Rallis India Limited

Q4 FY21 Earnings Conference Call

April 23, 2021

Moderator: Ladies and gentlemen, good day and welcome to Rallis India Limited Q4 FY21 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.
Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India Limited's Q4 and FY21 earnings conference call. We have with us today Mr. Sanjiv Lal – Managing Director and CEO, Mr. Nagarajan – Chief Operating Officer and Mr. Ashish Mehta – the 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 risk and uncertainties. A detailed statement in this regard is available in the result presentation. I now invite Mr. Sanjiv Lal to begin proceedings of the call. Over to you Sanjiv.

Sanjiv Lal: Thanks, Gavin and good morning everyone and welcome to our quarterly call. I trust all of you are safe, along with your family members in the current context of the pandemic. As mentioned by Gavin, I have with me on the call, Mr. Nagarajan – our Chief Operating Officer and Mr. Ashish Mehta – our CFO.

I'll begin the call with a quick overview of the key trends in the sector post which I will move on to Rallis specific development. Amidst the rising COVID cases, one positive news has been the forecast of a normal monsoon by both IMD as well as Skymet, the quarter gone by marked about the 3% increase in Rabi sowing area in India. Good credit growth in rural India kept sentiments buoyant. And globally also the sentiment for pesticides remained positive.
Moving on to Rallis specific developments:
Let me start with the headline numbers first; for the quarter, we reported revenue growth of 36% and profit of Rs. 8 crore compared to 0.68 crore in the previous year, driven by improved performance of domestic and International business. The growth rate was also aided in part by the low base of last year. For the full year as a whole as well we have delivered a fairly steady revenue and profitability growth of 8% and 24% respectively.

More than the headline numbers we are pleased with the factors behind the numbers, which are driving the growth. As discussed earlier, we have invested in capacity expansion in some of our plants, which has been completed. Our new formulation facility is expected to be commissioned during the first half of FY22 and the multipurpose plant later in the year. Our newly launched products are getting a good positive feedback from the customers, although demand generation effort was somewhat hampered through the year due to inability of our team members to engage directly with the farmers. Further our revised credit terms as well have been well received as can be seen by our cashflows and Ashish will address shortly on the same.

Our International business is shaping up well with good demand for majority of our key products. With regard to contract manufacturing business while we are continuing to witness stress at present, we are undertaking requisite steps towards reviving the business. I will talk about it in detail shortly. In the seeds business, we are undertaking steps to address the present cyclicity in our product portfolio.

Let me now dwell a bit more in terms of our strategy for each of our business segments:
Starting with the domestic business first. As we have indicated in our previous calls, our efforts are directed towards delivering steady and consistent growth in the business. We have drawn a three-pronged strategy towards achieving that objective, first being to strengthen our product portfolio. We have started that as we are introduced, at least two new products in each year as what we have stated. In FY20 itself we introduced six new products, two of which were in house while the others were co-marketing. Continuing with the same trend we introduced three products during the current year and we expect to introduce new products in the coming year as well which will help us drive the revenue run rate.

In addition to introducing new products, we have also undertaken a detailed analysis of our existing portfolio and have identified product gap to plug, to drive growth. Lastly, our credit terms have been well received by the market not only has our product off-take run rate improved but so has our collection cycle and cashflow as well. We believe the combination of the above measures should help us maintain and drive the business momentum in the near to long-term.

Moving to the International business: We are witnessing steady demand for most of our key active ingredients. We have also selectively undertaken expansion and debottlenecking of capacities where we see significant growth. As most of you may be aware we have completed the capacity expansion of Metribuzin wherein we have a significant presence globally. Further we have also expanded capacities for Hexaconazole and Pendimethalin. Further we are also working towards improving our product mix in this business, registering our own products in key markets and increasing the share of formulation business in the overall product mix.
I'm pleased to report that we have already received registration for Metribuzin technical in North America and for Metribuzin formulation in Brazil. Secondly, we are also working towards augmenting the overall product portfolio for the business and are on track to add new products. Lastly, in terms of contract manufacturing while we see softness in the business in the near term, given our limited portfolio, we are undertaking steps towards developing the business to make it a key growth driver going forward. With that in mind, we have put in place a dedicated

team for the business and aim to leverage our strength to develop our partnerships with global players. Our portfolio approach of having multiple business has provided us the stability when some parts of our portfolio are being challenged.

Moving on to the seeds business: As mentioned earlier our attempts have been directed towards building a comprehensive product portfolio to eliminate the cyclicity present in the business at present. We have a strong Kharif portfolio at present with our dominant position across product categories. With regard to the Rabi segment, we are exploring in licensing opportunities to launch Rabi maize and vegetable seeds till the time our own hybrid seeds get commercialized. Hybrid mustard launched recently has done well. We have also during the year launched a couple of new products which have been well received, two new products in maize, one in bajra and one chilli. We are also undertaking investments towards building a strong product pipeline for strategic crops like cotton, maize and vegetables. We are hopeful that these efforts will help us address the existing gaps in the business and enable us to develop a comprehensive portfolio going forward.

A quick word now on CAPEX before I hand over to Ashish:

Of the Rs.800-crore odd CAPEX plan approved by our board, we have firmed our plans for about Rs.550 crore till date, of which as mentioned earlier we have completed expansion of a couple of our products and two more will be completed by June '21, i.e., by the end of Q1, along with the annual shutdown of our Ankleshwar facility. We also expect the CAPEX encompassing our multipurpose pilot plant and automation etc. to be completed during FY22.

To summarize:
We believe we are well placed to deliver stable and consistent growth over the coming years. All the businesses are shaping up well, strategically heading in the right direction while some may be ahead of the others in terms of pace and the level of progress attained. But broadly as I mentioned earlier, all of them are heading in the right direction.

With that I now request Ashish to walk us through the financial performance before we open it up for Q&A. Over to you Ashish.

Ashish Mehta: Thank you, Sanjiv and welcome everybody to the earning call. I hope you all are safe and keeping good health.I will quickly go through the financials for the 4th Quarter and then for the full year .

Revenue at Rs.471.26 crore was up by 36% compared to same quarter in the previous year. Operating EBITDA at Rs.17.72 crore compared to negative Rs.9.81 crore in the same quarter of previous year. Profit before exceptional items stood at Rs.9.88 crore compared to loss of Rs.14.08 crore in the same quarter in previous year. There is an exceptional item of Rs.1.68 crore which relates to profit on sale of assets during the quarter and finally profit after tax of the exceptional item stood at Rs.8.12 crore compared to a profit Rs.0.68 crore in the same quarter in the previous year.

For the year revenue of Rs.2,429.44 crore grew by 8%, operating EBITDA at Rs.322.89 crore, a growth of 24.5% over previous year. EBITDA percentage at 13.3% compared to 11.5% of previous year, a growth of almost 170 basis points. Profit before exceptional items at Rs.294.06 crore, a growth of 30% over previous year and profit after tax at exceptional item is at Rs.228.58 crore, a growth of 24% over previous year.

Now I will give you the business wise break-up for the Q4 as well as for the year end:

Domestic formulation business revenue at Rs.172 crore registered a volume growth of 25% with a price correction of 10% downwards resulting in net growth of 15% for the quarter. For the full year total revenue stood at Rs.1,084 crore versus Rs.949 crore in the previous year; registering a volume growth of 16% and a price correction downward of about 1% resulting in a net growth of about 14%. International business registered Rs.230 crore revenue for the quarter, a growth of 73% over the previous year, largely driven by volumes across all active ingredients.

For the full year, total International business clocked at Rs.741 crore versus Rs.722 crore in the previous year registering an overall growth of 3%. A breakup of which is largely volume with a price correction, mainly Metribuzin. While growth rate was seen across all major active ingredients, price correction as I said was in the Metribuzin which pulled down the overall growth.
Crop nutrition, this includes both GeoGreen and plant product nutrients, net revenue for the quarter was Rs.23 crore compared to Rs.19 crore in the same year in the previous year and overall growth of 21%, largely driven by volumes. For the full year crop nutrition is at Rs.120 crore compared to Rs.98 crore in the previous year registering a handsome growth of 24% again partly driven by volumes. Seeds for the quarter was at Rs.26 crore versus Rs.24 crore of previous year, largely driven by better price realization and revenue for the full year was at Rs.401 crore compared to Rs.364 crore in the previous year. EBITDA for the quarter is 3.76% versus negative Rs.2.8% in the same quarter in previous year and for the full year EBITDA stood at 13.3% versus 11.5% registering an increase of 177 basis points. The earnings per share for the year FY21, is at Rs. 11.75 versus Rs. 9.51 in the previous year.

The company's working capital days were at 86 days versus 83 days in the previous year, receivable days improved to 61 days from 73 days in the previous year. Cash from operating activities stood at Rs.216 crore and total liquid investment as at 31st March ‘21 stood at Rs.321 crore after meeting CAPEX overflow of roughly Rs.160 crore. ROCE for the year is 18% compared to 16% of the previous year. The Board considering the result is pleased to announce any pretty dividend of Rs. 3 per share compared to Rs. 2.50 paisa per share in the previous year.
That's all from my side, We can now start the Q&A session.

Moderator: The first question is from the line of Rohit Nagraj from Sunidhi Securities.
Rohit Nagraj: The first question is in terms of R&D. How does the way product pipeline look for the next 3-4 years? And what would be our focus crops or focus areas from new product introduction point of view?

Sanjiv Lal: In terms of our pipeline, we have already stated that we will be targeting, introducing at least two new products from our R&D efforts. I would say pretty much we are in line with what we have stated and our pipeline also is looking reasonably healthy going forward. We have done a very detailed Gap analysis of what we need to do in terms of our portfolio. We do have weaknesses in certain segments which we have identified for which the work is currently underway and over a period of time, as you are aware that it goes through a registration process, development process so we will be having these products getting introduced into our portfolio and some of these are related with segments like wheat and soybean. We will be having products in that category as well. And also, herbicides which is another area where we are also working on getting a couple of formulations to strengthen our overall product mix for the crop protection portfolio. Likewise, on the crop nutrition portfolio, we have also identified opportunities for introducing new products. We have seen a good traction for some of the products that we have introduced. Some of them, which we introduced during FY21 included our fertigation related products for vegetables and grapes and we have also introduced neem based products; again for the segment looking at biologicals and we will be having a couple of additional biological products getting launched during the upcoming Kharif season. Specifically on the crop protection, certainly we are going to have two per year and on the crop nutrition side as well, there will be new products as well as on the seeds side where a number of hybrids have gone through the various pre-commercialization stages and we did introduce three new hybrids into our portfolio last year and we look forward to introducing a couple more in each of the years so that will help in refreshing, renewing and rejuvenating our portfolio in all our categories.

Rohit Nagraj: My second question is in terms of geographical revenue target for FY25. Currently we had about 63% from domestic and 37% from International and the target suggest that about 60% domestic, 40% International. Is our focus still on the domestic market, given that there is no material shift in terms of our geographical revenue break-up for the next 4 years?

Sanjiv Lal: It is our stated position that, we want to expand our International business and this comprises both the B2B sales, as well as the contract manufacturing opportunity. And we do see a lot of opportunities in contract manufacturing for which we have already put in place a team to work with various innovators across the globe to see what are the opportunities that we can take forward for partnering on the supply chain of some of the innovators and other users of agro-chemicals including intermediates. We do see a growth in that segment both for actives as well as intermediates and also on the formulations because we have won a couple of registrations. In Brazil we had got one formulation for Metribuzin during FY21; we also have got the approval for an insecticide formulation. We are waiting for getting the state level registration within Brazil for us to commence our sales with the insecticide. We do expect a good traction from our export's business but that is not to say that we are reducing our intensity on the domestic side but I would just like to re-emphasize that the domestic market is a key growth area for us. It is the largest part of our portfolio. We are expanding our portfolio beyond crop protection to crop nutrition to biologicals and of course seeds which is an important part. There is a good pipeline of work which is happening, especially on some of the problem areas which we have in our portfolio related with the Rabi crops in our seed portfolio. The work is very much on. So, we will be growing that but this 60:40, I will just like to clarify is related with the crop protection side.

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

Varshit Shah: My question is first on the reach. I think if I to do a simple math that you currently have a reach of 48,000 retailers with 3700 distributors, that's roughly around 13 retailers per distributor but the target which you have set out for FY22 is 65,000 retailers on 4,000 distributors. That's roughly a ratio 16 retailers per distributor. Are you expanding the area of coverage for distribution or is there a change in alignment strategy at the distributor level?

S. Nagarajan: Actually, what we have done Varshit is that, we had done a pilot exercise trying to assess the coverage that we are getting at the retail level. What we find is that there is certainly a scope for us to increase the retail coverage and while we are referring to the numbers at this point in time, what we also feel is that it is important to look at the throughput that some of these retailers are carrying. In terms of numbers certainly we would have to increase but more importantly we would have to increase in the relevant set of retailers who are having high throughput. The intention is to increase the retail footprint and certainly we will be leveraging the existing distribution channel to achieve it and of course, wherever we find that there are pockets where we need to add distributors, that will also be done. That is why we are expecting an increase in both- more retail coverage per distributor as well as more distributors.

Varshit Shah And secondly, on the new active which you are looking forth to add in the coming year so will that come up in the new MPP or you have some capacity on existing MPP as well to start? And if you could give a broader timeline as in H1 or H2, when do you plan to start the new active ingredient for the International segment?

Sanjiv Lal: Varshit this is what will go into the new multi-purpose plant and that plant is getting constructed and we are expecting that we should be able to commission that plant during this year but things may change because of the kind of difficulties that the country is going through with a lot of the labor which works on the project site, having moved away for their own reason. And we are seeing that even at our CZ formulation plant so there the number of people who we really need for completing the project has also decreased. That being said, our intention is to commission the multipurpose plant during this financial year where the new product will go. We don't have appropriate capacity available for us in the existing plants because most of them are dedicated plants.

Varshit Shah: Can you just call out the CAPEX plan as per today's plan for FY22, in terms of spends?

Sanjiv Lal: We have an overall plan of in terms of cashflow, we have done about Rs.158-Rs.160 crore during FY21 and we are expect cash-flows of about Rs.250 crore for FY22.

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

Chintan Modi: One, if you could discuss a little bit more about this new product launch i.e. Eevee. What is the kind of market size that you are looking at? How are we planning to scale that up? So, that is one thing and also from this Gap Analysis perspective where you mentioned wheat and soybean will be our focus. Could you help us understand what would be the current portfolio in terms wheat and soybean and any potential launches in this same in next year?

S. Nagarajan: Eevee is a combination of a Strobilurin and a diamide. It is a fungicide plus an insecticide combination. It is in that sense a unique product, Kryzoxymethyl plus Flubendiamide. This formulation is aimed at a couple of crops. One is paddy and the second one is vegetables and particularly in vegetables, tomato. In the case of both these crops, it would be useful in the middle stage of the crop. For example, in the case of paddy, between 45 to 60 days and in the case of vegetables in the flowering and fruiting stage so not in the early stage of the crop, not in the end stage but in the middle stage of the crop and it is aimed at sheath blight and leaf folder. These are the problems of the farmer that this particular combination is expected to address. It is a product where the cost of application is a little bit on the premium side. It's closer to about Rs. 1400 per acre so it is a bit of a premium product and therefore it would be found attractive for farmers facing specific kind of let's say difficult problems in some of the premium geographies. For example, in the case of paddy, we would expect that places like Punjab, Haryana, Utter Pradesh; may be in the case of tomato, it would probably be places like Maharashtra. These are the kind of places where we would expect this product to be of appeal because we must remember that there are also lower cost products that are available. But of course this one is having utility in a more difficult situation, more stressed situation. The overall market size for this product for paddy and tomato, for sheath blight and leaf folder maybe is about Rs.700 to Rs.800 crore overall market but as this product would be in the premium end of it so maybe the addressable market, what we can think of is maybe Rs.150 to Rs.200 crore. This is some detail about Eevee. We have introduced this product and this would be the first year effectively of seeing the ramp up and so on. As far as soybean is concerned, the last year we had introduced a product called Enzip. It was a co-marketed product and towards the end of the previous year, that is FY20, we had introduced Impeder which was for the wheat segment. We have a few introductions that have gone in. There are many more which are in the pipeline which our R&D is working on. Parallelly we are looking to strengthen our distribution infrastructure like we already spoke about in the previous question in specific geographies, Madhya Pradesh and also parts of North India, where wheat is grown to take advantage of these product introductions.

Chintan Modi: My second question is with respect to the International business where we have seen volume growth but wanted to understand more from a price recovery perspective. Last quarter also we had seen raw material prices increasing and that has intensified further. Have you seen any price increase because at least in the domestic market in Metribuzin, Pendimethalin we are seeing some good amount of price uptake so in that perspective…?

S. Nagarajan: If you take the full year perspective, FY21 over FY20, we do find that international prices of Metribuzin; what we have been able to notice is that there is an average drop of about 40%. That is the YoY drop. However, something which has been picking up, from having hit a low point in Q3 so through Q4 we have witnessed some improvement but certainly if you still take the annual comparison, it is definitely low. We do think that it will improve progressively over a period of time. In fact, that is the reason why that although we had volumetric growth in Metribuzin, Ashish already mentioned about the increase in revenue of the B2B business. It has moved up this year to Rs.740 crore compared to Rs.722 crore in the previous year meaning a growth of just about 3% but that is in spite of having volume growth in all the active ingredients and really this 40% drop, in prices has actually contributed to the revenue actually growing by only about 3%.

Moderator: The next question is from the line of Amar Maurya from Alf Accurate advisors.

Amar Maurya: Sir firstly, after consecutively 3 years of EBITDA margin contraction in FY21, we had reported a 1.6%, 170 basis point expansion in the margin. Do we see this trend to continue from here on?

S. Nagarajan: Maybe we can talk about some of the initiatives that we have taken and in terms of going forward, what are the things that could influence it. One is certainly we have looked at our portfolio and tried to prioritize certain products where our margin profile is a little better in the domestic business, domestic crop protection business. That is one of the initiatives we have taken. We had also adopted what you can call as a high-frequency pricing approach this year, consequent to the volatility that we anticipated and later witnessed as well in terms of our procurement prices. We also had to contend with the kind of price changes on certain products like Metribuzin which we spoke about in the International market which went in the opposite direction. As we look ahead, we think that some of these approaches we will certainly continue. We will continue to have a focus on the product portfolio as far as possible try and emphasize the better margin products. We will certainly have a very close pricing approach because we do expect the volatility to continue if not actually increase really. On the International prices certainly, we do expect some improvement in the Metribuzin prices but like it was mentioned in the earlier call there are a couple of active ingredients, where perhaps the International prices are a little bit higher than where we would expect them to settle down at. Pendimethalin was one of the examples that was cited so maybe there could be a little bit of moderation there but overall, we do think that this approach and this kind of an outlook and the monsoons in India are predicted to be good. The unknown factor is the extent of COVID impact but if you keep that aside, we would be positive about the evolution on the margin front.

Amar Maurya: Second question is on the CAPEX. If I see currently out of the Rs.436-crore kind of a CAPEX at least Rs.230 crore kind of a CAPEX would be a revenue generating CAPEX so I am eliminating the formulation, pilot plant and the R&D facility CAPEX. In that historically we had generated 2.5 fixed asset turnover ratio, even if we consider two times fixed asset ratio then also it's round about Rs.450 crore revenue and remaining Rs.364 crore CAPEX which is yet to be planned, which will also have a potential revenue of round about Rs.700 crore. So, is it fair to assume that in next 3 to 4 years, we are building a base for something around Rs.1,200 crore of CAPEX additional on top of whatever is there in the business and this will be materialized in this

3 to 4 years' timeframe? So, I will just repeat again. Out of the total 436 crore of CAPEX which is outlined so what I am doing is the formulation plant basically was a shift. So, it's not going to…
Ashish Mehta: It's not a shift Amar. I don't think it's a shift. It's a new formulation plant where new products will be produced, nothing to be done from the existing plant, where we have a formulation business.

Amar Maurya: Then the revenue growth will be I mean I am just assuming that then the revenue potential would be higher than the Rs.1,200 crore. Idea is that can we address this kind of revenue potential in next 3 to 4 years?

Sanjiv Lal: Our CAPEX program is intended to expand our manufacturing capacity and while you have got your math Amar, but we are looking at investments which are value creating. We use internal rate of return to determine whether we should make the investment or not and while you have carved out what looks like a value creating through volume growth, but I would also like to add that things like pilot facilities and all these are all part of the value creating process only because without that we cannot commercialize some of the things that we are doing in R&D.

Amar Maurya: What I am trying to understand, out of this total CAPEX of Rs.800 crore, whichever we have planned, is it fair to assume that what kind revenue potential it can generate?

Sanjiv Lal: Again, it's a little difficult to answer that question in a straight way Amar because the volumes don't come out in the first year of commissioning these kinds of assets. So, ultimately, they may reach the numbers that you are proposing, maybe even more but that is the approach which we have to take. Unless we build the asset, we will not be able to get the volume.

S. Nagarajan: And also Amar just to add, the way we have done it, every single one of these CAPEX proposals actually we evaluate as part of our investment process and some of them may involve products which are let's say of slightly lesser margin and therefore higher revenues so that the combination of the two kind of justifies the business case. In some cases, it may be a higher margin product but at lower revenue build up and the third thing is that when you have debottlenecking investments like for example, when we have talked about expansion of Metribuzin or debottlenecking of Hexaconazole, the additional revenue that you may get for a particular level of investment, i.e., for the marginal investment may be quite a bit different compared to the average investment. So, it is a combination of all of this and a formulation plant obviously as you know is quite a bit different in terms of the asset turns if that is what you are trying to make a judgment on. It's a little bit hard to quantify in that way but all these investments including pilot plant for example, these are all value creating and are required in order to bring some of the active ingredients that we are developing in our laboratory into the market. They are all value creating is what we would say.

Amar Maurya: In this typical 2.5x kind of asset turn normally it takes how much time to reach to that kind of levels?

S. Nagarajan: See, that's what again like Hexaconazole debottlenecking, we have already started reaching, we implemented the project last year FY21 and as of March we are almost hitting close to 100% of the utilization. That way it is very quick but if it is a newer product then it will also depend on the off-take of the product,. We have to secure the customers or get the kind of confidence in terms of the volume build up. It will vary whether it is a debottlenecking or whether it is a new active ingredient. Formulations also, it will move at a particular pace because in the first year we would be doing introduction of the product, demand creation and then after that we would also have to follow it up with multiplying the original set of users. It will depend on whether it's a debottlenecking, new AI or a new formulation.

Ashish Mehta: Just to take an example Amar and to make it more clear; like in case of Metribuzin when we expanded in two phases, if each equal to 500 tonnes, total investment was around Rs.35-Rs.40 crore. But if I were to generate the revenue and considering that the capacity is being used fully; 1000 tonnes would roughly give a revenue of almost Rs.130 to Rs.140 crore. In that case, if you see the asset turnover will be looking much-much higher and in a case of a formulation plant, the plant is always built at a very-very high capacity. Again, it depends on what type of product you are doing, whether it is a low margin and a high value or vice-versa. There it will be difficult to say that whether the asset turnover will be 1.5 or 2 but yes over a period of 3 to 5 years, it will be reasonable to expect a minimum asset turnover ratio of 1, minimum.

Moderator: The next question is from the line of Nitin Gosar from Invesco.

Nitin Gosar: If you can help on some update on CRAMS. I think I missed out probably on the update. Second is, if I were to look at the numbers, after 7 years, we have crossed the earlier reported high numbers on EBITDA and PAT and I recollect when you took the charge 2 years back, you highlighted revenue will flow earlier and margin will have its own journey to play out over a period of time. Where are we in that journey where revenue has started to flow? Are we closer to the mark where margins can respond at a faster pace, incrementally from here on or we are still in the investment phase?

Sanjiv Lal: Nitin, I would say that the margins and all are function of the portfolio, and we are in the process of re-looking and renewing and rejuvenating our portfolio. That will happen over a period of time and therefore we have prioritized our growth to say that we need to build scale and that is what we are doing. I would say largely we are moving in that right direction. And as far as the contract manufacturing is concerned, you are aware that we do have a limited portfolio and as part of this portfolio one of the product is linked with the Airline industry through the polymer and that had a significant setback on account of the difficulties that sector is facing. We are expecting that maybe towards end of FY22, that will also revive and then we will be back to a good trajectory as far as the polymer is concerned. But what is more important from our perspective is to expand this portfolio and look for newer opportunities and as we had mentioned in earlier calls, if you had been part of that; relative to some of the other players who have become fairly big in contract manufacturing we are in a much, I would say, weaker position in this particular category. It is a category that we have to build over time for which we have put a team in place who is now engaging with both International players who are doing formulation work, who are doing the B2F, the farmer related engagement so both for active ingredients, for formulation exports, we are looking at the entire portfolio, including intermediates. That is the work which is currently underway and it will take time for it to build up. We have resourced it and we expect that over a period of time, we will start getting a couple of contracts to build up this portfolio. As of now, I would say it will be work in progress.

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

Abhijit Akella: First, just a clarification on the margins this quarter, the expense lines rather, both other expenses and employee cost seem to have increased quite sharply compared to the run rates we were running at in the previous three quarters of the year. Just trying to understand what might have driven that and what we should expect for these lines going forward in succeeding quarters?

Ashish Mehta: Abhijit, on the employee cost you see there's always an impact of actuarial valuation which comes at the quarter end, that is one impact which we have and another impact is only increase in headcount which we generally do or the placement of the people going around and also filling up the important portfolio gaps or rather territory gap. So, that is more of an investment. Other expenses for the quarter looks high because if you see in the first six months-nine months, the intensity of the field activity was very low due to COVID ,but in the last few months with relaxation in Covid guidelines the travel started happening, more of a field activity started happening. You have seen numbers of field tours were deployed more or other more means in terms of the previous quarter. The sales promotion activities were also being done aggressively, perhaps the expenses where there so in the fourth quarter, that is why the other expense looks a little higher. That is the explanation for it.

Abhijit Akella: The other question I had was just with regard to this CAPEX and the sweating out of the assets that we've commissioned. So, Metribuzin while you mentioned Hexaconazole you're already doing a 100% of what you commissioned, how does it look like in the other products where we expanded capacities over the past year?

S Nagarajan: Last year, in addition we had a Kresoxim Methyl plant also commissioned; debottlenecking again and that is also running at almost full capacity. As far as Metribuzin is concerned, we are also in the process of reorganizing our equipment from their present location to a consolidated location, so that we are able to better drive efficiencies in operations. In anticipation of that disruption, which we had expected to take till the end of the quarter Q1. So, April, May, June, In anticipation of that disruption, we had planned to take the production right up to March as full levels of capacity, even though the demand side has been somewhat soft. Therefore, in a way you could say that we have been running at full capacity utilization on the Metribuzin as well. But I think with the understanding that the demand side is certainly not running at the full capacity utilization levels, the demand is still continuing to be soft. Acetamiprid and Lambda are projects, which are under execution now, so I guess once they are executed, we will come to the utilisation levels. But in the first year we have not planned 100% utilisation for both these products. These are as far as the active ingredients are concerned.

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

Tarang Agrawal: The placement season has commenced and IMD has come up with the positive forecast for monsoons. But the spread of virus seems extensive through the country. in this backdrop I have a couple of questions. One, how are you seeing the demand of your products in the domestic market and what are the bottlenecks that you're seeing in placements, in terms of logistics, availability of manpower so on and so forth? So, that's one and the second, are you witnessing any change in cropping patterns especially because domestic trends appeared to be decoupled from what's happening globally?

S Nagarajan: Coming to the COVID impact, I think without sounding overly negative, I think it is to be acknowledged that the challenges posed by COVID are significant on multiple dimensions. We have had some of our staff for example, COVID positive, in many of our factories, we have had challenges on the raw material and packing material front. We have had challenges in terms of getting the required labour for our formulation plants, as well as in our third-party formulators for them to be able to get the labour and certainly transportation, either inbound as well as outbound, both arrival of raw materials into our plant as well as dispatches from the plant to the markets. We also have challenges in importation of materials, because of various kinds of lockdown, lesser percentage of people permitted to work, leading to delays in being able to clear the materials which may have arrived at the port. So, I would say that the challenges are on multiple dimensions, some of the actions that we are taking, I guess, the most important and the first one that we are prioritizing is the personal health and safety of our staff, so that we have very clearly communicated is the number one priority. Secondly, we are also prioritizing the operational safety in our plants, because as you know some of these things even in the last year, learning from the last year have led to a lot of mishaps in a number of plants across the country, whether in this industry or in other industries. Obviously we are constrained to prioritize the areas which we will take up during our annual maintenance shutdown, which is presently underway in couple of our plants, but we are certainly prioritizing the high risk areas you can say.

For raw materials, we are focusing on stocking up wherever possible, even if it means a higher level of inventory. In fact, last year also we had adopted a similar kind of approach. I think we will deploy a certain amount of capital in raw material stock-up and perhaps even in finished goods, production and stock up. Like in the case of Metribuzin that we alluded to earlier. For packing materials, we are trying to sort of bring them in as much as possible, but we are to a great extent dependent on a number of our suppliers. We have obviously tried to have a diversified base of suppliers, but certainly I think that is one very important area and that in fact has also delayed to some extent our new brand architecture rollout, because we are finding that it is little bit hard to get the required complement of packing materials for all of our products. But I think that is something which we are living with and we will probably focus on getting the material out, even if it is in the old brand architecture, but parallelly try to get the new brand architecture going. On the logistics front, yes, I think there are challenges, so we are trying to sort of prioritise as much of stocking in the tail end of our supply chain rather than in the fountainhead of our supply chain. We have a couple of hubs in our domestic formulation business and we've got a number of depots, 25 depots across the country. I mean, the more efficient way would obviously be to stock up at the hub and then move it to the depot as and when the demand arises. But I think that is the more conventional route we are now trying to be little bit unconventional there, trying to actually stock up at depots to overcome the logistics challenges whenever we are able to get the trucks and all of that, we are trying to prioritize that.

So, these are some of the actions that we are taking and we will have to actually there is no prescribed formula that we are able to sort of identify, we are just trying to do the best under the circumstances. I think that is what we tried last year, and we are encouraged by the success that we got last year. We'll continue to do that this year as well.

Tarang Agrawal: How are you seeing demand for placements?

S Nagarajan: Demand for placements is positive, like you said IMD, Skymet everything is giving a positive picture. One of the things that we also learned last year which I think we have called out in our investor deck also, is that we found that because we are constrained in terms of physical demand generation, we were forced to rely on digital means but then the digital means are useful as a reminder medium not necessarily to position a new product. So, we were in a sense challenged in terms of scaling up some of the new products where the benefits had to be kind of demonstrated to the farmers. So, the share of the legacy products, the brands, which were strong in our portfolio that has actually increased last year. So, this year we were hoping that if COVID had abated, we would have had a better chance. I mean looking at the way things were in Q4 when mobility was possible, we thought that we will really be able to ramp up our demand generation for the newly introduced products of last year and the year before. However, I think that is something which may now prove to be little bit more difficult. We would expect therefore the trend of last year to continue, which is that the legacy products might acquire a larger share of our sales mix rather than the new products and that in fact influenced our ITI achievement last year as well.

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

S. Ramesh: The first thought is now if you look at this year first half versus the last year whereas a similar situation in terms of COVID and the impact. So, if you can help us understand on a Y-o-Y basis assuming that monsoon is normal and the placement is normal on the base of last year, would you be just about maintain the numbers or it is possible to see some volume growth for the domestic formulation market?

S Nagarajan: Without sort of providing some kind of guidance on this, we could say that the environment is certainly from the standpoint of demand outlook and from the standpoint of the good monsoons, things are looking positive. Like we already said, COVID is definitely one factor which we cannot predict; we are taking the actions that I mentioned to you in terms of coping with that. So, at the moment, things are looking certainly positive, simply because of the experience of last year, we are little bit you can say prepared in some dimensions, but some other dimensions may be completely new this year.

S. Ramesh: Second thought is you mentioned the biological, so in terms of the opportunity size and the kind of investments and as you share a disclaimer do you have any goalpost can you share some thoughts on that?

S Nagarajan: We have introduced biologicals last year in FY’21 with the Neem products that we've mentioned, and we will be having more products coming in as part of our pipeline. Because it is a new category for us, our focus is really to establish this asset like model, which we are following, which is in terms of sourcing the products from a number of partners. So, I think we need to stabilize, we said that we need to stabilize our business model in the course of this year, before we put down specific goalposts in terms of revenue targets for this category.

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

Rohan Gupta: My question is more on the long-term strategy of the Company and the vision which you have shared for FY’25, the International business would be roughly 40% of the total revenues. So, just wanted to understand little bit more, right now even the current mix also, you have roughly 37% of business is coming from the International business and even if after three years also you are looking at roughly 40% contribution from the International business. So, that elude that domestic growth probably cannot be more than 12% to 15% even at the best of the case and the best of the year. So, do we understand that even the International business also cannot grow probably just more than that 12% to 15% or maybe just a percentage higher in next 2 to 3 years or where we are seeing the limitation, because you have a mentioned some very selected points here in your presentation and the slide number 10, that how you want to grow the International business. So, my question is more on the over next 3 years, why the revenue contribution from the International business still will remain at 40%. I mean that’s what we are targeting right now. Just want to understand more on that.

Sanjiv Lal: No Rohan, you'll be aware that we have our existing portfolio which we will continue to be investing for adding capacity as the opportunity keeps emerging and of course you also aware that we are going to be introducing new active ingredients into the International market. The challenge is introducing anything new is it has to go through a registration process. It will take some time to build up in terms of value and volumes and we also looking at intermediates as part of our overall portfolio of exports as an opportunity. Because for Intermediates, we don't need the kind of time required for registration and all of that because it goes in for making an active. Those could be some slightly shorter cycle time opportunities. All these we are looking at. I'm not saying that we will continue to grow at 20% to 23% growth for the crop nutrition portfolio. It will be nice to be there, but we are adding products which are relevant for the crops that we serve to see how that part of our portfolio can also create traction for the volume growth.

Rohan Gupta: So, I get your point. On the same presentation slide, that where you had mentioned that you aim to be part of an innovator's supply chain in the form of exclusive business agreement for the manufacturing of any AI. So, there we understand that, when you're talking about the to be part of an innovator's supply chain, so it means that right now you are only your, our business is more focused on a generic product, but there you want to move ahead and helping the innovators in terms of the launching the products or manufacturing the products, which have yet not been commercialized. That's what we understand so for now this business. I mean, where probably the companies are like PI and Deccan and all are there. So, is that understanding right that you are in talks with some of these innovators and want to be the part of their supply chain where you are planning to help them out, will be helping them in the product innovations and will be associated with them at the early stage of product development and is there any breakthrough on that?

Sanjiv Lal: I think you're going into very-very specific areas, but I would like to just keep it more the generic. When you talk about supply chain, it is both actives as well as intermediate and we are also competitors for many of the innovators, so we need to keep that in mind when we are looking at our contract manufacturing portfolio and therefore it may be generic, it may be a newer technology, newer patented molecules or it may even be intermediates. We have to leverage with what is skill; our skill is with R&D and our skill is manufacturing, where we have a lot of competencies. So, these are the skills we will leverage for partnering with innovators, partnering with International players for expanding this category beyond the active ingredients which we are selling as part of what you may call a catalogue sale. We have the off patented molecules that we can sell to multiple customers.

Rohan Gupta: Yes, so we are planning to expand our catalogue and over next two to three years that is a kind of service we are planning to go ahead with and planning to offer that catalogue to the global players?

Sanjiv Lal: Yes, catalogue is basically a Pendimethalin, Metribuzin, Acephate, Hexaconazole, these are existing active ingredients which you may call as part of our catalogue. So, we can sell it to anyone, wherever we have registrations available in a country, we can sell it to anyone. Contract manufacturing means it is peer to peer. That means we will work exclusively for a particular product with a particular partner. So, there's a difference between what may call a catalogue sale or a contract manufacturing sale.

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

Viraj Kacharia: I have two questions on the International business. First is, you talked about us giving registration for Metribuzin in Brazil, in US. So, if you look at last year and a half, we saw good amount of pricing pressure in Metri and part of it was the inventory build-up in North American market. So, how’s the situation now there and with this relationship is now in place what kind of a market potential is open to us now?

S Nagarajan: Yes, I think that is correct, the market situation was tight last year. Therefore, we were carrying stock in Metribuzin. What the registration allows us to do is to increase the number of clients, number of customers with whom we could engage because we now have the registration, our own registration. This is what we have started doing. We are in the process of expanding our customer base. So, the external conditions are also likely to be better, that is what we think. So, therefore we are hoping that Metribuzin will pick up in the course of this financial year FY'22.

Viraj Kacharia: Second question is, in terms of broadly in terms of existing products which we cater to the International business, we are almost at close to full capacity in most of these products and we have a good capacity share compared on a global basis. So, based on your understanding of the market, have you see any other major capacity expansion elsewhere happening for these products and in that sense, how should we understand the overall pricing environment for these plans?

S Nagarajan: Well, I think if you take it product by product, yes. In some products as you know Hexaconazole or in Metribuzin or even in Pendimethalin we have a significant share of the market. In terms of capacity increases in some of them, like for example, Hexaconazole there has, in our understanding last year, been a contraction of capacity. Partly also explaining the the price improvement that we witnessed on Hexaconazole. Of course, it is a product which is largely confined to the Asian markets, mainly targeted towards Paddy crop. Metribuzin on the other hand there was a demand side challenge. I think that we should expect a reasonably stable capacity level in Pendimethalin and in Metribuzin. Acephate there is a significant amount of capacity which is getting built up, but that is not a new development. It's been under construction for the last let's say sometime one year plus. So, product by product there are different dynamics. So, what we think is that in terms of our capacity utilization, the actions that we are focused on is trying to increase the number of registrations, , thereby increasing the markets and the number of partners that we could potentially sell to, apart from of course focusing on the domestic market.

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

Vishnu Kumar: Just wanted to understand, this year we will have a new MPP plant come up and the formulation facility as well if I am right?

Sanjiv Lal: Yes that is correct.

Vishnu Kumar: Second, wanted to understand the margins. For the first nine months if we see a YoY you had almost 200 basis points margin expansion, but for the fourth quarter it's almost a 200-basis point deep. Now if I see incremental margins and incremental revenue, I actually see that your gross margins so that nearly 36% revenue and the 41% that is reported. Now, where is the pressure that is coming if I compare on a Y-o-Y basis for you specifically for fourth quarter?

S Nagarajan: And you refer to the margins? I mean, you're referring to?

Vishnu Kumar: Gross margin.

S Nagarajan: Have you calculated it from the, because we have not given out the gross margin.

Vishnu Kumar:Yes, we have calculated.

S Nagarajan: Okay. So, here is the way we are thinking about it. Actually, if you look at it on annualized basis, year on year basis, we feel that the margins have actually been quite stable. In fact, you could say little bit better this year and when I say margin, we are referring to the gross margins, gross contributions and that is after knocking out all the variable expenses from the revenue. Of course, there has been a change in the mix and there are changes in terms of product level margins. So, for example, in the case of exports, contract manufacturing and domestic formulation, there is a change in mix between these three compared to last year. And within each of these, if you take exports Metribuzin margins have significantly reduced YoY compared to the previous year. However, the margins on some of the products, like for example Hexaconazole, Acephate, as what we talked about have increased. So, I think there have been variations at the granular level, but at the aggregate level, we feel that the margins have actually improved a little bit. When you subtract only the cost of material and the change in stock from the results sheet and compute the margin, the variable costs are not fully captured in that. So, if you actually captured it and calculate the way we do at the internal MIS level, you can say the margins have actually improved.

Vishnu Kumar:So, would it be fair to say between the domestic and the exports, I am just asking a ballpark number here which would have a higher gross margin on an average, I'm saying considering everything put together on FY20 on overall basis which segment would have a gross margin?

S Nagarajan: Both domestic formulation and International B2B's are similar in terms of margins and range at the gross contribution level. But of course, if you look at the fixed cost that go below the gross contribution level in the exports business, because it is largely B2B and has a much thinner sales and distribution infrastructure, you would find below the GC level. If you calculate at EBITDA level or something like that, it will probably be higher compared to the domestic business.

Moderator: We take the last question from the line of Alok Ranjan from L&T Investment Management Limited.

Alok Ranjan: Just one clarification on the two Herbicides that we have Metribuzin and Pendimethalin, what I see is that of course the global market size of Pendimethalin is more than the double of Metribuzin and in terms of the applications like gram per hectare if you see also our Pendimethalin is widely used. Apart from that Metribuzin the users that's between the cross spending is already there. But when I see into the company, the efforts that we have taken either in terms of the registration or in terms the manufacturing capacity when we compare to Pendimethalin where we have increased by 20%. The efforts are more towards the Metribuzin side, so what I infer is that the Metribuzin looks to be a more mature cost effective herbicides compared to Pendimethalin, which is a more broader spectrum and into the more users. So, first of all is it like Pendimethalin a competitor to Metribuzin and is it true that Pendimethalin opportunity to grow is much better than Metribuzin and why we are more focused towards the Metribuzin?

S Nagarajan: No, I think if you look at our capacities for Pendimethalin are larger compared to Metribuzin and the reason why we had upgraded the capacity or the bottleneck the Metribuzin capacity, we expect that there is an opportunity to increase the Metribuzin. But parallelly we have also increased Pendimethalin capacity as well. So, Pendimethalin is an important product, and it has its own place and even in the Indian market we have strong brands. You probably are aware we have got Tata Panida, Panida Grande, these are strong brands which we have for the domestic market as well apart from the International market. In Metribuzin also, we have Tata Metri, which is also a strong brand. So, it's not that we are feeling that Metribuzin is to be emphasized more even our Pendimethalin capacities have increased and it's much higher to start with compared to Metribuzin.

Alok Ranjan: But in terms of the global growth, do you believe that the Pendimethalin growth is potentially higher compared to the Metribuzin and it's a quite mature product Metribuzin or is it in terms of the combination Metribuzin has also equally good potential. How do you see the global growth of the Metribuzin compared to Pendimethalin?

S Nagarajan: Pendimethalin certainly is bigger and in our share also Pendimethalin International revenue, you can say absolute volumes coming from International businesses is higher compared to Metribuzin. But Metribuzin can also go into new formulations with other active ingredients and it is being worked upon in number of geographies and we can supply Metribuzin AI to such formulators as well for combination products.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sanjiv Lal: Thank you all for participating in today's call. There were a number of questions that had been asked and I trust that we've been able to give clarity on. We are now looking forward to FY'22 starting with the Kharif season which is just picking up. There are certain challenges that already being faced by the agrochemical industries and like the way we dealt with the challenges during the previous year, about the same time when the lockdown was announced towards the end of March. I'm sure that working closely with the government, the state governments as well, the central government, we should be able to find a work around to many of the challenges that are being faced, whether it is as at the port clearing products and materials or whether it is logistics. And as agriculture continues to the main focus for the country, I'm sure that the government will also take that extra step in supporting the farmers and agriculture to make sure that the seeds, the fertilizer, the crop care products are all available in a timely manner. As we already mentioned that, the monsoon forecast looks good. It still needs to play out. So, we are looking forward for a good season ahead. Thank you very much. We will again reconvene in July for the Q1 results for FY22. Thank you.