



“Sharda Cropchem Limited Q4 FY-18 Results Conference  
Call”

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**MODERATOR:** **MR. ROHAN GUPTA- EDELWEISS SECURITIES LIMITED**



**Moderator:** Ladies and gentlemen good day and welcome to the Sharda Cropchem Limited Q4 FY18 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohan Gupta from Edelweiss Securities Limited. Thank you and over to you sir.

**Rohan Gupta:** Good afternoon ladies and gentlemen. On behalf of Edelweiss I welcome all the participants who are logged in for the conference call of Sharda Cropchem Limited. From the management we have Mr. R.V. Bubna – Chairman, Managing Director, Mr. Conrad Fernandes, CFO and Mr. Sylpesh Dedhia – General Manager (Finance). Good afternoon gentlemen.

First of all, thank you very much for giving us the opportunity for hosting this conference call. As always sir, I will first request you if you can take us through your current quarterly performance and with some industry trend and then we can follow it up with the Q&A session sir. Over to you sir, please go ahead. Thank you.

**R.V. Bubna:** Good day, ladies and gentlemen. A very warm welcome to everyone present here for the earning call of Sharda Cropchem Limited for the Q4FY18 and year ended March 2018. Sharda Cropchem Limited is represented by myself Ramprakash Bubna- Chairman and Managing director, Mr. Conrad Fernandes - CFO and Mr. Sylpesh Dedhia – General Manager Finance.

Talking briefly about our Q4 results, revenues increased by 29.2% year- to- year from Rs. 595 crores to Rs. 769 crores. This was driven by growth of 28.2% Europe, 34.8% in NAFTA region, 11.5% in LATAM and 31.7% in Rest of the World.

Gross profit for Q4 increased by 24.8% year- to- year from Rs. 214 crores to Rs. 267 crores. Gross margins declined from 35.9% to 34.7%. EBITDA, excluding foreign exchange impact for the quarter ended March 31, 2018 increased by 25.6% year to year from Rs. 157 crores to Rs. 197 crores. EBITDA margin declined from 26.4% to 25.7%.

Profits after tax increased by 14.8% from Rs. 99 crores to Rs. 113 crores. PAT margin declined from 16.6% to 14.7%. Cash PAT, which is PAT plus depreciation for the Q4 increased from Rs. 118 crores to Rs. 132 crores. As on 31<sup>st</sup> March 2018, the total number of registrations was at 2,157 and the company has another 978 registrations in the pipeline across various geographies.

With this brief overview, I would now like to hand over the call to our CFO, Mr. Conrad Fernandes for discussing our financial performances. Thank you very much.

**Conrad Fernandes:** Thank you Mr. Bubna and a good afternoon to all. During the quarter, Agro chemicals revenue grew at 27.9%. Region wise revenue share for the quarter was as follows: Europe 52%, NAFTA 31%, LATAM 7% and Rest of the World 10%.



The top 10 molecules accounted for 50% of the Agro revenues. Depreciation and amortization expense for the quarter was Rs. 18.6 crores as against Rs. 19.3 crores for the corresponding quarter of the previous year. We continue to amortize the intangible assets over a 5-year period. Other expenses for the quarter were higher due to increased cost towards consultants and lower foreign exchange gain when compared to corresponding quarter of the previous year.

Net working capital days as at March 31<sup>st</sup>, 2018 were higher at 101 days on account of higher inventory.

Now we invite questions from the participants.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Shivam Khanna from Equentis. Please go ahead.

**Shivam Khanna:** Sir, I just wanted to confirm that in your center a lot of importance is given to research and development expenditure. So, can you please give us what are the figures of this research and development expenditure for this year and for the coming years ahead?

**R. V. Bubna:** We are not investing anything in research and development.

**Moderator:** Thank you. The next question is from the line of Pratik Tholiya from Emkay Global. Please go ahead.

**Pratik Tholiya:** Sir, can you share the region wise agro volume numbers for the quarter?

**R. V. Bubna:** Yes please, for Europe it is 44, 89, 813, NAFTA is 38, 42,549, LATAM 7, 98,160 and Rest of the World 29, 19,836.

**Pratik Tholiya:** And sir what was the number last year for the same quarter.

**R. V. Bubna:** See for Europe it was 46,87,087, NAFTA region is 34,90,420, LATAM region is 6,74, 221 and Rest of the World is 13,97,522. the total figure in FY18 is 120,50,357 and last year it was 102,49,251. So, there is an increase of about 18,000 tons

**Pratik Tholiya:** And sir, the numbers that you have given for the regions, these are in metric tons or in some other units?

**R. V. Bubna:** The numbers I read out was actual figures in kilograms or liters.

**Moderator:** Thank you very much. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

**Vishnu Kumar:** Sir a few questions, firstly, working capital we almost have about Rs. 530 crores which is 1/3<sup>rd</sup> of our annual sales. Wanted to know your plans which geography we are targeting and why have



we stocked so much? Is it to do with target more revenue or to prevent to more price hikes in China? I just wanted to get your sense.

**R.V. Bubna:** Both the factors are there. Last year, the price situation in China was very dicey so we wanted to cover as much of our products as possible so that we don't run out off the product when the customer demands come. So, we wanted to satisfy these customer demands, and we build up the inventories.

**Vishnu Kumar:** Sir, typically, we have a chunk of our sales come only by 3<sup>rd</sup> and 4<sup>th</sup> quarter, first two quarters, the revenue was about was only Rs. 500 crores. Is this entirely for this reason or you have stocked up even for Q3 and Q4, some molecules at least?

**R. V. Bubna:** See our business is a seasonal business, and this has been the practice for the last 8 to 10 years. But the Q4 is the best quarter for our business, Q1 is the second best, Q2 is the third best and Q3 is the weakest and the same trend is being followed. I don't know what the second part of your question was.

**Vishnu Kumar:** No, I am asking whether this Rs. 500 crores of inventory include some element of inventory which you are looking on the Q3 and Q4, I mean Q4 which is what you look at as one of the best. Have you stocked up inventory to that extent or is it only for the next two quarters, at least in terms of molecule profile that you would be holding?

**R. V. Bubna:** No, it would be for the next two quarters. It is not for the fourth quarter of the next year.

**Vishnu Kumar:** Sir how are you currently seeing the pricing situation in China, is it subsiding, or you still think it will continue to have issues in terms of cost?

**R. V. Bubna:** Well, it is stabilizing, and the trend is that it will go down. The productions have increased, and availabilities are getting more comfortable.

**Vishnu Kumar:** Would that mean some part of our inventory might be at a much higher cost than the price at which we would selling it, assuming someone had not stocked and bringing in to the market in the next two quarters?

**R. V. Bubna:** No, it does not mean that. The difference in the pricing is not so big for the time being.

**Vishnu Kumar:** So, you are saying at least the 1/3<sup>rd</sup> we are currently having if someone were to buy, probably this quarter or next quarter and bring it to the market. We will not have challenge in terms of pricing our product accordingly?

**R. V. Bubna:** Yes, you are absolutely right.

**Vishnu Kumar:** Okay got it. Generally, in terms of your gross margins and EBITDA margins you continuously highlighted that innovator has to pass on prices and then only we will also get the benefit and



when do you see it? Do you see that in the next one or two quarters we will expect at least our gross margin or EBITDA margins to move up?

**R. V. Bubna:** I expect our gross margins and EBITDA margins to go up but not because of the prices of the finished products but because of the reduction in the prices of the raw materials.

**Vishnu Kumar:** So, the ones that we are currently holding itself if we sell at the existing prices our gross margins will expand is that the right understanding?

**R. V. Bubna:** Yes.

**Vishnu Kumar:** Without increasing the prices our current stock of inventory is at a lower price compared to last year.

**R. V. Bubna:** I beg your pardon; I didn't understand the last sentence.

**Vishnu Kumar:** You mentioned that our gross margins will expand, because our raw material cost will be lower than the current price itself...

**R. V. Bubna:** That is one of the factors the other factor is the product mix. We feel that we will be dealing with higher margin products more than the lower margin products.

**Vishnu Kumar:** And what gross margins should we expect over the next two years sir?

**R. V. Bubna:** So, it should be in the range of 32 to 37%.

**Vishnu Kumar:** A very wide range sir....

**R. V. Bubna:** It is very difficult to predict so accurately.

**Vishnu Kumar:** But you have currently done about 33.5% for the FY 18 as a whole but will we do slightly better or it will be around this number?

**R. V. Bubna:** I expect it to be slightly better.

**Vishnu Kumar:** And EBITDA margins if you could just give broadly at least what you are building in, now we are 20.2?

**R.V. Bubna:** We are 20.2 last year we were about 22-point, so it should fluctuate between 19 to 23.

**Vishnu Kumar:** Our US business has done exceptionally well and congratulations on that we have almost talked about Rs. 500 crores and we have done Europe of about 650. What is the potential revenues that we can reach and if you could just broadly explain where exactly and what strategies you have grown our North America business now and how fast it can continue to grow?



- R. V. Bubna:** We continue to invest in to the registrations and we're getting new registrations every quarter that is giving us good portfolio and a better penetration into the market.
- Vishnu Kumar:** But is this in US, specifically are we targeting in the mid-west, the horseshoe region which area, if you could just broadly give some additional thoughts on it, I mean any specific crops?
- R. V. Bubna:** No, we concentrate on our molecules and not on the regions and we are selling all around USA. It all depends sometimes we get a demand from one region and other times from other regions. It is fairly well-spread for us.
- Vishnu Kumar:** How much growth rate that you think can play out in the US for the next 2 to 3 years?
- R. V. Bubna:** It can grow quite well, like this year we could have almost a similar growth or better than this year.
- Vishnu Kumar:** Better than this year also?
- R. V. Bubna:** Yes.
- Vishnu Kumar:** And in Europe we are hearing that there are colder winters continuing to persist and looks, I mean do you think that Q1 will be a good quarter or it will probably the planting season and the pesticide demand will push to Q2, any thoughts on that?
- R. V. Bubna:** See with all the factors included I think our Q1 this year will be better than Q1 last year.
- Vishnu Kumar:** Fair enough sir. And one thing on the debt numbers has pushed into; I mean net debt of about Rs. 140 crores. If you could just broadly explain what is the strategy on?
- R. V. Bubna:** See this is only because we don't have any borrowings in the company. So, this is only to meet the temporary requirement of working capital which has been inflated due to inventories and receivables.
- Vishnu Kumar:** Sir you had come on TV and highlighted that this is coming from the promoters and not from the banks. If you could just give us what interest rates it is currently being taken and any advantage that you see that we will be taking from the banks and the promoters?
- R.V. Bubna:** See banks take a lot of time for approval and the company does not have any fixed assets to provide collateral to the bank which the banks look for. So, these are unsecured loans provided to the company and that is why the funds have come from the promoters, which came in at a notice of one or two days. The banks take much longer time to approve and then banks have a different way of evaluating and sanctioning loans.
- Vishnu Kumar:** What rate of interest is this loans sir?



- R. V. Bubna:** I think around 10%.
- Moderator:** Thank you very much. The next question is from the line of Alok Ranjan from L&T mutual Funds. Please go ahead.
- Alok Ranjan:** Thank you sir for taking my question. Sir, if you can give a breakup of the registrations in this quarter, registrations that you have done in this quarter?
- R. V. Bubna:** We have received 24 registrations in this quarter.
- Alok Ranjan:** Can you give a breakup based on the regions sir?
- R. V. Bubna:** Well in Europe, it is (-12), NAFTA region 11, LATAM 24 and Rest of the World 1.
- Alok Ranjan:** Okay and compared to the last quarter when we were discussing the China situation, right now it seems to be quiet, the situation seems to be improving. But can you give in detail how things are improving better capacity is has started to come in the same plants or... Can you just give a ground view what is happening in China sir?
- R. V. Bubna:** See many factories that were closed to has started manufacturing other factories where the productions were the restricted, the restrictions are getting removed and as the production is going up the production of raw materials is also going up and that is improving the situation or availability of these products.
- Alok Ranjan:** And sir as you are mentioning that the productions have started to improve so whether these productions have started to improve at the same time whether they have brought to this effluent treatment plant or is it, that means whether this increase in production will be sustainable in nature and how you view this increase in the production?
- R. V. Bubna:** Alok it is very difficult to get so much into the details of the Chinese industries and economy. But I would say that the combination of all the factors. Many of the factories have installed the pollution control measures. In other cases, the government has taken a little lenient view and started loosening the grip.
- Alok Ranjan:** Okay. Sir my next question is regarding the inventory situation. If you can broadly give outline on how the inventory situation persists in, especially in the LATAM region?
- R. V. Bubna:** LATAM region. We don't have much of an inventory. LATAM region we are not formulating the products and selling, we sell the ready products there. Mainly, the inventories are for European and the NAFTA region.
- Moderator:** Thank you very much. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.



- Chirag Dagli:** My question was what is the cash tax that we have paid, the actual outflow of cash in terms for tax?
- R. V. Bubna:** For tax?
- Chirag Dagli:** It is different than the provision that we make right sir?
- R. V. Bubna:** We have paid Rs. 80 crores of tax.
- Chirag Dagli:** This is for the full year of FY 18?
- R. V. Bubna:** For full year, but still we have to pay some self-assessment tax during this month.
- Chirag Dagli:** Okay fair point sir. And is there guidance for depreciation for FY 19 and 20?
- R. V. Bubna:** See the depreciation Chirag depends on the number of registrations which we get, and this is a very unpredictable question. But I think the depreciation should be in the same range more or less as it has happened during the year ended March 18.
- Chirag Dagli:** On an absolute basis, these should be similar level to FY 18?
- R. V. Bubna:** Yes.
- Chirag Dagli:** Okay sir and CAPEX guidance for FY 19 and 20?
- R. V. Bubna:** See this year we spent about Rs. 210 crores it should be more or less in the same range. It could be Rs. 20 crores plus or minus.
- Chirag Dagli:** Can you give the region wise gross margins for FY18?
- R. V. Bubna:** The FY 17- 18 figures are European region 45%, NAFTA 25%, LATAM 24% and Rest of the World 22%.
- Moderator:** Thank you very much. The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** Sir, in the NAFTA region. Can you name the few large products that we are selling?
- R. V. Bubna:** Sorry, I don't think we have prepared for this information, the large products. I can tell you which the 10 large molecules. I have the NAFTA region large molecules also; Tebuconazole, Diquat, Metolachlor, Paraquat, Quizalofop.
- Dhiresh Pathak:** They would contribute like 80% of total NAFTA sales?



- R. V. Bubna:** No, I don't have that figure. I can only tell you the 10 largest molecules for the company for the whole year is giving about 50% contribution into the revenue. It used to be 60% two years back.
- Dhires Pathak:** You mentioned Rs.210 crores of CAPEX in FY18. How much of that was in renewal registration?
- R. V. Bubna:** Renewals will be very small part.
- Dhires Pathak:** So, they expire after 10 years, right? So, after 10 years do we need not spend much to renew them?
- R. V. Bubna:** See in the European Union the trends are changing. Earlier, renewal used to be done every 5 years. But this year it is a 10-year period. The renewal expenses are going to be much higher, this year for the European Union.
- Dhires Pathak:** But last year in 210 there was hardly anything in renewal.
- R. V. Bubna:** Last year, you see part of the expenses are going under capital work in progress. So that will also constitute in the renewal in the European Union because you will prepare the dossiers and that preparation takes one to two years.
- Dhires Pathak:** What I was asking was last year, you spend to Rs. 210 crores as total cost in registration so some of that would be for new registrations and some of that would be for renewing expired registrations.
- R.V. Bubna:** You are right, Mr. Dhires
- Dhires Pathak:** So, I wanted a breakup between the two, if it is possible, you have it handy?
- R. V. Bubna:** That breakup I do not have right now.
- Dhires Pathak:** And sir this, because our revenues are in Euros and Dollars, then why can't we borrow like a working capital borrowing, which is backed by receivables and inventory at a much lower rate in the foreign currency instead of borrowing at 10% from the promoters?
- R. V. Bubna:** See so far, we were always cash rich and our borrowings were at a much better rate. When we borrow we are using LCs from the banks and our cost of funds is very economical. But when it comes to holding of the inventory, then we cannot use that source of borrowing. For that we have to borrow from other sources and banks will require a lot of time and a lot of collateral and other such things and also, we are borrowing for the expenditure on registrations which are normally not being funded by the banks. And we feel that these are temporary requirement. It is not going to be a permanent requirement.



- Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.
- Bharat Shah:** These temporary borrowings that we have made, when do you think it will go away?
- R. V. Bubna:** May be by the third quarter of this year.
- Bharat Shah:** So, by December 2018?
- R. V. Bubna:** Hopefully.
- Bharat Shah:** And overall what kind of volume growth do you believe is conservatively possible in the current year?
- R. V. Bubna:** Volume in terms of quantities?
- Bharat Shah:** Yes, in overall volume sold.
- R. V. Bubna:** See the volume is not very critical in our business because we are dealing with such a wide range of products. Some products are selling at \$2 per liter and others are selling at \$100 per liter. So, it is very difficult to estimate, and it will not be a worthwhile exercise.
- Bharat Shah:** So, value wise, do we expect our traditional 15 to 20% kind of a growth rate would exist in the current year, then?
- R. V. Bubna:** Yes.
- Bharat Shah:** And the number of registrations right now, total portfolio?
- R. V. Bubna:** 2157.
- Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** I just wanted to understand that the last time when we had earnings call you had mentioned that the situation in China seemed fairly bearish at that time and so the gross margin numbers have been fairly comfortable as compared to what we had estimated and plus you are the first management on the street who is saying that the situation in China has somewhat eased out. So, can you just highlight the factors which are leading to the confidence that your margins going forward will be better than what you have, this quarter?
- R. V. Bubna:** See I have explained that to the previous questioners, the availability of the products will increase and there is no shortage, so far it was a sellers' market now there will be a fair market negotiation, and maybe some time later it could be a buyers' market. So, these forces will put



pressure on the prices today the Chinese suppliers were demanding any prices only because of the shortage. That situation will slowly disappear.

**Kunal Mehta:** Okay but speaking with lot of people in the trade channel, there is still a lot of uncertainty with respect to prices and volumes which a lot of players have both on the chemical side and the other product side. So, the factors which you are saying are they related to a specific region where there is a revival, or it is across most of the manufacturing regions in China?

**R. V. Bubna:** I think it is across.

**Moderator:** Thank you. The next question is from the line of Himanshu Binani from Emkay Global. Please go ahead.

**Himanshu Binani:** Can you please provide us with the total number of registrations and the pipeline registration region wise?

**R. V. Bubna:** There are 978 registrations in the pipeline, 625 in Europe, 112 in NAFTA, 119 in LATAM and 122 in the Rest of the World.

**Himanshu Binani:** And the total number of registrations was 2157 that too region wise breakup please?

**R. V. Bubna:** Europe is 1049, NAFTA 191, LATAM 704 and the Rest of the World 213.

**Himanshu Binani:** The growth drivers that is the volume and the foreign exchange and the pricing.

**R. V. Bubna:** Volume is 18%, price and product mix growth is 6.2% and currency growth 5%.

**Himanshu Binani:** So, the blended comes to around 29%.

**R. V. Bubna:** Yes.

**Moderator:** Thank you very much. The next question is from the line of Amit Hiremath from Mahindra Asset Management. Please go ahead.

**Amit Hiremath:** If I heard correctly, you mentioned that during Q4 we saw negative 12 registrations in Europe?

**R. V. Bubna:** Yes.

**Amit Hiremath:** Why is that? What could be the reason for that?

**R. V. Bubna:** I can give you a general answer they could be the registrations which were not giving us in revenues. So, we allowed them to expire and we did not renew them.

**Amit Hiremath:** So, going forward in FY 19, what is the growth that you're expecting for the European region?



- R. V. Bubna:** About 15% to 20%. It is very difficult to predict the region wise and whatever we predict normally there is always a variation. So, I can give you a general picture.
- Amit Hiremath:** And the other thing is the gross margin in NAFTA region has declined from 30% to 25% in this year. So, this is purely on account of the raw material prices or there is some change in the product mix?
- R. V. Bubna:** See the level of competition is very high in the United States and in order to get the market share, we had to get into the line of the competition and sell at the prices that the competitors are selling.
- Amit Hiremath:** So, you think that with the easing of the raw material prices you would be able to see better gross margin for your NAFTA region going forward?
- R. V. Bubna:** Slightly.
- Moderator:** Thank you. The next question is from the line of Miloni Bagadia from IDFC Securities. Please go ahead.
- Nitin:** Sir this is Nitin from IDFC. Just one quick question in the split that you had for growth for this quarter in terms of about 18% volume growth, 5 odd % coming from value and product mix, I mean this broadly the same composition of growth you see even going forward largely volume driven and with some element of better product or you see the product mix composition being a larger driver of growth as we go through?
- R. V. Bubna:** Product mix growth can also take a very important position. Currency growth is the only factor which is totally unpredictable. Otherwise it will grow with the help of volume and product mix.
- Nitin:** But sir, when you look at the registration pipeline that you have, you see qualitatively that can drive these are much better quality products that can come versus what we have in generally on an average for the pipeline which is already in the market?
- R. V. Bubna:** It is very difficult to say that. The products which are in the pipeline the real value of the registrations could be only 10% of that rest of the 90% are as part of the crowd.
- Nitin:** And sir these 10% they would be what pretty much they will come through consistently over the years or there would be some lumpiness that you see on particular years where some of them can come through in a little more concentrated fashion?
- R. V. Bubna:** It is very difficult to predict. One of the most important factor is that if there are companies which are running to get the registration the one which gets the first will have a better pie and the third one will have to share with four of them. So, the timing of registrations and your position in the registration race is playing a very important role which is very difficult to product.



- Nitin:** Fair enough sir. And in the pipeline that you mentioned, bulk of the pipeline seems to be concentrated in Europe. Is that a very conscious strategy in terms of not really focusing much on the NAFTA region for new registrations?
- R. V. Bubna:** See Europe is the region which is giving us the best margins and best value-addition and this is a region which is very transparent and very professional. So that helps us, and this is the region where the rules are followed very strictly, and any violations of the rules are very dangerous and highly penalty. So that is why we are concentrating more on the European region.
- Nitin:** And sir even going forward this is how our R&D will be focused in terms of registration pipeline would be focused more skewed towards Europe versus other parts of the world?
- R. V. Bubna:** Yes.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** The questions are largely for the European business. When do you think that the chunks of the registrations are going to come back in terms of our expenditure, in terms of our CAPEX, is it FY 19, 20 or 21? We cheer we would be spending more on re-registrations for the existing molecules?
- R. V. Bubna:** Sir, I think in the coming year we will be spending more amount and renewal of the registrations in the European region in the year ending March 2019 and March 2020.
- Vishnu Kumar:** Sir over the next three years let's say out of the existing registration let's say about 50 or 60% or whatever that is getting expired in the next three years what would be the total amount that would be required to re-register all of them?
- R. V. Bubna:** It is very difficult to say renewal for many of the registrations is just an administrative procedure. In others, you have to conduct a lot of field trials, lot of studies again. In light of the development that has taken place on that molecule for the last 5 years. So, we cannot generalize any answer to your question. It depends upon from molecule to molecule.
- Vishnu Kumar:** And sir the other question is generally the activism on some of the molecules holder generics are materially going up be it many fungicides, herbicides and across all categories and most recently, we understand that the few are going to be banned from the end of the year. Do we currently have any molecules which are very older generics or under some threat? Just your thoughts on that how is the business going to shape in the next three years let's say if the older generics are going to go away and it is only going to be some relatively your molecules where maybe China does not have much of a supply and Sharda may not be able to participate at those molecules? It is just a hypothetical question but wanted your thoughts.



- R. V. Bubna:** Very hypothetical I would say and I can't give a clear answer to this question it is trend that usually the older registrations are going away because they happen to be more harmful, more toxic and the new generation molecules are supposed to be less toxic and less harmful and the cost of production, cost of development, and cost of manufacturing of the new generation molecules are high but everybody will have to adopt them and we will have to learn to leave the older molecules.
- Vishnu Kumar:** Sir the question was if the industry is changing can Sharda continue to buy more new molecules you can still source from China and sell or do you think that area probably can have some challenges 2 to 3 years ahead? That is the idea...
- R. V. Bubna:** I would say Sharda is much better placed in this situation when compared to others because Sharda is not manufacturing. Most of the people who are selling and registering these products also have the manufacturing facilities, which is very painful for them to get off. Today if we find that a molecule is banned our loss is only the investment to the registrations which also we would have recovered most of the time. So, for us we are more equipped to adopt the new molecules and much faster than our other peers.
- Vishnu Kumar:** Do you see any challenges for the new molecules sourcing from China, are there adequate capacities to buy?
- R. V. Bubna:** See China is very fast, they are very fast in copying and it is the only country which is equipped to copy the new molecules and start manufacturing of them.
- Vishnu Kumar:** Sir the Imidacloprid is it one of the top 10 molecules for us in the European region?
- R. V. Bubna:** It is for the company and for Europe it is among the top 10 molecules.
- Vishnu Kumar:** There seems to be a news in the Europe saying that by the end of this year the neonicotinoid that is the imidacloprid kind of molecule those will get banned from this year. Would that mean that molecule would go away and some other will overtake that?
- R. V. Bubna:** Yes, you are absolutely right.
- Vishnu Kumar:** Sir a final question, just on the Euro USD part, do we have any forwards or hedges at current prices? Have we locked any rates or are we open mostly?
- R. V. Bubna:** We do keep forward contracts and hedge about 20 -25% of our exposure by way of forward contracts.
- Vishnu Kumar:** And those would be around 1.2 kind of a number.
- R. V. Bubna:** Well they are as I said 1.26 and today it is more than 1.2- 1.23. But the Euros started coming down which is totally unexpected.



- Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.
- Bharat Shah:** I don't have any questions I just wanted to say something. The transparency and hygiene with which you explain things, I deeply respect. And the way you went about funding for a temporary working capital situation from promoter's resources again is deeply appreciated. I must put on record appreciation of the hygiene and the cleanliness with which you have always done your things.
- R. V. Bubna:** Thank you. This is our baby. We own 75% of the shareholding in this company so we have to take care of it.
- Moderator:** Thank you. The next question is from the line of Amit Hiremath from Mahindra Asset Management. Please go ahead.
- Amit Hiremath:** Yes, thank you for taking my question again. Sir you mentioned that you would be able to retire the debt in Q3 itself. Can I assume that you are expecting substantial improvement in the working capital situation for you from what it is right now?
- R. V. Bubna:** We are expecting our inventories to be liquidated and receivables to be realized.
- Amit Hiremath:** Can you give a ball park figure regarding where would this stand inventory days and receivables days within 6 months or so?
- R. V. Bubna:** See I can put any figures from the paper, but this was our feeling.
- Moderator:** Thank you. The next question is a follow up from Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** This imidacloprid potential ban doesn't seem to bother you. What is the strategy here if at all this product does get banned in Europe? Given that this is in our top 10 list, how does Sharda try and manage the ban?
- R.V. Bubna:** There is always an opportunity in any crisis. I feel our customers are getting worried and they are trying to cover up their requirement of the next year from this year itself. Do you understand me?
- Chirag Dagli:** Okay. But that is a short-term bump up sir. There after the sales will eventually go to zero.
- R. V. Bubna:** But the industry and agriculture is not going to get finished. They will find another molecule to replace this and we are best placed we don't have any big weight to carry on.
- Chirag Dagli:** So, the follow-on treatments for or substitutes to Imidacloprid are also product say Sharda has a play registration as well as products?



**R. V. Bubna:** The products which are already there in the basket are going to replace imidacloprid. There is not going to be any new molecule that is going to come up.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Rohan Gupta for closing comments, over to you.

**Rohan Gupta:** You have very patiently answered all the questions. Just before we close the call just a couple of clarification or questions from my side. Sir when you mentioned that there is unlikely to be any increase in depreciation in FY 19 while we have spent close to Rs. 210 crores in registration and generally, we are writing them off over 5 years. So why is there not any increase?

**R. V. Bubna:** When I said Rs. 210 crores this investment is on the registrations which have been realized as well capital work in progress. So, the depreciation is calculated only when registration has been realized, we get the certificate then only it has its value. So, depreciation is not directly linked to the amount spend. It is linked only to the amount which has been capitalized out of the amount spend.

**Rohan Gupta:** And there also some participants have asked and if you can help us later that the further segregation of a Rs. 210 crores CAPEX between the renewal and the new registration CAPEX if you can later if not now if don't have handy number then we will be looking forward for that number.

**R. V. Bubna:** Okay.

**Rohan Gupta:** Sir second one more interesting question came from the participant only and there you definitely clarified it as very tough but still if you have some clarity and if you can work it on something like how our spend will be in the next 2 to 3 years cumulative on renewal of those registrations which we have if we can have some even a ball park number I think that will be very helpful for the investors. That is what probably what I think they are looking for.

**R. V. Bubna:** Okay.

**Rohan Gupta:** And sir just last one from my side sir. You definitely mentioned that you are seeing that the situation is improving in China in terms of availability of raw material. Though the huge inventory probably you are setting right now I think that the prices have already increased over that. So, do you see that you will have in near 6 months over next 2 quarters the inventory which you have will lead to some higher inventory led gain because the product prices would have gone up?

**R. V. Bubna:** This inventory is not of one product or two products it is comprising of many products and in some products the prices are continuing to go high in some products the prices are stabilized and others the prices are showing a downward trend. So, the combined effect as mentioned will not be much significant either this way or that way.



- Rohan Gupta:** And sir some slight contradictory like you mentioned that I mean with the industry trend which we have seen this year in FY 18. Though our volume growth was close to 18% but there was a price led growth also was 6% across our product portfolio. While we have seen in FY 18 most of the product prices were down and they have only started increasing at the end of Q4. While during the year they were on a downward pressure only or most of the product prices were down so how this 6% price led growth across our product portfolio on average is there some of them are not able to understand.
- R. V. Bubna:** This is not just a price led, it is also product mix led. There are some products where we have very good margins. If we can push through those products then overall effect is price gain, margin gain and led by prices.
- Rohan Gupta:** So, it may be more because of the product mix change.
- R. V. Bubna:** Exactly.
- Rohan Gupta:** And sir this year we have seen definitely a very strong growth in Europe region for you and have maintained that kind of growth in Europe and strictly also in US will continue is FY 19 as well?
- R. V. Bubna:** Yes, we still feel so.
- Rohan Gupta:** And sir in NAFTA region from last two years you have been slightly conservative about that market. And two years back you mentioned that you are not going so aggressively on NAFTA so have this situation started improving in the NAFTA market and do you see that FY 19 will be year when you want to cover NAFTA market very aggressively?
- R. V. Bubna:** You are right sir. We are putting lot of stress on NAFTA region because the market size is very big, and our product portfolio has also become fairly respectable. We have got many registrations in NAFTA region which is drawing interest from us.
- Rohan Gupta:** So, the fear which you had earlier in the NAFTA market because of the longer working capital cycle in that market by virtue of those market you wanted to get I mean remain away from that market. So once this year you are saying that you want to capture NAFTA market aggressively and you have a ready product portfolio also. So, do you see that the working capital will continue to be stressed in our company because NAFTA by design is only a higher working capital market?
- R. V. Bubna:** NAFTA region the period of credit is not as big as LATAM and other places. So, rolling over of the capital is quicker in NAFTA market compared to other regions. It is only the inventories because you have to be prepared. In NAFTA region if the people want the product today if you tell them that it will be ready after three days then they buy it from somebody else.



**Rohan Gupta:**

Once again thank you very much for your time. I also thank all the participants logged in for the conference call of Sharda Cropchem Limited. A special thanks to the management for giving us the opportunity of hosting this conference call.

**R. V. Bubna:**

Thank you very much to one and all.

**Moderator:**

Thank you very much members of management. Ladies and gentlemen, on behalf of Edelweiss Securities, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.