



“Sharda Cropchem Limited
Q1FY2021 Earnings Conference Call”

August 14, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Limited Q1 FY21 Earnings Conference call, hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Sir!

Manish Mahawar: Thanks, Aisha. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Sharda Cropchem. From the management, we have Mr. R V Bubna-Chairman and Managing Director, Mr. Abhinav Agarwal, CFO and Mr. Dinesh Nahar- GM Finance on the call. Without further ado, I would like to hand over the call to Mr. R. V. Bubna for opening remarks. Over to Bubna Ji!

R.V. Bubna: Good day ladies and gentlemen. A very warm welcome to everyone presents here for the earnings call of Sharda Cropchem Limited for Q1 FY21. Sharda Cropchem is represented by me, Ramprakash Bubna-Chairman and Managing Director, Mr. Abhinav Agarwal, Chief Financial Officer and Mr. Dinesh Nahar- General Manager, Finance.

Talking briefly about our Q1 FY21 results, revenues declined by 7.5% Year-on-Year (YoY) from Rs. 420.6 Crores to Rs. 388.9 Crores mainly due to degrowth in Europe by 3.1%, NAFTA region by 10.3% and Rest of the World by 36.5%. On the other hand, LATAM grew by 27.6%. Our volumes declined by 3.7% YoY.

Gross profits grew marginally by 0.9% YoY from Rs. 115.1 Crores to Rs. 116.2 Crores. The gross margin expanded by 249 bps from 27.4% to 29.9% mainly due to decline in the raw material costs.



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EBITDA declined by 16.5% from Rs. 58.2 Crores to Rs. 48.6 Crores. EBITDA margin contracted by 135 bps from 13.8% to 12.5% mainly due to the rise in other expenses.

Profit after tax grew by 22.6% YoY from Rs. 22.8 Crores to Rs. 27.9 Crores. PAT margin during the quarter expanded by 177 bps from 5.4% to 7.2% due to rise in foreign exchange gains from Rs. 2.5 Crores to Rs. 13.5 Crores coupled with decline in taxes from Rs. 11.5 Crores compared to Rs.6.8 Crores owing to lower effective tax rates which was 34% in Q1FY20 versus 20% in Q1FY21.

Net working capital days improved from 99 days to 89 days due to prudent working capital management.

With this brief overview, I would now like to hand over the call to our CFO, Mr. Abhinav Agarwal for discussing other aspects of financial performance.

Abhinav Agarwal: Thank you, Sir. A very good afternoon to all. I will give you a brief about the Q1 FY21 performance.

During the quarter, our revenue declined by 7.5%. This was due to a volume fall of 3.7% and price realization fall of 8.2%. On the other hand, the company experienced foreign exchange gain of 4.4%.

During Q1 FY21, our agrochemical business revenue fell by 2.4% YoY. Europe and NAFTA declined by 5.9% and 6.8% respectively. On the other hand, LATAM and ROW grew by 25.5% and 2.8% respectively. Our non-agricultural business revenue declined by 22.8% due to fall in industrial, mining, construction and port activities. We incurred a capex of Rs. 71 Crores this quarter, vis-à-vis Rs. 39 Crores in the last year.

Thank you, we now open the floor for questions.



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Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

Chetan Thakkar: Good afternoon Sir, just wanted the volume data by region and second was wanted to understand the reason for higher other expenses in the current quarter?

R.V. Bubna: I will give you the volume data for the current quarter vs. the corresponding quarter in the previous year. In Europe, the volume was 28,31,078 as compared to 29,63,791 which is a decline of 4.5%. In NAFTA, it was 15,45,741 as compared to 19,02,256 which is a decline of 18.7%. LATAM, it was 7,88,801 as compared to 5,58,780 which is a growth of 41.2%. Rest of the world, the volume was 5,00,196 as compared to 4,58,060 which is a growth of 9.2%. Overall, volume declined by 3.7% in current quarter.

Chetan Thakkar: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Good afternoon, Sir, the first question is on our Europe performance, which has shown a significant decline in revenues in the quarter with almost 5% volume decline. On the contrary, we were anticipating Europe should be a contributing sector for the current year, so any particular reason in Europe for this volume decline?

R.V. Bubna: Rohan, it is a decline of 4.5% which we cannot call as a very significant, it can be even small aberration here or there between one month to another month or one country to other country. Overall, I do not think that we can point out something very glaring to attribute to this decline.



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Rohan Gupta: No Sir, my question was that we were expecting strong growth in a current year for the Europe region, while starting for the year Q1, though the decline in revenue is not something very significant but it is muted growth i.e. a decline of 5% to 6% in the revenue. So, there is no particular reason in that, and you see that the growth picking up in the rest of the year?

R.V. Bubna: I agree but I do not think that we communicated that we will have a very strong growth in the first quarter, I mean it has just happened. I do not have any other specific factor to point out to you.

Rohan Gupta: Okay, this price drop in the current quarter i.e. average realization -8% which you mentioned, so we see that the prices across the region have started going up and for most of the products. So, do you see that this trend of negative realization is continuing, or you see that the prices have started going up from June-July and going forward it will be a positive trend?

R.V. Bubna: I do not think that we can draw any conclusions from the figures obtained in Q1 FY21, I would feel that situation will remain stable, it could go a few percent up or it can decline a few percent down but there is no clear trend.

Rohan Gupta: So, how are the raw material prices behaving for you, just to ask clearly in China that chemical prices are moving up, stable or they are lower compared to the last year?

R.V. Bubna: In China, the raw material prices are tending to go down.

Rohan Gupta: They are going down?

R.V. Bubna: Yes, of course, it depends on product to product, but the raw material prices in China are going down.



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Rohan Gupta: Okay, and in terms of availability of raw material from China, is it completely resumed or there is still some global impact of COVID-19? So, are there any issues or any revenue loss you have seen because of that or the situation is normal, as far as your business is concerned despite of the ongoing COVID-19 pandemic?

R.V. Bubna: Are you asking me in the context of China or the whole world?

Rohan Gupta: Sir both, raw material availability also from China and in the global market demand.

R.V. Bubna: We feel that availability is also improving in China. There is a shorter time of shipments from the order to the shipments and the prices are also going downwards. One of the reasons which I presume is because of the confusion and a lot of mess that is happening around the globe because of this COVID-19. The demand from major sectors is probably on the decline and that is having a positive effect for us in China. Now, talking about the whole world, I think that the world cannot say that they are not affected, a lot of countries are facing a lot of problems and there is confusion. As of now, we do not see any ray of hope for improvements. We will be happy if the current situation improves continuously or further gets stabilized.

Rohan Gupta: Okay, Sir a couple of questions more if I can just squeeze in, on this LATAM market, you have seen this significant growth in the current quarter almost 41% in terms of volume and 27% revenue growth. So, once again you see that any trend or any particular reason or early start of the season LATAM or it is just normal season. Is there no extraordinary event played out in the quarter driving this kind of growth?

R.V. Bubna: Rohan, this is a percentage growth of 41% but if you see the actual figures, it is a volume growth of 2,30,000 as compared to the whole global figures of Rs. 56 lakhs and Rs.58 lakhs. So, I think things are



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normal. There is not something very significantly bright that we can attribute it. Things are slightly on the path of improvement as compared to the previous year.

Rohan Gupta: Okay and Sir just the last thing, we have seen that many countries have reacted very negatively against China after this COVID-19. Your entire raw material is coming from China which the distributors and dealers across the world are aware of. Have you seen any of your distributor, dealer complaining or giving you any kind of backlash that we do not want to do the business with you because your material is coming from China? Have you started noticing any such trending thing in the global markets against China?

R.V. Bubna: Mr. Rohan, not at all, in fact people, are very happy, they are very eager if they can get a quality product at a reasonable price. This kind of hatred that we see in the media is not going on at the ground level in most of the world. In India, we do sense some kind of feelings at the ground level, at the consumer level and that can be because we are neighbors and having some disputes and other things. However, the rest of the world is not at all affected by this sentiment including the United States of America as on date. The goods are being asked for, called for and accepted in a very normal way.

Rohan Gupta: How is your business in the US which has impacted by additional imposed duties? Is it getting normalized? Is it coming back on track or it is still facing higher taxes in the US and decrease revenue from the US market?

R.V. Bubna: It is well-known fact that the taxes are continuing to be at a very high level. It is creating a lot of inconvenience for everybody in the chain including companies like us who are exporting. The distributors, retailers everybody is complaining about the higher prices and the same not being



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pass down their finished products that is agriculture production, so this situation continues.

Rohan Gupta: Thank you Bubna Sir, thank you very much for answering all these questions.

Moderator: Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Thanks for the opportunity, Sir just taking over the question from an earlier participant on the China sources side, so how much has been our sourcing from China and has it declined over the last few years and if there is any strategy to shift part of it from the domestic market that is in India or give opportunity to few players in terms of sourcing?

R.V. Bubna: Mr. Rohit, our situation remains the same, our sourcing is more than 95% from China and if at all there could be an increase of 1% or 2% in this range because of better availability and better prices. As far as our company is concerned, we go by what is the requirement of the business and we do not have any better alternative sources as on today considering the prices and availability in the quality better than China.

Rohit Nagaraj: Alright Sir and second question, is there any sizeable decline which has been observed in some of our markets or there has been some postponement of demand from the Q1 to Q2?

R.V. Bubna: It is very difficult to comment on Mr. Rohit, but we do not see any significant stress or significant factor to answer your question.

Rohit Nagaraj: Okay Sir, thanks a lot. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Bharat Gupta from Edelweiss Securities. Please go ahead.



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Bharat Gupta: Thanks Sir for taking my question. I have couple of questions, first is regarding the NAFTA market, so are we seeing that there has been like inventory overhang kind of a situation out there in the market?

R.V. Bubna: It could be.

Bharat Gupta: Sir, what is the outlook, like in terms of the visibility of those is that season will get delayed particularly in regions pertaining to NAFTA, are we seeing that kind of a situation out there in the market?

R.V. Bubna: No Sir, we feel that the situation will become better as compared to what it has been in the first quarter.

Bharat Gupta: Okay, and Sir, is it possible to share the gross margins across the region?

R.V. Bubna: The Q1FY21 gross margins are as follows, 36.3% in Europe, 23.5% in NAFTA, 28.4% in LATAM and 21.6% in the rest of the world. Overall, 29.9%. If you want, I can give you the same figure for the last year's Q1.

Bharat Gupta: Sure Sir.

R.V. Bubna: Europe was 36.1%, so there is an improvement of 0.2% in Europe. NAFTA, 19.2% to 23.5% so there is a significant growth in the margin of about 4.3%. LATAM has remained constant, 28.6% in Q1 FY20 vs. 28.4% during Q1 FY21. The rest of the world also more or less the same 22% in Q1FY20 vs. 21.6% during Q1FY21. Overall, 27.4% during Q1 FY20 as against 29.9% in Q1 FY21.

Bharat Gupta: Sure Sir, that is helpful. My second question is regarding the Latin American market. Sir, we have heard from the competitors that the global players are facing currency issues in regions pertaining to Brazil, Argentina. So, how are we looking at the scenario currently as we have shown a good amount of growth in the current quarter? So, do we see



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that the growth going forward can have an impact of a negative currency impact in the subsequent quarter?

R.V. Bubna: Sir, we have not come across any such varying factors. We feel that the economies in these regions are in big trouble, partly because of politics and partly because of many other factors and they continue to remain the same in the last six months to our knowledge.

Bharat Gupta: And Sir, coming on to the gross margin side do we expect the gross margin for the full year to remain in the range of 32% to 34%?

R.V. Bubna: Beg your pardon.

Bharat Gupta: Sir, for the gross margin for the full year like you had said that there has been some softness in the raw material prices. So, do we foresee that the gross margin for the full year can remain in the range of 32% to 34%?

R.V. Bubna: I think we should be able to do that.

Bharat Gupta: Sure Sir, that is it from my side.

Moderator: Thank you. The next question is from the line of Chetan Thakker from ASK Investment Manager. Please go ahead.

Chetan Thakker: Sir, just follow up question was on higher other expenses. Can you explain the reason for higher other expenses and second is when do we start seeing the benefit of the Euro INR in our numbers?

R.V. Bubna: Sir, to my knowledge Euro INR benefits have happened about one, one and half months back and currently, too, we are getting these benefits. However, we do not know how long it will last. I can comment that we are getting a direct and almost instant benefits.



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Chetan Thakker: Sir, there will be some amount of claim hedging, vanilla hedging that you do so that would have impacted to some extent in Q1. So, probably the full positive impact assuming currency stays here will be visible as we go forward, that would be a fair understanding?

R.V. Bubna: Sir, I have not understood your question query completely. But I can also comment without understanding your question that initially, we were not able to take advantage of this increase in the cross-currency rate of Euro versus Dollar because of forward contracts. We booked nearly 25% to 30% of actual requirement so the impact has not been very much adverse. Now, we are getting a very good Euro-Rupee and Euro-Dollar rate, and it is very comfortable. We are very happy about it and we hope this will continue.

Chetan Thakker: Hopefully Sir, keeping fingers crossed. Just wanted to understand the reason for higher other expenses in this quarter.

R.V. Bubna: Among the higher other expenses, first is the freight and forwarding expenses because of this COVID-19 and in order to meet our targets, we had to airlift a good quantity of the products. The airfares were almost 100% more than we were paying in the same period as last year. So, one is this freight and forward then second is legal and professional charges, the lawyers are becoming very expensive and all the professional services are becoming very expensive. The third is commission on the sales, the incentives that we provide to our team of salespeople. Additionally, there are some other expenses and writing off intangible assets and intangible assets under development. This has been also a significant contributor to the other expenses increase.

Chetan Thakker: That was Rs. 1 Crore right the intangible writes off in this quarter?

R.V. Bubna: Yes.



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Chetan Thacker: Okay, and Sir on the freight side out of Rs. 60 Crores for other expenses how much was paid for freight and forwarding because out of that only part which was costing more is air freight that will be taken out. So, just wanted to understand that?

R.V. Bubna: Freight and forwarding should be about Rs. 10 Crores.

Chetan Thakker: Okay, out of this Rs. 10 Crores some bit will go off because now the lines would operate normally so this airlifting bit would be out?

R.V. Bubna: Hopefully, but we cannot say because the agricultural being seasonal product and depending upon the weather, we sometimes receive requirements and demands at a very short notice which is not predicted by our down the line people, distributors and retailer and also the farmers.

Chetan Thakker: Got it, and what was the same number Rs. 10 Crores in the last year's corresponding quarter?

R.V. Bubna: It would have been about Rs. 7 Crores.

Chetan Thakker: Okay Sir. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Somaiah.V. from Spark Capital. Please go ahead.

Somaiah.V: Sir, good afternoon. Thanks for taking my question. Sir, on the Europe market, was there any kind of weather-related issue that impacted Europe. We heard there were some dry weather impacts in some regions, was that impacting our Q1 FY21 numbers? and in North America, was there any kind of pre-buying that happened in Q4 FY20 that kind of impacted Q1 FY21?

R.V. Bubna: Can you repeat your question?



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Somaiah.V: Yes, in Europe was there any kind of dry weather impact that we saw in Q1FY21?

R.V. Bubna: Yes. We did and some of the regions and countries the weather was dry and not convenient. In other case's the time of obligation was shortened so, we did have these kinds of complaints.

Somaiah.V: Got it Sir, and in North America because this COVID-19 did we see Q4 getting a kind of a pull forward benefit and that in turn impacted Q1?

R.V. Bubna: No, I do not think so, those people are not so much far cited. Most of our customers in North America, if they want a product they want it immediately and if you tell them that the goods are in transit and it will be coming after a week then they do not call up next time and they get it from somebody else. So, they do not plan for such a long thing.

Somaiah.V: Got it Sir and were there any good YoY pricing gains in North America because between 19% volume decline, whereas the overall value decline in North America was around only 6%. So, it is a lot to do with air freights or we also had pricing gains on a year-on-year basis?

R.V. Bubna: We have a big portfolio of products, in some products, there has been a pricing gain and, on some products, because this is purely a factor of demand and supply and it varies from product to product. It is difficult to generalize it.

Somaiah.V: Okay Sir, you mentioned that in terms of RM prices easing from China is it something structural as on availability or new capacity has come in so that is driving it or is it something which is because of a lower offtake or lower demand is probably driving this improvement?

R.V. Bubna: I would say that the second statement that you made is more responsible. There is no excess or overcapacity is being generated in China at this



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part of the year mainly because of the COVID fears and all those things. But, subsidizing the demand from various parts of the world could play a more important role in the easing of the prices.

Somaiah.V: Got it Sir, and the non-agriculture segment, I think though your Agri declined 2% it is the non-agriculture that led to an overall decline of 8%. Any thoughts on the outlook for this given the COVID times how you are expecting this to pan out?

R.V. Bubna: Sir, it is slowly improving.

Somaiah.V: Okay, then what will be the kind of gross margins or EBITDA margins for this non-agriculture segments?

R.V. Bubna: Non-agriculture segment overall the gross margins have dropped from 17.6% in Q1 FY20 to 16.1% in Q1 FY21.

Somaiah.V: Got it, Sir. Just a couple of book-keeping questions. One, you had spent close to Rs. 70 Crores of capex this quarter can we take it as a bit of front loading this quarter and the full year capex would be normal as previous years?

R.V. Bubna: Sir, I think that we will end up here with a higher capex compared to last year.

Somaiah.V: And roughly what would be the outlook on the capex?

R.V. Bubna: Sir, firstly the registration process is filled up with so much of uncertainty it is very difficult to predict. You cannot plan and all the planning goes topsy-turvy because of so much uncertainty which are built up in the process of registrations. We are dependent upon the weather, the field trials and the bureaucracies all over the world, the government committees, government authorities taking up of giving priority or non-priority, etc. I would not like to take more of your time



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on this. So, it is difficult to plan, there is no trend like this. The only trend is the cost of the services is increasing month by month and quarter by quarter. The government charges, the ministry charges are getting multiplied for the same evaluation from year to year. So, the process is becoming more and more expensive and uncertainty continues.

Somaiah.V: Got it. Sir, any thoughts on the tax rate on an annual basis, your outlook Sir?

R.V. Bubna: We have predicted the effective tax rate to be between 25% to 30%.

Somaiah.V: Okay, got it, Sir. Thank you. Thanks for taking my questions.

Moderator: Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Thanks a lot for the follow-up. Sir, for this quarter almost one and half months is gone by, so how have are we seeing the trends in the market?

R.V. Bubna: The trend is good. Nothing specific to comment or complain.

Rohit Nagaraj: Alright Sir, that is helpful. Sir, in last quarter we had given our guidance in terms of revenue growth and EBITDA margin, revenue growth of about 5% to 10% and EBITDA margins of 17% to 18% and given our performance, do we like to revise the guidance based on the current outlook?

R.V. Bubna: No, Sir.

Rohit Nagaraj: Alright and the capex guidance also last quarter we had indicated about Rs. 175 Crores to Rs. 200 Crores and first quarter we had done almost Rs. 70 Crores odd you had also mentioned the uncertainty related to regulatory approvals, etc., but would this be in a similar range or it may go beyond this range?



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- R.V. Bubna:** As of today, I feel we will be in the same range.
- Rohit Nagaraj:** Alright Sir, that is helpful. Thanks a lot, and best of luck.
- Moderator:** Thank you. The next question is from the line of Deepak Kolhe from B&K Securities. Please go ahead.
- Deepak Kolhe:** Good afternoon Sir. Thank you for this opportunity. Sir, can you please provide a geography wise break up for the registration pipeline?
- R.V. Bubna:** For Europe 703, NAFTA - 114, LATAM - 130 and rest of the world - 70. The total count of the registrations in pipeline is 1017 as on Q1 FY21.
- Deepak Kolhe:** Okay. Thank you, Sir that is from my side. Thank you very much, Sir.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Manish Mahawar for closing comments.
- Manish Mahawar:** Thanks, Aisha. On behalf of Antique Stock Broking, I would like to thank the management of Sharda Cropchem for providing us an opportunity to host the call. Bubna ji, would you like to make any closing comment Sir.
- R.V. Bubna:** I would say that the company's business is going normal. Fortunately, we are not affected by COVID-19 as is the case with almost 70% to 80% of the industries and companies globally and in India. So, we have been very fortunate that we have been spared by the negative effect of this COVID. I am thankful to God for this situation and as on date, we see that this should continue unless of course, something unexpected happens. Thank you, Manish ji.



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Moderator: Thank you. On behalf of Antique Stock Broking that concludes today's Conference Call. Thank you for joining us and you may now disconnect your lines.