

Rallis India Limited

Q3FY16 Conference Call Transcript

Moderator:

Ladies and gentlemen, good day and welcome Rallis Q3 FY16 Results Call of Rallis India Limited hosted by Emkay Global Financial Services. We have with us today Mr. V Shankar - Managing Director & CEO; Mr. K. R. Venkatadri - Chief Operating Officer and Mr Ashish Mehta – Chief Financial Officer of Rallis India Limited. As a reminder all participants' 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. Rohan Gupta – Senior Research Analyst of Emkay Global. Thank you and over to you, Mr. Gupta.

Rohan Gupta:

Good afternoon, ladies and gentlemen. On behalf of Emkay Global Financial Services I welcome participants logging in for the conference call of the FY16 results. As always a special thanks to the management for giving us the opportunity to host this conference call for our client and I welcome board all the gentlemen on the conference call. Sir, first I will request you if you can give us a brief on the quarterly results and also if you can share some industry updates and then we can follow it up with Q&A session. Over to you, Shankar sir. Please go ahead.

V Shankar:

Very good afternoon to all of you ladies and gentlemen and it is always a pleasure connecting with all of you on such conference calls.

So I will take you through the Q3 performance and results of Rallis. As all of you know this was a very extraordinary quarter. Q3 actually bore the brunt of the failure of the Kharif season and got sandwiched with the poor pick up or poor run up to the Rabi season. So as a result the kind of activities and the normal business which happens during this period got impacted. Our consolidated revenues were to the tune of Rs. 306 crores against previous year of Rs. 385 crores. Net profit after minority interest was at Rs. 20 crores versus Rs. 25 crores of the previous year.

So both topline and profit have been down 20% quarter-on-quarter. Now if we pause and take a look at the domestic season the year 2015 it was the first back-to-back deficit in southwest monsoon and northeast monsoon while you are all familiar with the details of how southwest monsoon fared and how after an initial tantalizing start in June how July, August and September in serial terms one was worse than the other. The northeast monsoon also has been deficit by 23%.

In fact throughout there have been long dry spells in the key Rabi states which have impacted the Rabi cropping and key crops such as paddy, pulses and so on.

When we look at the geography it is key geographies such as Maharashtra, Telangana, Andhra, West Bengal, and Karnataka have been impacted. The positive has been in Tamil Nadu where of course the state and Chennai city went through a different kind of harrowing experience. Sowing of crops as a result has been quite slow to pick up due to low moisture conditions and below normal reservoir levels. So at the start of the rabi season and typically post the southwest monsoon we start off with reservoirs and canal water availability of reasonable level to go for the commercial rabi cropping. This time the reservoir levels were at 60% of what we would consider as a normal and

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it was, far below when you look at the levels in last year or if you look at average storage. Of course with the live capacity it was much, much lower.

So all this had delayed sowing and as I speak overall sowings are down by average may be 4% to 5% paddy is down 4%; wheat is down by 6%; oil seeds are down by 4%. Irony is while pulses because of some of the high prices of pulses which we buy from the market the acreage did pick up but the crop condition is quite poor due to lack of moisture particularly.

When we look at kharif all this adverse conditions have very badly affected crop growth and yields and the water deficiency has very, very badly affected the output of key crops. So when we look at farm incomes which is a combination of the yields and the prices if we actually take a comparison between the yields of say 2013 and 2015 of the key crops we will find that there is a sharp variance in terms of the yields. Say if you take cotton for example if 7 to 9 quintals per acre is what we would consider a good yield so there have been areas where it has been in the North 1.5 to 2 quintals in other places may be 4 to 5 quintals; Maharashtra for example 3 to 4 quintals. So there has been a very sharp drop in the yields and therefore it is really affected the kharif cropping.

Added to that typically when you have a shortage in economics prices do tend to go up but in this case lot of crop commodity prices also the year were low. So when you look at the prices they have also been low. So combination of low yields and low prices have actually led to a sharp drop in the farm incomes and in some cases have even been negative.

For example cotton, soya we have tracked in some places have been negative. Some costs have risen for example irrigation cost for the farmers so it is a combination of all these factors which have led to a quite a squeeze for the farming community. When we look at the international markets which I have said earlier also Brazil and US the two big markets in the world Brazil agrochemical market in fact plunged in dollar terms by almost a quarter (23%) in 2015. And Brazil as we know is reeling under one of its worst drought in the last 80 or 100 years and which affected the wheat harvest; it is delayed planting in Argentina, Brazil in that part of the world.

There has been the currency devaluation also which is affected pricing. So inventories have been quite high in those markets; consumption has been down and seriously affected demand. If you look at the US the surpluses in corn, soybean have really put a pressure on prices. In fact in some places it is below the cost of production even and therefore the proportion of agriculture debt-to-income is one of the worst in many decades actually. It is estimated that the US farm income fall by 38% in 2015 to almost a decade low figure the USDA figures and this is led to the farmers taking a call on what type of product they want to use if they want to use products and there are large back-to-back inventories of major products and quite a sharp contrast to what has been happening over the last few years.

So both in domestic and international there have been these extraneous factors which have impacted the performance. So when we look at the seed business also for Metahelix in our case the seed business also has been impacted by these weather conditions and in addition what happens during this quarter is in a regular year there are some government business which also happened in some states which did not happened this year. Some of those other crops which should have gone of well in the second quarter and did not go of well that impact came in the third quarter.

The good thing is that the new products we have introduced on rabi maize got very encouraging response. We have also made some progress to move forward in the vegetables part of the portfolio. Typically third quarter for us in Metahelix is a negative and last year we had a loss of Rs. 10 crores. This year we have improved a bit. It is about Rs. 9 crores or about Rs. 8.5 crores loss and if the season would have been at least close to normal it would have been much better.

So as a result of this re-estimation of the whole thing the cumulative for the 9 months the income tax which we had provided for considered for the first half this quarter did not warrant any additional income tax provision. So to sum up therefore the quarter 3 performance and results actually bear the impact of the kharif setback overall in the country and true to our style we have been a bit cautious also. So wherever the season has ended we have taken a call on stocks, debtors etc. and rabi also given the slow start we have been cautious on the market placement and we focused on the quality of operations. So resulting there from one good outcome we have

had is with our focus on cash and collections. During the 9 months our cash generated from operations is significantly better than last year. It is something like 30% better than last year.

And in these prime times it is very important to keep control over the fundamental stocks, debtors, credits etc. while we are today not as good as we used to be on working capital still I would say that our focus does continue and we still need to improve on this front. But given the overall context and conditions I think during the quarter given these trying times the kind of collections we have made from the market is I would say commendable performance by the team.

Before I close I want to share couple of other very good developments. The first one is we are really, really proud and delighted that we have commissioned the solar power plant in our Dahej facility and this is a 4 megawatt power plant solar green power generation which will cater to the requirements of two of our big factories in Gujarat in that area. One is in Dahej the other is in Ankleshwar and it is a first time model it is through long term open access mechanism and this green energy will be for captive consumption. First of its kind in Gujarat and of course in our industry it is the first.

I am happy about this as it is one more definitive step on the path of sustainability which we are committed to which is integral to our strategy. And this will cater to bulk of our requirements from those two units and therefore considerably reduce not only our dependence but usage of conventional power and therefore it is very good for the environment using this renewable source of energy. So we have laid it out in about 20 to 25 odd acres in Dahej and invested about to the tune of about Rs. 30 crores in this facility.

While I kept highlighting the sustainability aspect which by itself is a very noble and laudable objective but which is also important for me to say that it is also from an economics point of view does make sense. So the whole thing does have an IRR and it is not purely on the basis of a community led initiative.

The other one I wanted to also mention and as one of our important stakeholder partners you will be happy to know that we were recognized by the Institute of Company Secretaries for good corporate governance as part of their corporate governance awards assessment. There is a 7 stage filtration or assessment process and Justice Venkatachaliah along with a jury of almost 20 member team did the assessment and we got this certificate of recognition for good corporate governance practices.

As I close just want to make a quick mention that we suffered a back-to-back drought as we say that it is the second or third time it is occurred in the last 150 years the kind of weather variations we have seen many of those statistics are knocking at essentially old milestones including the floods in Chennai and recently we say that this has been the warmest winter in the last 114 years. The forecast is that it could be a El Nino year and hopefully we will get may be a normal monsoon or close to that.

Some of the crop prices are also looking up and overall as the sandwich quarter is also behind us we look forward to some of these head winds clearing up as we look in to the next period and the next season.

Thank you very much and I would love to take questions and discuss any other detail you would like me to.

Moderator:

Thank you very much. We will now begin the question and answer session. We will take our first question from the line of Nitin Gosar from Religare Investment. Please go ahead.

Question and Answer Session

Nitin Gosar:

On the domestic agrochemical market you did mentioned about the sectorally the kind of situation the overall sector was going through. But just wanted to understand like if I were to compare the first half number for most of the companies in agrochemical that are in the listed space and if I see your numbers we see a sharp difference in terms of the way they are growing and the way you are growing. What is your assessment where is the slowness in your portfolio or is it more to do with the reported number because you also report the export numbers together?

V Shankar:

You have made a generic statement so I do not know what exactly you are referring to. I can comment on our numbers and our performance. Yes, we do report consolidated numbers. The standalone numbers are also available without Metahelix. And the consolidated numbers reflect mostly the Rallis plus the Metahelix. So we do see the seeds numbers separately and the Rallis numbers comprise domestic we have international and certain other parts of the business.

Nitin Gosar:

My question was more pertaining to the standalone numbers which is much more to do with the agrochemical business where you have domestic operation plus exports. It is tough to segregate out on quarterly basis or half yearly basis but if I were to compare your number on first half basis and vis-à-vis the industry numbers that we are out on first half basis. There was a sharp difference in terms of the reported growth. So would like to get a further analysis from your side like are we losing on market share or is it more to do with the export market which was degrowing sharply?

V Shankar:

You cannot paint with one brush because there are many companies in the industry and different results and performance indexes we have seen. So unless you pick on a specific name so there are people who are ahead; there are people who are not. So commenting on our numbers for the first half anyway this was a discussion about this third quarter. Anyway quick reference to the first half. In the first half while in the domestic side we did hold ground. We had some gap on the international where because of the challenging international condition some of our standard orders which we do get during that period or we got till last year did not come through. And some of it has started coming back in the third quarter.

So in the fourth quarter hopefully those will come on stream because of the very varying international conditions I explained earlier. So in our case that specific thing is there. So for somebody who does not have this component it is possible. There is also this whole question about in adverse conditions farmers try to make a choice not go for high value agri input. Sometimes we had skipped sprays and they tend to go for some commodity generics and as a strategy on the path of sustainability we have exited red triangle products which are commodity generics and some of those molecules did perform quite well they were in great demand they are cheap and farmers have gone for that.

But as our strategy we have exited that and we are not looking back on our strategy. So temporarily for that quarter or for that half it did impact. So these are matters which are specific to us and our strategy. So if you take a comparable number or different business whose strategy is different. It is possible if the first half there is something but you have to look at it in the larger context of our strategy focus and our approach to the whole business.

Nitin Gosar:

Sir, in the seed business who mentioned about government subsidy driven program. Can you identify which crop we did not see government you know those orders?

V Shankar:

See there are certain states and typically on certain crops there are government programs. If you take corn for example there are states like may be Jharkhand, may be Chhattisgarh

sometime Rajasthan. So there are specific states who run large subsidy programs. Similarly, some states run on paddy; hybrid paddy they are on subsidy programs. And last year saw a period of transition where the way they want to run these programs they wanted to change from a let us say from a government administered program through direct subsidy to farmer type of program. So going through a period of transition and in this process in some states there was no such scheme last year which was there the previous year or which has been there. So hopefully this year when procedures have been stabilized it should come back in to place. But this year we missed out on some of those.

Nitin Gosar:

And did you mentioned any comment on Dahej contract manufacturing new orders or anything on the uptake front?

V Shankar:

No, I did not particularly talk about contract manufacturing or Dahej. I have reserved that for the fourth quarter or end of the year. I will have something to say on that on a positive side.

Moderator:

Thank you very much. Our next question is from the line of Chirag Dagli of HDFC Mutual Fund. Please go ahead.

Chirag Dagli:

Sir, for the 9 months this year has the agrochemicals domestic business grown for us?

V Shankar:

Growth is much muted and in terms of international because of what I said in Brazil we have some of our big molecules going in to Brazil. So there has been a de growth on some of those molecules. So this has happened this year because of this set of circumstances but it is not in any way a structural issue.

Chirag Dagli:

So the domestic business has not declined in this year it has actually grown is what you are saying? I mean whatever the muted number the domestic agrochemical business in India?

V Shankar:

No, domestic our presence we have held on. International because of couple of these big countries there have been this huge set of adverse conditions we have faced. So we have big presence in couple of molecules which have come under pressure because of high inventory, low prices and lack of demand. But those seemed to be now getting behind us and hopefully it should start picking up now on.

Chirag Dagli:

Sir, can you indicate the sort of sales that we have done from new products? We have launched about 6 over the last 12 months is it a ballpark contribution to growth that these products have done for this season?

V Shankar:

The new products we have introduced the good thing is that their acceptance and their relevance is good. We have made a good beginning but unfortunately this season has not been very conducive for our ramp up in a big way as we had actually intended planned and the market level activities we have done because of the muted sentiments and some of those crops like paddy have not got that kind of a focus and attention. So I think we are yet to get a right environment but we have got these products which are very good. So end of the year of course I will declare the specific number on the innovation turnover index. But our preparation and our preparedness for a good portfolio that has improved significantly with the addition of these products.

Chirag Dagli:

Sir, my last question if I may. Have our budgets for activity level for these new products this year versus say last year FY16 versus FY15 have they increased? The promotion spend that we must be doing and if you can quantify that?

V Shankar:

We have not radically pared back the market and promotional activity and the field this thing. And which is why in some ways even in this quarter you find that there is a slight decline in the EBITDA margin because when your activity levels fall and then you have these platform of critical mass of your investment which happened in the marketplace and in your administration etc. so that is what. So once the activity level picks up then that difference will bounce back. So we have tried not to pare that back too much as these are all investments for the longer term. So whatever it took in terms of our key brands our mega brands as we call it whatever activities, whatever investments, resources we have kept it on.

Chirag Dagli:

So from an absolute standpoint, absolute rupee crores standpoint that promotion spend would have been flat or would it have grown this year, sir?

V Shankar:

It would have grown only it would not have been flat.

Chirag Dagli:

And sir, just typically what others tell us is that 6% to 8% of sales is what one typically spends on promotions and basically farmer activity. Is that true for us as well?

V Shankar:

No, you will have to actually define because there are so many activities and so many things which we will have to actually define.

Moderator:

Thank you. The next question is from the line of Aditya Jhavar from Investec Capital. Please go ahead.

Aditya Jhavar:

Sir, it would be great if you can help us understand the quantum of decline in your export business as well as the domestic branded business?

V Shankar:

No, domestic branded as I said we have held on and we have not registered any major decline. If you take overall as a portfolio compared to last year. Equally we have not registered a big growth which we intended to as Chirag I think or Nitin asked about what about the new products and how much have they grown. So it did not get that opportunity given the type of environment we faced. In the international business couple of our big molecules which normally goes steadily in to these markets because of the conditions which prevailed in Brazil. So some of those big long term contracts it simply that they were sitting on those inventories and those partners of us did not have any requirement so that did not go through. So I would say that it was specific event which happened in the first half and going forward this should get corrected once it gets in to a more stable mode.

Aditya Jhavar:

So what will be helpful that going ahead if you can quantify the extent of increase or decrease in the performance of each of the division that will be really helpful and appreciated by the entire community?

V Shankar:

Yes, we do not do it quarter wise but end of the year lot of these data I do give.

Aditya Jhawar:

But sir, if you look at your annual report I mean clearly you do not articulate that what is the quantum of business you did in a specific division I mean I remember seeing the growth rates of different division but if you can clearly bifurcate that before the domestic and branded and this was export it would be highly appreciated?

V Shankar:

Yes, I do say that about a third of our revenues come from international business and that is the exports part of it.

Aditya Jhawar:

Yes, but within export?

V Shankar:

About 30% to 32% comes from that and the precise figure whatever it is for the year by the end of the year we do give.

Moderator:

Thank you. Our next question is from the line of Rajeev Agarwal from Sterling Capital. Please go ahead.

Rajeev Agarwal:

Sir, can you give me the international revenue figure for this quarter and nine months? And corresponding figure for the last year?

V Shankar:

Rajeev, that is what I was just now saying. I will give all these at the end of the year. Because quarter-to-quarter there are variations and what is also happening now and let us be pragmatic and realistic about it. Just to give one example. I have an international customer who promises to buy so much quantity in a year. So by the end of the year he will pick up that quantity but he has made a request because he is sitting on inventory. We said that can you push a little bit from the third quarter to the fourth quarter. So which he had to because ultimately the customer takes the call. So it will be also unfair to say then quarter 3 is so bad; quarter 4 is so good. I think it is better that we take it in a slightly holistic perspective. And sometimes also what happens is the season actually and if you look at this year not only we had this problem with the drought and all that because of the delay the kharif is actually extended well in to October.

So we had all the stocks which were placed etc. all the market activity everything was happening till about late October. It is only when all that also did not result in the kind of cropping and consumption that we had to take a call which is why I said that we also had the back hit of kharif in to the third quarter in a much bigger way. So this delays can happen; the shift can happen and these are seasonal and really this activity driven business sometimes looking at it in very close periods and drawing a conclusion out of it may be misleading.

Rajeev Agarwal:

Sir, I want to ask one more thing sir. In our international business can you give us the geography wise contribution like Brazil contributes how much; or US contributes how much something like that?

V Shankar:

We do not actually bifurcate so much but broadly US, Europe, Japan and Brazil constitute most of our business.

Moderator:

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

Abhijit Akella:

First, just on the tax rates. So for the full year now what would be expect in terms of the tax rates?

V Shankar:

So this quarter as I explained earlier had the impact of the correction. So for the full year though I do not really give any forward-looking number, for full year it will be in this band.

Abhijit Akella:

So it will be lower than the 30% or so that we were doing earlier, right? It will probably be closer to 25% or something like that?

V Shankar:

The exact number I cannot tell you but if you are asking whether Q4 will have a correction like this; most likely not.

Abhijit Akella:

Okay. And on the solar plant, I am sorry, if I missed it but did you disclose how much CAPEX was on that?

V Shankar:

Yes, of the order magnitude of 30 crores.

Abhijit Akella:

Okay. And that has entirely been spent in FY16?

V Shankar:

Correct.

Abhijit Akella:

Okay. And overall, CAPEX how much will it be sir for this year FY16?

V Shankar:

Then there are some we have invested in some environment related facilities so there are no major additions in that sense to capacity or anything so, they are normal vertical normal routine capital expenditure so there would not be any other big chunk like this one shot 30 crores.

Abhijit Akella:

Right, all right, sir. And one last question, the export side of the business, how do you see the inventory levels and I mean the demand environment in Brazil and say the US shaping up now going forward and also what is the typical nature of the customer contracts you have in the B2B international business, is it on an annual basis and therefore, when will you get visibility into say how it is going to perform in FY17?

V Shankar:

So you can say that we would have maybe three types or four types of arrangements. One is where we have some kind of strategic relationship where we have typically over the years our customers buying a certain quantum of product from us and it has been kind of steady business over the years. That does not have a guarantee but typically that is a relationship we have. We are their regular supplier so to speak for a big quantity of some of our products that is one type. The second type is where there are some quantitative minimum off-takes for the year where

there are call offs which they do against the overall quantity and depending on their inventory levels demand, etc., they would call off which is why I was explaining in the earlier discussion that it could also then go forward or go back from one quarter to the other so that is the second type. The third type is a one where we still sell so as Rallis we sell into those countries and there we have a better control over what we want to do. Of course we are then facing the cold phase of the market there so, that is the third type. So we have these three types or four types and depending on the product and the country and situations there it could fluctuate. So in the case of therefore international business this year a couple of big products which have got a big outlets in markets like Brazil and USA because of the type of conditions which prevailed this year, they came in under stress in the first-half and slowly they are easing now and therefore it should come to its steady state in the time ahead.

Moderator:

Thank you. Our next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh:

Sir, if you can give some color on how does the new product pipeline look for FY17?

V Shankar:

So Balwinder, we have got a good pipeline of new products and a lot of our new products are very helpful combinations as well which make the core product more effective and they also enhance the value of the core product where we also have a base. Some of these combinations also are combinations with product under patent from our strategic partner so, to that extent that product also will be exclusive to us or let us say exclusive to a couple of us who work on it. So overall the pipeline is good and what we now want is at least a steady state so that these products have a good chance of being tried by the farmers and a good chance of rollout. We do have a good line up.

Balwinder Singh:

Yes. So will it possible for you to quantify, I mean how many products are under registration which you expect to launch in 2017?

V Shankar:

How many we will launch in 2017, I cannot give a specific number but as somebody said already, we have already launched six new products in the last 12 months to 18 months which is not a bad number, it is actually quite a good number. And we will have order of magnitude two products - three products every year so sometimes it may come in one shot, sometime, but that is on an average which is quite a good number when you look at overall in the industry and it also depends on some of the regulatory approvals which come when the registration committee approves that so, it is very difficult to say how many number will come in what season. But you can keep it as a ballpark that two products to three products we have been regularly bringing. In Seeds also we have been doing that.

Balwinder Singh:

And out of the six new products that has been launched in say in the last 15 months, how many of those are generics? 9(4) registrations basically.

V Shankar:

I do not know how you define generic I do not know because if you look at our entire industry the whole industry is generic there is hardly. Typically, we say products under patent or off-patent most 80%-85% of India's business is off-patent and what we say generics are sometimes are very low value commoditized so, you could have an off-patent product where also you have some kind of a proprietary value or some kind of this is where branding comes in, this is where value addition comes in so, I would put it in the second category. So they are not generics of that kind but they maybe be off-patent product some of them as I said, maybe a combination with the

patent and in any case our strategy is all about branding and creating an added value and we are not in the very-very front end generics kind of thing.

Balwinder Singh:

Sir, what I meant was that out of the six new products that you have launched in last 15 months, how many of them would have been under 9(4) registration?

V Shankar:

Under 9(4), all of them were 9(4). 9(3) is basically what is the base technical which we have developed and registered or a totally new product or Origin is a 9(3) which we have launched and Hunk is also a 9(3) so, yes, some of them are 9(3), yes.

Balwinder Singh:

Hunk is 9(3)?

V Shankar:

Yes.

Balwinder Singh:

Okay. And last question if I may ask, assuming sir that global forecasters are now projecting normal monsoons and given the backdrop that you have launched the six new products so, next year in FY17, do you expect to grow in line with the market or say significantly higher given that you have launched six new products are expecting ramp-up?

V Shankar:

Yes, we would definitely plan and hope to grow much better. So we will certainly work, that is certainly our intent.

Moderator:

Thank you. Our next question is from the line of Sonal Kohli from E&R Advisors. Please go ahead.

Sonal Kohli:

My query was pertaining to your Seeds business so we saw a decent first quarter after which obviously the Seed business has not done so well. Going forward into next year, what do you expect because of the high base of Q1 and Q1 is typically your largest quarter for Seeds, you might witness some degrowth in that part of the business purely because of base impact?

V Shankar:

So Sonal, our Seeds business structure is like that and if you look at the industry virtually all Seed companies are like that, the first quarter is the massive quarter and the rest of the quarters do not have so much of business. There are certain other segments which do happen in other quarters like I mentioned about Rabi, Maize and companies who are very good at Vegetable Seeds then you have activity in other quarters also and some bit of Paddy also happen. So the opportunity and the kind of volumes which come in the first quarter or in Kharif because if you look at the seed industry almost 50% of the industry is cotton and that happens in Kharif. So that is how the whole industry and structure is. So this year is no different from that point of view.

Sonal Kohli:

Sir, My query was pertaining not to this year, my query was that this year's first quarter was a pretty decent quarter on a Y-on-Y basis which means corresponding to Q1 of last year. So seasonality takes that into account while the Q2 and Q3 were not that good as quarters for the Seeds on a Y-on-Y basis not a Q-on-Q basis. And therefore, if this trend continues do you think in the first quarter of 2017 because the base of Seed business is quite high as compared to Q2

and Q3 on a Y-on-Y basis, would we see some sort of negative impact of that in Q1 next year just because of the high base of Q1 on a Y-on-Y basis?

V Shankar:

No, again Q1 next year will have a growth over the previous year. That is how every year we have registered growth. Every year in Q1 we have registered growth over the previous year and that is how we will plan for next year as well.

Sonal Kohli:

Sir, actually I was trying to tell you seasonality adjusted, Q2 of this year versus Q2 of last year and Q3 of this year versus Q3 of last year were not so, good as was Q1 of this year versus Q1 of last year. So therefore, even existing for seasonality Q1 is better than the Q2, Q3 and maybe the trend in agriculture deteriorated more than that and maybe the off-take which you would have forecasted may not happen Q1 would have led to some inventories at the farmers' levels so considering taking that into account, do you think our Q1 next year may get adversely impacted?

V Shankar:

No, if you look at it in terms of two seasons Kharif and Rabi and Kharif say for the sake of understanding is Q1 and Q2 between Q1 and Q2 the whole Kharif performance will pan out. Similarly between Q3 and Q4 the whole performance will Pan out. So it is unlikely that you will have a baggage of Q4 into Q1 to depress Q1.

Sonal Kohli:

Sir, I am talking baggage of Q1 of this year in terms of secondary market sales as different from primary market sales so, is there any excess inventory lying with the dealers for the Seed business which could impact you in Q1 next year?

V Shankar:

No, we do not, that is the practice we follow in Rallis and in Metahelix. We do not make it lie around in stocks or debtors. So that is when I said Q3 got sandwich so that is the thing, we do not make it lie around so, we like to square it up and which is why Q1 of next will start on a clean slate.

Sonal Kohli:

So there is no excess inventory lying not with you but even with the dealers', etc., for the crop next season as far as seeds are concern?

V Shankar:

Yes, as far as our business is concerned, yes.

Moderator:

Thank you. We will take our next question is from the line of Deepan Shankar from Trust Line. Please go ahead.

Deepan Shankar:

Just want to understand this linkage between this global agri prices and domestic farm income because global agri prices have fallen drastically so, will there be any major impact going forward in farm income on that perspective as well?

V Shankar:

Sometimes or many a times there is a link between the global and Indian because if you look at Cotton, Corn, in a sense of import export and there is a possibility of reflection so the other thing is depending on the crop say Cotton has grown in China, has grown in the US, has grown in India, if one of the countries crop fail that also triggers a sentiment in the pricing so, it is interrelated, it does impact, one does impact the other. Equally there are country specific reasons

also why the prices may go or down and it maybe political reasons sometimes it could be policy reasons. Sometimes as you know the government says that you cannot export this particular crop or this particular product or sometimes you cannot import this that can also affect logistics and policies can also affect. So as of now what we are seeing is that there is some resurgence in Paddy and Corn prices and we do see that Cotton also has picked up from its lows and we are hoping that this trend will continue and farm incomes will improve in India.

Deepan Shankar:

Okay. Sir, how this MSP protects this global level prices in attacking in Indian level?

V Shankar:

In India the way MSP works is it is more theoretical benchmark of what the ideal price should be. There are not many states which actually use the MSP and procure it from the farmers. There could be some exceptions like Punjab or Haryana or may be some parts of UP where they actually use the MSP and government goes and procure some quantity. But it is not that in every state all farmers have the freedom to go to government and government procures all the produce at MSP. Also market is therefore driven by market forces. So we have seen many years in the recent past where the market prices have been higher than the MSP. This year we have seen market prices lower than the MSP. So MSP does give some kind of reference point but it is not necessary that the farmers either always get the MSP or there is a regulatory mechanism which ensure that all the farmers for all crops do get MSPs from the authority so, it does not work quite that way.

Moderator:

Thank you. Our next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli:

So you talked a little bit about farm incomes but specifically for India, can you quantify the farm income growth or decline for this year for some of the larger crops like Cotton, Rice which are relevant from a Pesticide standpoint?

V Shankar:

Okay, I did give some numbers but these are our estimates. See, if you look at Cotton for example, our estimate is that if you will look at the yields which a reasonably good yield is seven quintals to nine quintals per acre and people have got two quintals, in some places four quintals, three quintals. And if you look at the Cotton prices which use to be close to 4,500 in 2013 and this year it barely touched four now it is slightly improving. The farm income actually which use to be net farm income to the extent of Rs. 10,000 in many cases this year it has gone into a loss of Rs.5,000 that is in Cotton. In Soybean with similar type of calculation, in a good year we have got income all the way up to Rs. 14,000 - Rs.15,000 this year it is close to break even or may be Rs.1,000 - Rs.2,000 loss. If you look at Paddy Rs.1 0,000 to Rs.12,000 income which they use to get this year it has dropped to Rs.7,000 to Rs.8,000 depending on the place so, that is the kind of swing we have seen this year.

Chirag Dagli:

And Chili sir, would you be aware Chili and Grapes?

V Shankar:

Grapes has been a bad season this year, I do not have the number straight away but it has been quite a bad season.

Chirag Dagli:

Would you say that they are making losses sir, Grapes?

V Shankar:

It may vary actually; I do not have a ready number just now. But it has been a bad season, yes.

Chirag Dagli:

Sure. And sir, my second question was base business for the Pesticides business in India. How should we think about competitive intensity over the next couple of years for some of our larger products? Do you think this base will sustain or are you seeing more competition, more generic guys coming in some of our larger products? How should we think about base business competitive intensity?

V Shankar:

Our business competitive intensity is high, so no doubt it is high because most of the products there are alternative products there are equally competing products and therefore, it is not just based on usually differentiated product, it is about building that reach through the channel with the farmers directly working with the farmers imparting knowledge services. It is providing quality products helping the farmer to get a better productivity and we have got several programs and initiatives which reinforce the relationship with the farmers all that are also equally important. And now that we have got all the way from Seeds for the entire package of practices we are much better place in terms of offering a very comprehensive set of services to the farmers.

Chirag Dagli:

So there is no dramatic change per say in the competitive intensity? In the sense that some of our larger products may not see 20%-30% kind of price erosion that is not something that you are thinking about to take?

V Shankar:

No, it can always happen like one product which we have which is our brand name is Applaud which has been a market leader and still is the market leader and the price there has been phenomenal erosion from the time we introduce the product. So that keeps happening, it keeps happening across products not only ours all products.

Chirag Dagli:

Okay, sir. And last question sir, if I can squeeze. How much power cost will we save by virtue of this 30 crores investment in solar sir on an annual?

V Shankar:

How much, it is a 4 megawatt capacity. Sorry, that was your question?

Chirag Dagli:

My point was how much power cost savings will we do on an annual?

V Shankar:

Savings, no, as I said it is not about big ticket savings from day one, it is about going on to green power. It is about renewable source, it is about sustainability but having said that, that is not the only objective we are meeting, the investment will get us the return desired rate of return over a period of time so it is justifiable investment also.

Chirag Dagli:

So with this, we will stop consuming grid power completely?

V Shankar:

Over a period of time the idea is to bring it down, yes. Thank you. May be two more sets of questions please.

Moderator:

Sure. We will take a question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth:

Sir, during the course of the call you mentioned that in the domestic branded business there was some down trading towards the red triangle products where we do not have presence. So typically how is the farmer behavior when they see some recovery in the agri cycle? I mean if they see some good monsoon coming up may be this year, do they shift from red triangle to a better generic branded product?

V Shankar:

What happens is that there are some sprays which are prophylactic sprays which farmers could be using as a matter of habit as a preventive measure and if it is a normal season we normally get those sprays also done. And they are typically regular products which are also you can call then broadly into the generic space and those do happen. With a tight or a difficult time farmer may take a call and skip some of those sprays. Second thing is if it is a good season the farmer also is willing to go for the more expensive and the more effective the more safer the more value added products because he is also looking forward to getting a net back and production commensurate with the investment. If the going is really bad and it does not think that the crop is going to recover he will certainly not want to spend on those products and will try to avoid spending totally. Sometimes if it is looking so bleak and he will look at the cheapest and most generic product and use it. So that is the kind of behavior we have seen and it is driven by I would say basic economics of the situation.

Tejas Sheth:

So sir, this season according to you what percentage of the market would have shifted red triangle products where we missed the opportunity?

V Shankar:

I really do not have a specific number on that.

Tejas Sheth:

No, ball park figure I mean, as a market intelligence you would have got some number?

V Shankar:

No, I do not want to guess like that.

Moderator:

Thank you. We will take our last question from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manish Mahawar:

Sir, just wanted to know the outlook on this raw material prices, how the first the prices behave in the last three months and what you will see over the next three months to six months post this crude correction happen?

V Shankar:

No raw material prices I do not think we can complain it has been behaving and we do feel that the prices should be stable. Sometimes it has been an issue about availability and more importantly even if there is a cost gap are we getting that into a margins or is it being eaten by price erosion. So when markets are tough like this you are not able to retain the cost benefit and

you are passing it on to the price because of the business conditions. So that is what needs to improve. So if there is stability in prices which is again dictated by more stable cropping and stable demand then of course there are no panic price corrections. Then it returns to normal pricing then you can actually retain the benefit.

Manish Mahawar:

Okay. But this year, I believe the industry has seen dip in the realization, right sir as the whole nine months....

V Shankar:

As industry realization, yes.

Manish Mahawar:

Yes. So do we see this situation again will be there in the next year as well?

V Shankar:

Hopefully the inventory and if it get corrected to some extent and next year we see at least somewhat closer to normal then it should see a positive correction.

Manish Mahawar:

Okay. And my second sir, just in the next year right now the channel maintenance is high in the marketplace and suppose the next year monsoon will be normal. So do we see the market can recover in a single season time because this is I think third or fourth consequently times it is like the season is bad actually the season is bad so, we see the recovery will be sharp actually in the marketplace or it will take time?

V Shankar:

If it is normal and there are good sentiments then certainly there will be a positive wave when that desire to recover. The reason being that the farmers have seen too long four consecutive seasons which have been bad they are desperate for a good season. So if the conditions are good they would like to have a good crop so, when we say markets will recover again, whatever are the good solutions, good product, you cannot paint it with one brush and looking at the inventory situation, looking at the competition, looking at the need for that particular crop, which crop so, there will be pockets which will do exceedingly well. Equally there could be some pockets where still there are inventories or demand is not there. So it will need at least may be two seasons for everything to fall in place.

Moderator:

Thank you. I would now like to hand the floor over to Mr. Rohan Gupta of Emkay Global for closing comments. Over to you.

Rohan Gupta:

Thank you. Thanks a lot sir, for sharing the views on the industry and for having a detail conference call. Sir, before we close just only one question from my side, if you permit.

V Shankar:

Yes, Rohan, I was waiting for that. Yes, go ahead.

Rohan Gupta:

Okay. Sir, you mentioned during the call that you have been able to hold on the domestic business and given that almost in last nine months we have seen almost 15% on a cumulative basis drop in the revenues given the one-third business coming from the in international it means implied international business would have been down by almost 50% to 60%. Sir, we have always thought that international business actually export business is more of the stable business and it isolated our self from the domestic monsoon vagaries but sir, given the current year I mean

if there has been so much drop in the international business so, first of all I mean is there any particular reason maybe one or two product which we have been dependent they have seen a huge drop in the international market? And second, does it cause for a worry and do we need to look at our export business in a new way or you are looking at strategy point of view to I mean this export business, so that is what my question was, sir.

V Shankar:

So Rohan, from a strategy point of view we have a robust strategy. I do not think that we need revision in the strategy. Specifics could change, in the sense that we are talking about Seeds, we are talking about molecules, what happens is over a period of time certain Seeds, certain molecules they may lose effectiveness and you may have to bring in new products to take their place. Similarly, there could be regulatory changes which will make you move onto other things. So the need is really to be sensitive and alive to the changes which are coming at the horizon and be ready for that which we have been doing over the years that is not new to us, we keep introducing new products, we have got new things happening. What happened this year the regular products where there are no regulatory issues there are no efficacies issues it is just because of seasonable aberration and no demand because inventories were lying from the previous season sales. This season those regular demands did not come up. So once this is getting corrected come back. So strategy wise there is no change required because our strategy is one of the most comprehensive strategies we have. In terms of regulatory changes product efficacy changes, the specifics of this year does not require a change it is about the temporary impact which happen this year which needs the change which are changing which will change.

Rohan Gupta:

Okay. So given that we have seen almost Rs.200 crores to Rs.250 crores loss of export business in the current year so, I think that I mean we were planning next year to commercialize I mean our third unit in Dahej for export so, do you think that given the current weakness in export business all those plan remain intact or first our focus will be to regain the market which we have lost in export business in current year and then only probably we will be taking about commercializing or coming with the third plant at Dahej?

V Shankar:

So this year the impact we have had on products etc. are not anything to do with Dahej since your question was specifically to Dahej, I do not think that has got any impact at all and it was related to products from other factories and once that comes on stream that will happen and Dahej plants we are going ahead with Dahej plant so I am going to alter any Dahej plans.

Rohan Gupta:

Okay. And just last on domestic you mentioned because we have almost strong product launch which we had seen in last one year. So should we see that over next one and half year our new product line will be as you mentioned probably two to three every year but we may not see a very aggressive commissioning of a new products and we will focus more on the product which we have launched in the last one year, if we assume that next year monsoon will be normal?

V Shankar:

Yes, bottom-line is we have to get growth now whether new product, old product, our products are all good. Now we have to get growth and not get to hung up whether that is coming from new products or you should do a product of 9(3) registration, 9(4) registration. We have to be close to the market make sure that market needs are getting met and are able to establish and drive our brands to the service of farmers. So within that these are all internal metrics to make sure that our products are market relevant and current. So I do not want to give an impressive of tail wagging the dog that what is more important to me is getting or hitting a particular index. At the end of the day, I need satisfied farmers and I need to make sure that my market share is intact and growing I think that is my first hope.

Rohan Gupta:

Okay. Once again, thank you so much, sir for giving us your time and it was really nice discussing with you. And I hope that next year monsoon should be normal so that all of us can see the growth coming back in the company.

V Shankar:

Thank you, Rohan and the rest of you, really a pleasure interacting with all of you. Thank you so much.

Rohan Gupta:

Thank you gentlemen and thanks all the participants for logging-in the conference call of Rallis hosted by Emkay Global. I thank all the participants, thank you very much.

Moderator:

Thank you very much members of the management. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, you may now disconnect your lines.

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- Note:*
1. This document has been edited to improve readability.
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