RALLIS INDIA LIMITED

July 26, 2022

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: **500355**

National Stock Exchange of India Limited
Exchange Plaza
Bandra-Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol: **RALLIS**

Dear Sir,

Sub: Transcript of Analysts/Investors Call pertaining to the Financial Results for the quarter ended June 30, 2022

Further to our letter dated July 11, 2022, we enclose herewith a copy of the transcript of the Analyst/Investors Call on the Unaudited Financial Results of the Company for the quarter ended June 30, 2022 held on Wednesday, July 20, 2022.

The same is also being made available on the Company's website at: https://www.rallis.com/investors/Financial-Performance.

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For Rallis India Limited

Yash Sheth
Company Secretary

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A TATA Enterprise

Rallis India Limited
Q1 FY 2023 Earnings Conference Call
July 20, 2022

Moderator: Ladies and gentlemen, good morning and welcome to the Rallis India Limited Q1 FY23 Earnings Conference Call. Please note that this conference is being recorded.

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

Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India Limited's Q1 FY23 earnings call. We have with us today Mr. Sanjiv Lal - Managing Director and CEO; Mr. S. Nagarajan - Chief Operating Officer; and Ms. Subhra Gourisaria, Chief Financial Officer.

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

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

Sanjiv Lal: Thanks, Gavin, and good morning, everyone. Thank you for joining us on our Q1 FY23 earnings call. I have along with me, Mr. Nagarajan, our Chief Operating Officer, and Ms. Subhra Gourisaria, our CFO. I will begin the discussion with a brief overview of the industry before I move to Rallis specific developments.

On a sectorial level, as most of you are aware we had a slow start to the monsoon till July first week. However, the monsoons have picked up with cumulative rainfall being 11% above normal till 13th July on an overall basis. For the season up to July 13th, 30 of the 36 subdivisions have received excess or normal rainfall with a cumulative range of 306 millimeters against a normal of 275 millimeters, which is 11% above normal.

Uneven spatial distribution, however, is a concern with 53% of the districts receiving deficient or large excess rainfall. Some key rice growing states like UP, Bihar, West Bengal have received very scanty rainfall this season. Region wise, while east and northeast regions received 21% surplus rainfall, Northwest India, Central India, Southern peninsula were deficit during the week, ending 1st July, '22.

However, we have seen monsoon pick up pace and are hopeful of good rainfall for the remainder of the season. Delayed monsoon consequentially led to lower acreage across states, 5% down as a 1st July on a year-on-year basis. Acreage for major crops were mostly flattish or slightly lower on a Y-o-Y basis. However, with the monsoon picking up pace we have seen sowing activities increasing, leading to narrowing down of acreage deficit on a weekly basis.

Let me now move on to Rallis specific developments starting with our headline numbers. We have seen our Q1 revenue grow 16.5% over the previous year. EBITDA stood at around Rs. 113 crore with margins of 13.1% lower by about 330 bps. Crop care growth and margin is on a healthy trajectory. Overall margins were impacted due to lower margin in seeds on account of stock liquidation and aging base provisions on seed stocks. Profit after tax for the quarter stood at Rs. 67 crore.

Moving on to individual businesses starting with domestic business. We have seen a growth of 17.1% largely driven by better realization. We have undertaken median price hikes of 4% to 5% during the quarter to offset the impact of higher raw material prices. We have witnessed volume growth during the quarter for herbicides, which enters the crop cycle first. In fungicide returns on some products from Rabi, Paddy and Chilli markets offset Q1 placements.

It may be recalled that the disease incidence was lower in Rabi, Paddy and crop condition with Chilli was not good last year. However, Q1 is largely a placement season and clearer liquidation trends will become evident in Q2. Our channel stocks are higher as on Q1 end, as we have consciously stocked up with a view to not miss possible liquidation opportunities in Q2. We expect the channel stocks to narrow down closer to last year's level by H1 end.

In terms of new product development, two new herbicides for Cotton and Paddy crops have been commercially launched along with three new Paddy hybrids and a Tomato hybrid during the quarter. We have maintained a good run rate in terms of launching new products. We are specifically working towards gaining market share in certain underserved markets such as MP, UP and Rajasthan across crops such as Soybean, Wheat, and certain segments of Paddy.

Moving on to international business, we have seen a good growth driven by volume as well as realization, demand for most of our products continues to remain encouraging. Metribuzin sales as indicated in previous calls should pick up Q2 onwards. We remain buoyant on the exports demand and we'll continue to work on augmenting our portfolio.

Q4 FY22 performance as you will recall was impacted by challenges surrounding raw material procurement for Pendimethalin. In order to avoid such incidences in future and lower our dependence on China, we have identified a local partner to supply raw material for one of our key products. While cost wise we may not see material impact this arrangement will help us secure raw materials in a timely manner. Furthermore, as indicated earlier, we are also working towards increasing the share of formulations, and on this front and we have obtained registration for all 27 states in Brazil for Acephate formulation and are on course towards commencing shipments from Q2.

In terms of contract manufacturing as highlighted in our previous call, we have signed two new contracts during Q4 FY22. While the quantum may not be material in the near-term, this development is reflective of our renewed focus towards scaling up the business.

Moving on to the seeds business, while on a broad level the business environment continues to remain challenging, we have seen a flat revenue over the previous year. The overall pace of growth was impacted by delayed monsoon, which impacted liquidation. We also witnessed segment shift patterns in the Paddy crop, demand for Cotton seeds was impacted due to delayed monsoon in Maharashtra affecting sowing activities and increased usage of illegal HT cotton seeds.

However, we are pleased with the growth of our new Cotton hybrid Diggaz in the markets of Punjab and Rajasthan, where we have increased our volume to 1.75 lakh packets, from about 20,000 packets last year. Notwithstanding the growth we saw in Diggaz, the seeds environment was challenging due to segment shifts. We have revised the strategy for the business with a greater focus on liquidation, cost optimization, and more robust evaluation of new product pipeline advancements.

Work towards building our Rabi portfolio and scaling our presence in vegetable business is also progressing as per schedule. We continue to remain cautious in our seeds business and we are hopeful that we will be able to address the portfolio issues in the coming years. On the biotech front, we have received states NOC from Haryana and Karnataka for conducting our BRL trials for insect resistance and herbicide tolerant Cotton, and Maize GM events. We are awaiting final approval from the regulator, after which we hope to commence the trials in this financial year.

To conclude, while we have started the year on steady note, we expect business to pick up pace H1 onwards, especially on margin fronts on the back of new capacities, new product launches, better product mix, and a wider distribution network. Our focus, as we have we reiterated in earlier calls is to accelerate the volume growth, and we are focused on achieving the same.

This concludes my opening remarks. And I'll now hand it over to Subhra for an analysis of the financials.

Subhra Gourisaria: Thank you, Sanjiv, and good morning, everyone. Thank you for joining us on our Q1 earnings call. Let me quickly walk you through our financial performance for the quarter, post which we shall commence the Q&A session. Starting with the top line, our revenues for the quarter stood at Rs. 863 crore as against Rs. 741 crore generated during Q1 FY22, a growth of 16.5%. Within that crop care growth was 26.5%, driven by 16.3% price growth and 10.2% volume growth. Domestic business had a growth of 17.1%, primarily due to price hikes taken last year and during the quarter to partially offset the impact of rising raw material prices.

International business reported a growth of 50.8%, driven by both volume and value. Seeds business generated revenue of Rs. 267 crore during the quarter. EBITDA for the quarter stood at Rs. 113 crore as against Rs. 122 crore generated during the corresponding period last year. Crop care EBITDA has improved to 9.5% versus 8.1% last year, primarily due to leverage impact coming from growth. Seeds margins were impacted due to the lower realization owing to the commercial interventions for stock liquidation and aging based provision of Rs. 13 crore recognized on inventory. PAT margins stood at 7.8% as against 11.1% lower by 330 bps primarily on expected lines given the higher input prices.

While we did undertake price hikes during the quarter, the quantum wasn't commensurate with the increase in raw material prices. We expect the margin trajectory to start improving as several raw material prices cool off and our capacity utilization in the plant starts to improve. Profit for the quarter stood at Rs. 67 crore as against Rs. 82 crore during Q1 ‘22.

Moving on to business wise performance, domestic business performed reasonably well. Overall volumes were relatively subdued due to returns from the

Rabi, Paddy markets. We have seen the monsoons pick up pace and is now spreading across regions, resulting in improved overall acreages. In terms of new product launches, we introduced two products in crop protection segments during the quarter. We're focused on delivering a strong volume growth and undertaking the requisite steps towards achieving our objectives.

We have done a thorough analysis of portfolio and identified missing gaps in terms of products and regions and are hopeful of improving our product mix in coming years. With gradual restoration of normalcy post pandemic we're also intensifying our engagements with farmers, dealers, retailers. As far as international business is concerned, we have seen a good growth of 50.8% during the quarter, the growth was driven by both volume and value.

We continue to see good demand for our products. Price growth may come under pressure with raw material prices cooling off in some products. However, our endeavor would be to continue to drive volume growth on the back of expanded capacities. We're also working on supply resilience to ensure steady and consistent availability of raw materials and lower our dependency on China for meeting our basic requirements. While the unit economics may remain the same, we would be assured of key raw materials, which will help us to better plan our operations and meet the customer requirement.

Moving on to the seeds business, the overall environment continues to remain challenging. We also witnessed a shift in the crop pattern in Cotton and Paddy crops during the quarter. Given last years' experience, we have recalibrated our strategy with the focus on liquidation, cost optimization and more robust evaluation of new product pipeline advancements. We are hopeful that our performance during the quarter would be relatively better than the previous year. And our efforts will ensure more resilient and profitable business going forward.

A quick word on CAPEX before a handover to the operator, as indicated in the previous call the overall CAPEX for the year would be Rs. 250 crore and immediate focus would be on commissioning of the multipurpose plant later during the year and commercial scale of one new technical Difenoconazole of which we spoke earlier.

To conclude, I would like to iterate that we are focused on growth in the business and undertaking all the requisite steps towards achieving it. While the seeds business may remain a bit soft during the year we hopeful that domestic and international business should pick up pace during the course of the year.

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

Moderator: The first question is from the line of Aditya Jhawar from Investec Capital.

Aditya Jhawar: My first question is on export business. You highlighted that in June month, we did a record month of Rs. 100 crore. So was there a lumpiness because of some season? Secondly, you also mentioned that Metribuzin the capacity will come in Q2. So should we expect the run rate that we saw in June will be further built on? And if you can elaborate on what has been the trend in Metribuzin prices and raw material? And last question on export is that in the last call you had mentioned that Pendimethalin was facing some issue of raw material shortage, has that been sorted out? So these were the questions on the export business.

Sanjiv Lal: Yes, in fact, I would say that the exports business has been doing well for the last couple of quarters. And there has been a volume increase as well as we've been able to take some price increases. So, we expect to continue on a reasonably good trajectory as far as exports are concerned. While the Rs. 100 crore in the month of June is a good milestone to achieve. I would say that we will be fairly close to getting those kinds of numbers, but it cannot happen month-on-month as you would appreciate it also depends on the season and the phasing of the business at the customer end. So, we will see decent exports happening from the capacities that we have built up.

As far as Pendimethalin is concerned, yes, we did land up in a stockout situation, the situation still remains fairly tight for one of the key starting materials. We are managing with some local supplies as well. We expect that the situation to be fully normalized only towards the end of the calendar year. So, that may still take some time to play out.

Metri we will see the plant running at capacity towards end of Q2. We still hold some inventory, which we will be working off. So that should also start playing out in a favorable manner. Anything else Naga you like to add?

S Nagarajan: No, no, I think that covers it. Generally, I think like what you said that this Rs. 100 crore figure in June may not be interpreted as a run rate figure. However, we are definitely witnessing good growth on the exports front.

Sanjiv Lal: And I would like to just mention that the prices are tending to be on the higher side. So once the prices soften, while the volumes may still be there, the revenues may start looking lower because of the price changes. I'll give you a little heads up on that because it is both volume as well as price, prices are tending to be on the higher side, but these will also ease off at some stage.

Aditya Jhawar: Second question on the domestic drop care business. Firstly, on the margin front, this quarter we saw on a Y-o-Y basis, despite these headwinds of RM and inventory adjustment, we still did about 150 basis point expansion Y-o-Y. So, is it fair to assume that this probably could be one of the lowest margin and from here on with the liquidation expected in Q2 and lower raw material prices also kicking in we should see a meaningful margin build up in Q2 onwards?

Sanjiv Lal: So, I would say more towards the end of Q2, just to be very careful on saying that because we do still have some inventory, which may be at a higher price. So it will take time to work off, and perhaps towards the latter part of Q2, we will see more normalization happening as far as our margins are concerned.

S Nagarajan: Yes, I think that is right. I think on the domestic front, if you disaggregate the business, on the domestic front we have, like what was mentioned by Sanjiv in the opening remarks, taken about 4% to 5% median price hikes in the quarter compared to March end. Which on the revenue front when you compare quarter-on-quarter like was mentioned, there is a more than 10% pricing difference, which also builds in the mix effect there. So on the domestic front, I think we have been able to reasonably pass on the cost increases.

On the international front we have had good demand, and we have had improved realizations. But certainly on the margin front, we have had some challenges because of the cost of raw material that we have got. That is something which we do expect will run off, the old raw material will run off thereby providing the benefit when we buy the fresh raw material at lower prices. But of course, that the impact on GC will depend on how the realizations move from a competitive point of view.

The third aspect is, of course, the seed business, which as you know, there was a specific impact which we had taken with regard to aging based provisions, and also reflecting the trends on liquidation that we are seeing as of now based on the monsoon effect. So that's how maybe we will disaggregate it into the three broad businesses.

Moderator: The next question is from the line of Varshit Shah from Veto Capital.

Varshit Shah: Just continuing the earlier question, I mean, I think Naga mentioned that roughly Y-o-Y increase is 10% in the domestic crop care segment and you have delivered 17% so actually volume growth is in the range of 6%, 7% that's the implication from these numbers. So actually it is the very healthy growth, I mean, considering that because the challenging weather I mean and I know that a lot of is placement, but still it seems like a very healthy growth on your part and the placement is slightly higher compared to industry. So is it true to assume that you're looking to kind of improve your market share, overall in H1 if I see the season as a whole. And that seems to be working, at least for the time being?

S Nagarajan: So maybe I'll just clarify here, the crop care growth was 26.5% quarter-over-quarter that is last year quarter, of which 16% was price growth and 10% was volume growth. But this is crop care, which includes both the domestic business as well as the international business and we have had the benefit of volume growth more in the export business. In the domestic business that is if you take our crop care within India, we have had volume growth more in the herbicide category.

But on fungicides, like was mentioned, we did have some returns that happened in quarter one from the placements which we have done in Q4 of last year, which offset the placements to some extent that we did in Q1. However, as you correctly observed the Q1 in the domestic market is largely a placement season. And with the rains improving our expectation is that liquidation should pick up. But this is where we are at this point in time on the domestic business.

Varshit Shah: Sure, that's helpful. Second, on the on the margin front in the crop care segment, I mean, if I were to see post recent capacity expansion, over the last one year you have increased capacities across ais, so your reliance on Metribuzin has actually come down as a mix. I think post expansion also the reliance will be much lower compared to what it was two years ago on Metribuzin. So this broad basing on the international business, in my opinion, should diversify the risk emanating from a particular molecule going haywire in terms of margins. So do you think that from a two-year perspective, the margins in international business will be more stable than it were in the last two years? Directionally, I'm talking about specific numbers I am talking.

Sanjiv Lal: See, what you say is right that having more products in the portfolio is derisking in case of one particular ai. having difficulties in certain markets. Our other approach on our international business is to have a better proportion of the formulated product business. And basis we work which has been done over the last many years, we are seeing progress. As you're aware we had launched a formulated product from Metribuzin in Brazil last year that is also picking up well that's doing well. And this year, during Q2, we will be starting export of a formulated acephate product as well.

So, we will be using levers of portfolio expansion for the AI category with a new product which we will be launching towards the later part of this year from the new MPP. And also to increase the share of business coming from the formulation product and that will be across geographies. Of course, the key geography of Brazil is very important, but also we are getting reasonably good traction from the smaller markets as well. Naga, would you like to add something?

S Nagarajan: I think, what you said is what I just want to reiterate, yes, I think we will be increasing the portfolio. We will be increasing the markets that we will be selling to and we will be increasing the proportion of formulations in the overall international or exports revenue. All of these are part of our strategy what we articulated also some time back to stabilize the margins and even improve them.

Sanjiv Lal: And on Metri just to clarify, we have built a capacity which is significantly higher than even our own expectation of business. So that will always be there in terms of having that capacity available, which we will also be using for some other product is what our current planning is. So from about 1,100 tonnes capacity, which we had about three years back, we are now at a significantly higher capacity of almost 2,300 tonnes.

So, while we would certainly like to see this entire capacity being filled with Metri, but we'll be happy with a significant utilization even 60%, 65% capacity utilization is good.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: My first question is, again on the international business. So, one, in terms of the supply chain challenges are those alleviating? And will that have an impact from the supplies coming from competitor? And what gives us the confidence that second half or rather Q2 onwards international business will certainly perform well? Is it some POs that we have or customer commitments that we're currently having?

S Nagarajan: On the supply chain front, I think, if you compare between, let's say, December end, December '21 end and June '22 end certainly we could say that things are looking a lot more sanguine than what they were at December end. Raw material prices are also coming down for quite a few of the raw materials. The logistic challenges that we were witnessing in December, which actually worsened subsequently after the invasion, and also the fuel costs increase, the crude price increase all of those things seem to have come a little bit lower, at least in June end or now let us say in the middle of July.

But one should also add that this comparison, if you did with let's say two years back, how the situation was certainly the challenges are there. But the short timescale of last six, seven months, certainly it seems to be improving. With regard to the outlook for Q2, we are in conversation with customers. We are having indications at this point in time. We don't have contracts completely for the whole of Q2, but certainly I think what we're finding is the demand environment appears to be quite positive.

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

Amar Mourya: A couple of questions from my side, first on the high-cost inventory which we are mentioning about Metribuzin or the high-cost RM. In March, the total inventory was around approximately Rs. 900 crore out of that how much would be the high-cost inventory which is currently sitting in the balance sheet? That is number one question. Number two in the international business, what would be the CRAMS contribution in this particular quarter and specifically in the June quarter? I mean, in the June month, what would be the CRAMS contribution? That is number two question. And third question is what would be the volume growth in the overall export business?

Sanjiv Lal: So, we would not like to specifically call out the CRAMS business from the exports business. And as far as the cost of inventory is concerned, Subhra, you like to add something on that?

Subhra Gourisaria: So the cost of inventory will progressively as we said, by the end of Q2 start unwinding and what we're talking about at a weighted average level, we should be by the end of Q2 be in a much more comfortable position in terms of margins are concerned.

Amar Mourya: Okay. But sir, why I am asking this CRAMS business specifically, because I believe last year, majority of the CRAMS business contribution was diminished significantly because of the PEKK issue or the Metri issue or other things. So I'm saying if you can just indicate that whether those businesses are now coming back?

Sanjiv Lal: So, I just also like to clarify our contract manufacturing business, you're aware that we've got about two contracts that have been there with us for many years. While one contract has been very steady the PEKK business for practically the last two years, we've done very little. We've now got some positive indication on some movements that we expecting towards Q4. So in anticipation of getting the PEKK plant back on stream, we have started the overhauling of the plant so that we are ready by the end of the year for getting the plant restarted, because there is some silver lining that we see in terms of getting back into production for PEKK.

So there is a positive note which is there. But the order is still not in hand, but we've only got an indication that there could be some requirement coming towards the end of this financial year.

Amar Mourya: Yes. And what would be the volume growth in export business?

Subhra Gourisaria: It is equally split between volume and price.

Sanjiv Lal: About 25%, 26% is the volume growth and balance is the price growth.

Moderator: The next question is from the line of Saurabh Kapadia from Asian Market Securities.

Saurabh Kapadia: Sir, first question on the June export, so was the jump from because of any specific geography or specific molecules are being exported in this month?

Sanjiv Lal: Yes, we've had a good off take for most of our products, including acephate. So I would say it's balanced. The only product where we have not really had the kind of traction is on Hexaconzole, this is also not the season for the key market in which it goes. We expect Hexaconzole volumes to also look good towards Q2, Q3.

Saurabh Kapadia: Sir, my second question on this export only you mentioned, you are focusing on the formulation side. So what is the current mix of formulation in the export? And what's the target maybe by next year you want to achieve?

Sanjiv Lal: Well, I think in terms of the mix it may be around 20% So we'd like to see it improve. See again, this goes through registration process cycle. So as the registrations keep coming in, this will certainly improve, but 20% is good even though we may have a larger export portfolio 20% will still look good.

Saurabh Kapadia: Sir the next question on the seed side, so you have already taken some write down in the Q1 so do we further expect to take some write down in Q2 as well, if there is some further issue in terms of liquidation?

Sanjiv Lal: No, we'll have to take that call once we have clarity on the liquidation because there has been some delay in the seeds business as mentioned due to some pause in the monsoon during the month of June. Sowing activities have picked up and we are monitoring the liquidation of the stocks that we have lying with the trade. And we will be starting to get back unsold stocks during Q2 and the complete clarity will be there with us only by October. So we will take a view on what is coming back. As of now our teams are doing a great job in terms of trying to get the liquidation done.

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

Rohan Gupta: Sir, my question is on our seed business, because it's a very seasonal and Q1 is a very heavy and a lot of profit is loaded in the current quarter itself in Q1. With the margin pressure in the current quarter, do you see that the current year seed business profitability will be impacted, and the chances of having losses or maybe almost nil profit in the current year? Or you see that Q2 can pick up in terms of some of the improvement in EBITDA and margin wise?

Sanjiv Lal: I think it is going to be a challenging year for us. Normally, Q1 is the quarter where most of the heavy lifting is done. And based on the way the season has progressed in Q1, as a matter of prudence, we have factored in certain provisions. We'll really need to see how Q2 goes before we are able to give a full year's outlook. But I would just say that we are ourselves looking at this business very, very cautiously, just to make sure that we are able to keep it as a stable business. Things have not been very good last year, and this year also, I would say, has been challenging.

Rohan Gupta: So, sir, would it be possible for you to quantify the kind of write downs we have factored in the current quarterly in seed business inventory write downs?

Subhra Gourisaria: It's Rs. 13 crore for the quarter and this is not a write down this is a provision. So we've taken a provision of Rs. 13 crore.

Rohan Gupta: Sir coming on our export business definitely you mentioned that one of the best month ever seen in the history of the company with Rs. 100 crore kind of turnover. Still, we see that our export business in terms of the utilization level and in both in formulation as well as technical plant, can you just give some numbers that what are the utilization level that our plants are operating right now in Q1? And you also mentioned that you see that in second half you see further pickup in export business. So where we see that from where we are getting that confident? I know that you have in the previous participant question also tried to answer that just some more granularity about it that from where we are seeing that the growth coming in exports business, whether it's international business higher acceptance for our product, or you see that the global supplier of those products are phasing out and that's where the opportunity for us?

Sanjiv Lal: I think there's a robust demand for all the products that we have in our portfolio. Just to say that acephate plant is running flat out as far as the Metribuzin plant is concerned it may be running at about 55% - 60% capacity utilization. Our Pendimethalin plant is running close to about 70%, 75% utilization and our Hexa plant is currently running at a slightly lower utilization because of the seasonal requirements which is slightly on the lower side. But what we've also done in the last two years, one would be aware that we have been upping the capacity of our plants. So all these numbers that I'm giving in terms of capacity utilization are based on the enhanced denominator in terms of capacity. So there is good headroom that we have in availability of products from our existing assets.

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

Abhijit Akella: Just a couple, you alluded to the flooding and excess rainfall in our large part of the country, especially in Southern India. So just wondering if there might be some reasons for concern for the domestic season for the rest of the Kharif season remaining. If you could please just share your perspective on that?

S Nagarajan: Actually, we were referring to some parts of the country where there has been excess rainfall, as you know Northeast was quite badly affected. But at this stage, it is very much looking positive. Certainly the last 15 days of rainfall has been good. There have been places where the rainfall had been lower earlier, it seems to be picking up. And at this point in time, I don't think we have any such expectation or any anticipation for the peninsular India. We will see how it goes, because, as you know, it's always quite difficult to predict how the weather conditions turn. But as of now, it looks fairly encouraging.

Abhijit Akella: And the second thing I just heard is you had provided the volume versus price breakdown for the export business this quarter, you said it's roughly half and half. Would it be possible to share the same for the domestic business? That was one. And also in terms of pricing, you've been the industry has been taking price increases in the past several quarters are, now with raw material prices starting to cool off how do you see pricing trending in the next quarter or over the balance of FY23?

S Nagarajan: Yes. So, on the domestic crop care, as you know, we had mentioned about 17 odd percent growth, 14 odd percent is coming from price and about 2%, 3% is coming from volume. With regard to the raw material prices, yes, there is a drop in specific raw material prices. But the final product prices, we are more governed by the cost of treatment that we are able to provide to the farmer, the competitive actions that are there. So those have been more our guiding factors, we will have to see how the whole context plays out in Q2. But you're right, I think there are certain organizations that seem to have indicated some price reductions, but we will actually have to take it product by product and deal with it in the quarter as it comes.

Moderator: The next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar: Broadly on your export and international strategy, if you could help us understand how you're thinking on this space in the next two to three years? You did mention that you are taking registrations in Brazil for acephate. The next couple of years, if you could give us some idea, how should we think you will be adding more capacity here or also you will be focusing more in terms of registration directly in that sense, if you could help us understand that?

Sanjiv Lal: Yes, , actually what we have mentioned in the past also, currently, if you look at a crop care business, both domestic and international, about 33- 34% is comprised of the exports business. And we are working towards making it a little more balanced with about 40% of our revenues intended to come from our exports business. To support that we've been adding capacities, we are also building the new facility for commercializing new ais, which are new to our portfolio and for that the registration activities have also been started.

And apart from that, I had also alluded to our formulations that we are applying for registration in many more countries, some of the products that we have are good for other countries as well. So we are working on that as well. So we will be looking at 60-40, 60 domestic, 40 exports portfolio, maybe three, four years down the line.

Vishnu Kumar: Okay. The domestic business is obviously erratic and rains play a bigger role in it, but wanted to understand specifically would we deploy more capital in terms of adding more capacities, any CAPEX number that you can probably, at least, in ballpark that you will be doing over the next couple of years on this side of the business? And also if you could help us understand any new people have been added on the international side of the business where you have either hired them from other larger MNCs? And any specific revenues that you have till now achieved on your registration business, if you could help understand on these lines?

Sanjiv Lal: So, in terms of registration, we are certainly pressing ahead with registration of our newer ais in the key markets. And as far as people are concerned, we've got a fairly good, robust team. And they're doing a reasonably good job in terms of getting not only more business from existing customers, but also newer customers being added to our customer list. So that is working quite satisfactorily.

And we will of course, take decisions on adding more resources if needed. But as of now, we are in a good place. We have already created a new line of business focused specifically on contract manufacturing that we had alluded to earlier. So we've got a team for our contract-related business, custom synthesis business, and that team has supported at the backend with an R&D team as well. So, there are people at R&D who are working only with the custom synthesis business team for ensuring that whatever are the enquiries that are coming are getting converted into samples and progressing with the registration for exports as well.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: Sir, my question is related to seed business, we were working on developing multiple new seeds since our largely dependent was on the Cotton seeds and now we have already started Paddy. So can you give some more color on the seed business how we are looking from two three year's perspective?

Sanjiv Lal: So actually if you look at our portfolio, we've got largely our business coming from field crops and amongst the field crops the biggest revenue is coming from Paddy only. And we have Millet, we've got Cotton, and we've got Maize. So, these are our key field crops we of course do small amount of Sunflower and those other crops as well. And then we've got a very small vegetables portfolio which is about Rs Rs 25 crore. It is a business that we are building both through our own products as well as through in licensing of the seeds, vegetable seeds.

This quarter Q1 itself, we have launched three new Paddy hybrids in the market and these will be scaled up over time. Cotton is a relatively new part of our portfolio and these having achieved a peak about three years back in terms of number of packets sold. The quantum of business we've been doing on cotton has been declining, because of the issues that we are seeing in terms of proliferation of illegal cotton.

So, the size of the market, which is addressable market by organized players has been shrinking year-on-year. But even within this shrinking market, we do see some ray of hope because one of our products which we had launched last year, this is a Cotton hybrid called Diggaz, this we launched in Punjab and Rajasthan.

So, this has done better than our expectations in terms of off take from about 20,000 packet which we sold last year, this year we are looking to close at about 1.75 lakh packets. This is small, but for us it is big. Small in the sense of the total industry, which sells close to about 400 lakh packets. So out of 400 lakh packets, 1.75 lakh packets is very small, but for us it is very good development, because it's giving acceptance to the segment in which we have positioned this particular hybrid. Do you like to add something more Naga?

S Nagarajan: Yes, I think you commented, Sanjiv, maybe just I would say that as a strategy, we are trying to sort of fix some of the portfolio gaps that we have. Sanjiv alluded to Paddy is our largest crop. We are in the top three in the country as far as Paddy is concerned. But we also have certain segments in which we are trying to bring new hybrids so that we can plug those gaps.

In Maize, we have a challenge in terms of the portfolio that we have for the Rabi Maize. So, that is an area of focus. We have been working on that for some time. And in fact, one of the things that we are really intensifying doubling down on is trying to improve our R&D outcomes as far as our Rabi and spring Maize portfolios are concerned.

Bajra is another crop where we have a relatively better position, we are in the top three in Bajra in the country. And here we will be augmenting more hybrids in the different segments. Cotton like what Sanjiv said, we have had some green shoots we think in the North Indian markets, Punjab, and Rajasthan. We have to strengthen our portfolio in the South and Central zone as it's called Maharashtra, Gujarat, Telangana, these markets.

So our focus from an R&D perspective is to improve our offerings in this particular segment. So that's broadly what we are focused on. In addition, because of the difficulties we have faced last year, and this year in seeds, cost focus is certainly one of the areas that we are focused on.

Moderator: The next question is from the line of Viraj Kacharia from Securities Investment Management.

Viraj Kacharia: Yes, I just had two questions, first is on the RM part, so post the price increase which we have taken in the domestic business and you also kind of alluded that the raw material prices easing. So the under recovery in terms of raw material cost is by and large through in domestic business or any perspective, you can share that? And second is, earlier to one of the questions of one of the participants, you said something on 20% I just couldn't quite get it. What was it related to?

Sanjiv Lal: Yes, this 20% was related with the proportion of our formulation business in the export portfolio, And you had alluded to this question on under recovery and RM prices, what we mentioned is that we would see this getting corrected towards the latter part of Q2.

Viraj Kacharia: Okay. So this 20% is as of today as we speak, the formulation.

Sanjiv Lal: Yes.

Viraj Kacharia: International and as the registrations, which you have got in Brazil this will over a period of time should increase?

Sanjiv Lal: Yes, 20%, 22%, 24% that could be okay, because our overall export portfolio will also grow. So, having a reasonable proportion of formulations will be a good idea, because it tends to give us more opportunities in more markets.

Viraj Kacharia: What I really meant is, is there a margin difference?

Sanjiv Lal: There is a margin difference and margins are more favorable for the formulated business.

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

S Ramesh: The first question is on the cost side, your other expenses have gone up pretty sharply. So what is the kind of trend we should see for your other expenses for the year?

Subhra Gourisaria: See, other expenses is composed of various elements. One big part of it is freight and ocean freight and inland freight, which is both volume linked and also for the steep inflation we have seen both on diesel hikes and also ocean freight that will continue to see an increase. The rest of it is because other expenses it's a semi variable cost some components of it will be variable, some are fixed. So to that extent, there may be a reduction going forward. But it all depends on how the external factors in terms of freight etc., play out.

S Ramesh: And the second thought is on the target for exports and the current share of exposure. Is it possible for you to give us some sense in terms of the key markets and their share in the exports like U.S., Brazil?

S Nagarajan: Yes, I think the big markets that we export to are U.S., Brazil, we sell in Europe as well. We also have a relatively smaller amount, but we also sell in Southeast Asia. So it's fairly widespread. The dominant market is U.S.

S Ramesh: So if we're looking at the share of exports going up in the overall quality of the business will be more driven by the ability to grow your top line without much impact on the margin. So do you see some impact on the margins as well when your share of exports go up?

Sanjiv Lal: See, margins sometimes tend to be a function of the competitive pricing, right. So in certain markets where our product is registered there, we tend to be a little more stable. So the pricing will be impacted by competitive pricing as well.

Moderator: The next question is from the line of Bhawana Israni from Anand Rathi.

Bhawana Israni: My question is, currently crop nutrition businesses contribute around 5% to 6% of our revenue. So, anything is coming from the export market or is completely from domestic market?

Sanjiv Lal: Crop Nutrition is presently entirely domestic. But there are some opportunities in the neighboring countries that we are exploring. So there could be some export, but very small in the near future.

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

Sanjiv Lal: Thank you. As we had started on a positive note, I must also end on a positive note. The overall sentiment for monsoons is good and agriculture has started showing progress during July. We are in the midst of the liquidation season for our crop protection portfolio. And all efforts are on to ensure successful liquidation of our products, including our seeds business, and we are working to expand our business in the international markets as well. Agrochemical industry witnessing significant volatility in prices and we will continue to work in agile manner to navigate the same by taking market benchmark pricing decisions. With that we can close the call and we will again connect three months from now with our September results.