, sir. We have the next question from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: Anand, if you can mention what could be the breakup of currency and volume growth in Latin America?

Anand Vora: We do not share region wise. We give it at an overall company level.

Aditya Jhawar: And secondly this order book that Ajit just talked about, essentially if you can help us understand what is this order book is? Is it a firm commitment of distributor or what exactly is this?

Ajit Premnath: These are orders placed by the distributors, where they indicate that they will picking up the stock at a later date. So, these are confirmed orders and unless there is a disaster in the market place the distributors are committed to pick up these volumes.

Aditya Jhawar: You also mentioned that there is a little bit of overhang of inventory in North America, is it more skewed towards our portfolio, essentially herbicides, and it could have an impact for how long? Couple of quarters or little bit more?

Ajit Premnath: So, we do not have that impact, but we play in the post emergence herbicide segment for which the consumption is going on now and we expect that segment to be fine. Whatever products are now in the markets which are pre-emergence use, they will actually have a stay in the market place till the next season next year. So, they will get consumed only in June 2019 really.

Aditya Jhawar: One last question to Anand. So, if you look at your standalone gross margin, there is a significant decline in gross margin, almost by about 600 or 650 basis points on a YOY basis. If you can you help us understand this?

Anand Vora: It is a product mix story largely.

Aditya Jhawar: What is your take on China issue? Earlier we had indicated that we are increasing our backward integration and reducing dependence, so are we seeing incremental more pressure coming in from China and how far we have been able to backward integrate?

Anand Vora: As we mentioned earlier in our previous call, I think we have put in substantial assets for intermediates on the ground. We are seeing the benefits of it through cost reduction, at the same time ensuring regularity of supply. In some product there has been some easing of pressure from China, but then largely till most of the products we still see costs for imports for us or prices are higher and clearly putting up our own intermediate capacities and other things in place shall help us to ensure regularity of supply and we do not have to depend on a Chinese vendor.

Moderator: Thank you, sir. We have the next question from the line of Saurabh Jain from HSBC Securities. Please go ahead.

Saurabh Jain: Again, on the China raw material issue. Even if we are able to manufacture the intermediates in house how would we be sourcing the basic raw material? Would it still be linked to the raw material sourced from China or is it complete decoupled from China issue or there will be some kind of a dependency on the prices?

Anand Vora: Most of these raw materials are from global sources, they are not dependent on just China, these are either chemical derivatives or they are phosphorus-based products which can be sourced from different geographies. And some of them are downstream products from the oil refineries, so that can be sourced from anywhere. Even China sources these raw materials from other countries.

Saurabh Jain: Can you help us with the broad mix of what will be the geographic exposure of sourcing these materials? I mean some indication in that sense?

Anand Vora: It could be Eastern Europe, US, India some of the Middle East countries for crude oil downstream products. I think we also get something from Indonesia and Thailand refineries, so it is a mix. It is a very diverse mix of geographies, it is not dependent on one country.

Saurabh Jain: And you mentioned that the debt has increased in the current quarter and the working capital usually goes up for the first three quarters, so what would be broad guidance? Would we see the debt further increasing from here?

Anand Vora: Basically, working capital as you would see it historically over the last 2 or 3 years or even more if you go back. Quarter 1 is largely India, as well as we start production for shipments into Latin America, Quarter 2 is largely Latin America driven where again the working capital needs go up because of the inventory built up there, as well as some selling which begins. As you know in Latin America sales are at a longer credit period, so it extends up to Quarter 3 and typically in Quarter 4 is when we see most of the cash being collected.

Also, while US and European markets do also pick up but these are on short duration, so typically our working capital comes back to around 90 days levels by March, but it peaks to almost about 125 to 130 days in December quarter, so you will see a gradual upswing in working capital as we move further into the financial year.

Moderator: Thank you very much, sir. We have the next question from the line of Vishnu Kumar from Spark Capital, please go ahead.

Vishnu Kumar: You did mention in the opening commentary that the price pass through is bit challenging in certain markets. If you could just give us a flavor on this and which markets we are finding it difficult? Have we passed on the entire costs in 2Q?

Ajit Premnath: Our effort has been to pass on the cost to the market and as you can well imagine that due to competitive pressures, market inventories the success rate can vary. And therefore, it is a continuous process. The cost increases also have not been just one or two increase, in certain products it has been a continuous increase and we have been trying to continuously increase our price to catch up with the cost and this has been a challenge in certain markets and specially when it is a pre-season and also when the devaluation is too strong. But when the season starts, when the consumption starts, when the grower needs the product and the distributor needs the product then it is relatively easier to pass on the costs, because the product is required for consumption.

And if it is pre-placement then of course a lot of discussion will happen because there is no hurry, right? So, our ability to increase the price for example we have been pretty successful in Indian market to pass on the cost but some of the other segments where we are pre-placing the stock, there the difficulty levels are higher.

Vishnu Kumar: Is it fair to say that when we pre-place a product we will indicatively sell it to a distributor at a certain price and upsides or downsides will be adjusted later, once the product is kind of sold in the market?

Ajit Premnath: Yes, that can only happen in case of extreme situations, but small fluctuations you have to service the orders.

Anand Vora: What we built in is the currency impact, particularly if it is in some of the countries of Latin America, we consider the forward premiums then accordingly change the price, adjust the price.

Vishnu Kumar: So, when you say the inventory days is above or below in terms of suddenly we say the buildup is happening of that sort, could you at least for the key markets give what is an ideal inventory days say in months or a percentage of annual consumption, roughly let us say 25% of annual consumption would be the inventory of say 3 months any broad indication at least for the key markets?

Ajit Premnath: 10% to 15% levels is normal inventory level in the market place. Anything more than that would be abnormal and would be considered high.

Vishnu Kumar: So, 10% to 15% would be roughly about 50 days from our perspective or let us say from the crop days you are saying I mean 10% to 15%?

Ajit Premnath: Yes, it is crop days, it all depends, if you have before the season 15 days may be low, for after the season 15 days, I do not know but 15 days of let us say crop seasonal consumption would be okay.

Vishnu Kumar: So, 15 days of rough annual seasonal consumption of the crop.

Ajit Premnath: Yes, crop cycle consumption. Because you know you have a channel inventory, in many markets you have distributors, dealers and then the grower, so at each level you can have some inventory.

Vishnu Kumar: Is it possible to give a rough indicative plant utilization for our manufacturing facilities?

Anand Vora: That is a bit tough, because you know, we do have plants which are for multi products and there are some which are dedicated plants. It could vary from plant to plant, so it will not give any correct indication, in some cases 100% utilization, in some cases 80% and so on. So, it is difficult to say

Vishnu Kumar: Sir, final question on the guidance in terms of the full year guidance any changes both in terms of revenue, EBITDA margins and CAPEX?

Anand Vora: At this stage we are quite confident of delivering our guidance.

Moderator: Thank you, sir. We have the next question from the line of Sumant Kumar from Motilal Oswal Financial Services Limited. Please go ahead.

Sumant Kumar: My question is regarding seeds business. So, how is the performance of seeds business on consolidated level as well as geography wise?

Anand Vora: Seed business continues to do well. It has delivered double digit growth and we are on track, what we had indicated earlier. Region wise, I think US continues to do better, we had a good year because of Sorghum, there is some, I was told, duties are going to be, part of the trade war where they are going to put some duties, so there was a huge demand for Sorghum into China, people were just talking before the tariffs come in place.

Indonesia and Thailand continue to do well. India had a very good beginning because of good monsoon we are seeing some very good traction in vegetable seeds and also in some of the row crops. In Latin America also, particularly Argentina, we saw some good demand for Sunflower. So, overall we continue to remain upbeat and I think the business is doing well and in good shape.

Sumant Kumar: So, what is the contribution for the quarter for seeds?

Anand Vora: It is in the range of 10% which is there. 10% of our revenues would be coming from the seeds business.

Moderator: Thank you, sir. We have the next question from the line of Prashanth Tiwari from SBICAP Securities. Please go ahead.

Prashanth Tiwari: Actually, my question is more related to the standalone numbers. So, standalone it looks like you have done very well this quarter, but if I take out standalone from consolidated, it looks like international operations PAT and EBITDA have declined. So, standalone YOY there is a difference of Rs. 50 crores but in consolidated there is a difference of Rs. 20 crores. So, I guess the international business has declined. Is that the right way to think?

Anand Vora: No Prashanth, do not do these comparisons, it will be misleading, and it will get very confusing for you. We do not encourage you to do these sorts of comparisons. Q1 obviously because India standalone will have largely India numbers, and as Ajit mentioned it is early placement in Latin America and really US and Europe has not even kicked in during this time. So, as you would appreciate we would have certain fixed costs and other things which we would continue to incur, also the inventory movement, we will produce in India and push the material into Latin America. So, I think that comparison is not right, and we can only request you avoid doing those comparison, but it would be misleading.

Prashanth Tiwari: But can I say that the increase in margins it might be partially due to increase in exports? Can you give me some numbers, like if exports from India have increased YOY?

Anand Vora: As I mentioned, the placements would have begun, that is a fair assessment. Also, it is a function of some of the, see there are several factors. There could be India product mix, which is there we are able to sell more of our, I would say high growth molecules, which have much better margins. There could be more exports which also contributed to this, there would be some of the cost management which we do and also the currency impact. All those things would be having a play in this, so preferably you should look at consolidated numbers.

Prashanth Tiwari: One final thing, gentlemen. Have you changed the source in any of your customer markets, like in your registrations have you changed your source from China to India any such iterations that you have made?

Anand Vora: No, see we always keep multiple sources, so India will always remain one of the sources in most of the markets where we sell, and we keep adding. So, in certain cases we have China as the source, in certain cases we have source as some of the other plants in Europe and Colombia also now supplies to some of our markets in Latin America. So, as far as possible when we do any, the old registration will always have India as a source but any other fresh registrations we do we typically try to keep source as many locations as possible so that we can switch depending upon the need.

Moderator: Thank you, sir. We have the next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: Just few questions. So, just a few questions. First of all, what is the inventory situation in Brazil, so actually the growth that you have reported in LATAM seems to have kind of done much better than what we had seen in FY18, so is the inventory normalizing, how is it?

Ajit Premnath: That is right, that is what I mentioned, that it indicates the inventory is normalizing because the same quarter last year it was lower so that is how we have and last year we knew we had seen that some opening inventories at this time of the year were high.

Amit Murarka: Have we reached the normal inventory situation?

Ajit Premnath: Yes, I would say yes, in most products yes.

Amit Murarka: And, so regarding Glufosinate what is the update? That was a product that was doing well last year for you?

Ajit Premnath: We continue to do well. Our biggest markets are in the US, North America and the product continues to do well, and it is growing, and we have also introduced the product in some Latin American markets. We are also selling in Brazil and we launched the product in India and it has been received very well. So, we are introducing the product in new markets, we have also introduced in certain African markets and so, as the registrations are coming in, we are expanding the footprint of Glufosinate.

Amit Murarka: And I believe you are expanding capacities as well on that product so have they come on-stream now?

Anand Vora: Yes, this September we should have the increased capacity going live.

Amit Murarka: Okay fine and just on Sinagro there was a change I believe in management, so what is the expectation now and profitability there because that has been a bit of a drag, actually every year we see some losses coming out of there?

Anand Vora: I think, yes you are right, we have changed the management and we expect this year to break even and if the weather and everything remains better then maybe we should make some small profit, but we remain very confident with this change in management. We have very good new CEO and CFO and they are all working closely to ensure the company delivers on their budget estimates. The new management has positively come up with solutions on how to improve the profitability and we remain committed to them and see how we can improve the margins.

Amit Murarka: I missed the gross and net debt number that is all?

Anand Vora: Okay here we go. So, the gross debt is at Rs. 7,431 crores and the net debt is at Rs. 4,706 crores.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Just a couple of quick clarifications on the working capital and the debt. So, one is I think last year in the June quarter we did not seem to have much of an increase in the debt actually on a sequential basis. The net debt I think it was kind of flattish at the rate of Rs. 400 crores or so, if my numbers are correct. So, I just wanted to check if there was any reason why last year was so much better in terms of the seasonality and why it is kind of deteriorated this year?

Anand Vora: I do not think it is deteriorated, Abhijit. I think last year India was a bit subdued as you are aware, so was Latin America a bit subdued. We have seen some very good traction this year so if you see the increase in working capital also is higher this year compared to last year. While the number of days it still remains the same but in absolute terms it is higher. And so, I think we are quite okay with this and then I did mention that we have this situation in India particularly on the GST part, where we have seen close to about almost Rs. 300 crores, Rs. 350 crores extra being blocked for a slightly longer period although we are now seeing some refunds and other things coming in.

But this we are seeing it happen largely because one thing which has changed is on our imports. Earlier, while importing material under Advance License – duties were exempted. Post introduction of GST, such exemption is no longer available. Now, we need to pay IGST on all our imports even if those products are being imported to manufacture products which have to be exported. Then we have to claim refund of such IGST. So, that is one change which has happened, and which is resulting in blocking some working capital. So, those are a couple of contributory factors, otherwise I think we are seeing it fairly usual.

Abhijit Akella: So, by year end we should see sort of see the unusual seasonal wind down right?

Anand Vora: Absolutely.

Abhijit Akella: In terms of year ending debt, would somewhere between Rs. 4,000 crores to Rs. 4,500 crores of net debt be a decent number, or could it be even better than that?

Anand Vora: Yes, I think we would be targeting same levels as last year 31st March if not better. We will work towards seeing how we can better that number, but I think definitely at the same levels is what we would target for.

Abhijit Akella: Right. And just on the working capital days when I look back at last year's June quarter presentation I think we had reported the 1Q net working capital days of 100 days. Now this quarter it is showing 93 days for last year. So, any change?

Anand Vora: Yes, we have done one change and that is now from this year we are now going back trailing twelve months sales. Earlier what we used to do is based on our quarter we used to annualize the sales for the full year and then arrive at the number of days. What we have now changed is, we go with the trailing twelve months sales and based on that we arrive at the number of days.

Abhijit Akella: Okay and finally the raw material cost inflation, does that sort of impact your margin guidance at all for the year or not really?

Anand Vora: Well, it is always our endeavor to pass through this, and as we shift more and more towards branded products, we have been successful in doing it. Where sometimes challenge happens, and which is what happened last year is where if there is just too much inventory in the channel and competitors also face the same, that is when we face some challenges of increasing the prices.

But as you would have seen last financial year the first three quarters we did not see any movement. In fact, there was no price increases. But in the last quarter we did manage to bring in some price improvements, as I mentioned when the channel is light and if there is not enough inventory then we are able to take the price increases. So, it is typically a pass-through is what we work towards.

Moderator: Thank you, sir. So, we have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, the interest rate for the first quarter seems to be about 2.4% on the gross debt, should we annualize at 10% with slightly increasing gross debt over the next three quarters, is that how we should think about interest cost for the full year, sir?

Anand Vora: I did not get your 10% you said 2.5% so?

Chirag Dagli: Sir, 2.5 for the quarter on the gross debt into four, so is that how we should think about this for the full year, with marginal increase in gross debt?

Anand Vora: See, the exception this time has been because of this Argentina and Brazil, where it is largely because of Argentina and I do not see that recurring, those higher interest costs. As you know, we have also raised funds at fairly competitive interest rates or I would say relatively cheap rates. In this quarter, we are seeing the distortion largely coming and that is why I thought of including in my opening remarks.

Chirag Dagli: That is at Rs. 39 crores so ex of that Rs. 39 crores is how we should think about that?

Anand Vora: That is right, that would be better, we are obviously working towards taking corrective measures in Argentina and some of these other markets.

Chirag Dagli: And sir, this cash level of Rs. 2,500 crores - Rs. 3,000 crores post your Arysta merger, I do not know if you can comment but does this absolute level of cash required for the base load of business, does this increase meaningfully?

Anand Vora: I do not think so. I think we need to work towards bringing it to half of it, now that the event has occurred and in the past we used to always maintain some war chest for our acquisitions. I think we will need some of these cash which we have raised at the appropriate time which has helped us to borrow I mean I think today we have one of the best rates as far as our borrowing rates are concerned. So, we should be working towards bringing to at least half of where we are, that should be our goal.

Chirag Dagli: Half of where we are on a current?

Anand Vora: Today we have about Rs. 2,700 crores of cash, so bring it down to about Rs. 1,200 crores to Rs. 1,300 crores.

Chirag Dagli: Okay and this we should see over the next twelve months?

Anand Vora: Yes, I guess that should be the number we should work towards.

Chirag Dagli: And this is the last question if I can squeeze, is there an estimate of the kind of price hikes that are required in India to pass on the technical price increases?

Ajit Premnath: So, in India I think at this stage we have passed on the cost increase to the market already. It is middle of the season and unless there is a big change in the cost again we do not expect the prices to go up further. I think we have passed on the cost that went up.

Chirag Dagli: What has that entailed in terms of kind of price hikes, 2%, 5% if you can quantify?

Ajit Premnath: It depends on the product, but the price hike would be 5% to 10%.

Moderator: Thank you. We have the next question from the line of Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: So, I have one question on the LATAM growth. Can you just give some flavor on whether it was uniform, so whether Brazil was also similar 17%, 15% plus range as other markets or did any one region significantly outperform the other?

Ajit Premnath: I think there are several countries which contributed but Brazil is a heavy weight, so yes you can imagine that Brazil growth rate would be good. But also, we had growth in Mexico, in Central America and in the south cone which is Paraguay, Bolivia. So several markets have contributed but yes Brazil is the heavy weight.

Prashant Nair: And my last question is for the full year what effective tax rate should we work with?

Anand Vora: I think 15% to 18%, Prashant, should be a reasonable tax rate.

Moderator: Thank you, sir. So, we have the next question from the line of Nihal Chand from Edelweiss. Please go ahead.

Nihal Chand: I think at the start of the call you mentioned that the ideal inventory for cropping cycle is something around 15 days, so in the LATAM region is there an understanding of what that figure was like for last year?

Ajit Premnath: 10% to 15%, that is what is the crop cycle consumption.

Nihal Chand: Sure and what was the figure like for last year if you could just give a sense?

Ajit Premnath: It will be much higher, it would be at least 25% to 30% probably in some segments of the market, some large segments, so that is the big number actually.

Nihal Chand: So, just continuing on the LATAM region I think you mentioned that the currency depreciation along with the increasing raw material prices, you have taken pricing increases. So, is there possibility of taking further price increases in case there is further devaluation that happens?

Anand Vora: I mean see, the price increase there are two things, one is the local country will keep adjusting depending upon where the currency is, I mean most of the products are imported there so it is not very difficult to take the price increase. I think the other piece was, the price increase is coming because of cost pressures. And that is where we have been able to successfully now do it; we had a bit of a struggle last year because of channel inventories; but this year we are seeing most competitors or most players in the market taking the price increases and we of course have also pushed for price increases.

Ajit Premnath: LATAM has hardly any manufacturing, so everybody gets impacted by the cost increases and currency devaluation. So as long as the inventory is under control, the price increase or cost passing on in terms of price happens. So, only when there is too much inventory that you have difficulty in passing on the price.

Nihal Chand: Absolutely, sir just last question on India. I think in our commentary that is the other region where we are really confident of growth being strong. So, we have mentioned about the increase in MSP and how farmer income is being a driver, but other than that what are the other reasons that are making us confident of a good season in India also?

Ajit Premnath: So, monsoon is very important for India and that is really the number one thing because if the rains are not good you cannot do anything, so farmers are really dependent on rains. And as you know that monsoon has been good in most parts of the country and that is the crops stand today is excellent, so as long as the crop is in the field, rains are happening, the farmer is willing to spend and keep his crop healthy. So, I think we have this situation in most parts of the country. So, that gives us a lot of encouragement and August is a critical month, of course, and if there are enough rains to just keep that momentum we should be through Kharif season.

Nihal Chand: And you expect your herbicide portfolio only to drive this growth for the coming part of the year?

Ajit Premnath: No, the herbicide really goes early part of the season more and now it is insecticides and fungicides, August-September.

Moderator: Thank you very much, sir. We have the last question from the line of Rishabh Bothra from Sharekhan. Please go ahead.

Rishabh Bothra: Just want to understand, there has been a 3% favorable currency impact on revenues. Can we quantify the same on EBITDA and PAT as well if possible?

Anand Vora: No, that is a tough one, because we would have certain imports which we do in foreign currency, then some of the expenses would happen in local currency, so this keeps varying from country to country, so it is very difficult to estimate.

Rishabh Bothra: But other way around if the 3% impact on revenue that would totally flow down to profits, is it correct to assume?

Anand Vora: No, that is also right.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nitin Agarwal of IDFC Securities Limited for closing comments. Over to you, sir.

Nitin Agarwal: Anand, you want to make any last comments?

Anand Vora: No, I would just like to thank everybody for joining us on this call. And if there is any further questions, feel free to reach out to Ashish Narkar or myself and we will be happy to answer those questions. Thank you once again, Nitin. Thanks IDFC for hosting us for this call.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of IDFC Securities Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.