"Sharda Cropchem Limited Q1 FY19 Results Conference Call"

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MODERATORS: **MR. PRATIK THOLIYA - EMKAY GLOBAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY19 Results Conference Call of Sharda Cropchem hosted by Emkay Global Financial Services. 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 would now like to hand the conference over to Mr. Pratik Tholiya of Emkay Global. Thank you and over to you, sir.

Pratik Tholiya: Thanks Janice. On behalf of Emkay Global Financial Services**,** I would like to welcome all the participants who have logged into this conference call of Sharda Cropchem. Today we have with us the management team Mr. R.V. Bubna – Managing Director and Mr. Conrad Fernandes – Chief Financial Officer. At the outset, I would like to thank the management for giving us this opportunity to host this conference call. I would request Bubna Ji to first start with his opening remarks and give an overview of the quarter gone by post which Conrad sir please take us to the Q1 results. After that we will open the question and answer session. Thank you and over to you, sir.

Ramprakash V. Bubna: Good day, ladies and gentlemen. A very warm welcome to everyone present here for the earnings call of Sharda Cropchem Limited for first quarter of financial year 2019. Sharda Cropchem is represented by myself – Ramprakash Bubna - Chairman and Managing Director and Mr. Conrad Fernandes – Chief Financial Officer.

Talking briefly about our first quarter results, the revenues increased by 34% year-on-year from Rs. 341 crores to Rs. 457 crores. This was driven by growth of 57.5% in Europe, 62.4% in Latin America, 81.7% in rest of the world and a de-growth of 11% in Nafta. Gross profit for the first quarter increase by 29.2% year-on-year from Rs. 110 crores to Rs. 143 crores, gross margin declined from 32.3% to 31.2%. EBITDA excluding foreign exchange impact for the quarter ended 30th June, 2018 increased by 36.8% year-on-year from Rs. 62 crores to Rs. 85 crores. EBITDA margin increased from 18.2% to 18.6%. Profits after tax decreased by 20.8% from Rs. 43 crores to Rs 34 crores on account of unfavorable foreign exchange impact. The total number of registration as on 30th June, 2018 was 2,209 as compared to 2,157 as on 31st March, 2018. The company has another 984 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.

Conrad Fernandes: Thank you Mr. Bubna and a very good afternoon to all. During the quarter, agro chemicals revenue grew 29.7%. Region wise revenue share for the quarter was as follows; Europe 52.5%, NAFTA 24.8%, LATAM 13.4% and rest of the world 9.2%. The top 10 molecules accounted for 50.6% of the agro revenues. Depreciation and amortization expense for the quarter was Rs. 18.4 crores as against Rs. 15.5 crores for the corresponding period of the previous year. We continue to amortize the intangible assets over a 5-year period. Other expenses for the quarter were higher mainly on account of adverse foreign exchange impact on our payables. Net working capital days as at 30th June 2018, is higher at 117 days as against 75 days mainly due to repayment of our creditors.

With this, now I invite questions from the participants.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. We take the first question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddh Joshi: Sir, one question regarding the increase in working capital. So, the promoters have infused some money in last year last quarter. So, what is the debt outstanding on 30th of June?

Ramprakash V. Bubna: See, the amount of debt as on 30th of June, 2018 was Rs. 162 crores.

Aniruddh Joshi: So, with higher working capital, the promoters have given some loans to the company, so what is the update on that? When do we see the repayment of that debt?

Ramprakash V. Bubna: I think, we should be able to repay it by end of this fiscal year i.e FY19

Aniruddh Joshi: Sir, last question what is the rate of interest at which the promoters have given the money to the company?

Ramprakash V. Bubna: It is 10% per annum.

Moderator: Thank you. We take the next question from the line of Anand Bhavnani from Unifi Capital. Pease go ahead.

Anand Bhavnani: Sir, on 25th June you had filed with exchanges that the board has approved raising of 400 crores. Can you help us understand what is the purpose for this fund raise?

Ramprakash V. Bubna: Mr. Bhavanani, this was just an enabling resolution to raise some QIP in case the management thought it prudent.

Anand Bhavnani: So, as of now it is just an enabling provision there is no concrete plan to utilize this money?

Ramprakash V. Bubna: No, right now we have decided to go slow on this. Maybe we may not need this.

Anand Bhavnani: We had a board meeting just before the results, so I thought maybe there is some pressing need for fund raise and hence we have kind of preponed.

Ramprakash V. Bubna: See at that point of time we thought that we may need some funds to augment our working capital with the increase in volume and increase in the volume of business. But then we thought that maybe we could manage without that.

Anand Bhavnani: So, in Europe some agro chemicals which are important for our portfolio are likely to be phased out due to concerns on environments and impact on human health. So, vis-à-vis FY18 do you see any particular chemicals which we phased out this year and if you can highlight any impact that we might face on our revenue in percentage terms because of the phasing out of these chemicals?

Ramprakash V. Bubna: See there is a talk about it, they have discussions and they are having opposite views. Some people feel that it should be taken out and others feel that it should be continued. And when it goes out there will always be a replacement for it. The replacement that they are talking about is already in our portfolio. So, I don't think we will be impacted very much if 1 or 2 of these molecules go out of the use in our opinion.

Anand Bhavnani: So, my research show that we have about 4 or 5 molecules which form 20% of our revenue ballpark. So, we have replacement for each of these molecules, is it?

Ramprakash V. Bubna: Yes, please.

Moderator: Thank you. We take the next question from the line of Raghvindra Singh from Capital Solution. Pease go ahead.

Raghvindra Singh: Sir, my question is related with the next 12 months-24 months outlook in the light of rising trade war that we are seeing an increase in the production of goods and input materials from China. So, how we the company are looking to see its impact on over PAT or return on capitals?

Ramprakash V. Bubna: Mr. Raghvindra Singh we do not have much time to dwell on these questions which as on today have no base. We will take a call when we see something is being actually implemented and it is not only us, but it will affect everybody. So, we are not very much concern. There is always a solution when these things are implemented.

Raghvindra Singh: So, are we diversifying over raw material suppliers from across the world to mitigate any kind of that you foresee?

Ramprakash V. Bubna: See, those alternatives do not exist in our opinion as of now. China is the factory to the world and everybody is sourcing from China. There are no new capacities or new alternatives in terms of hardware that has been added significantly in the last 10-15 or 20 years. So, it will be a problem to all the people who are involved in this business and there will be a solution, we are not unique in that situation.

Moderator: Thank you. We take the next question from the line of Chetan Thakker from ASK Investment. Pease go ahead.

Chetan Thakker: Sir, I just wanted to get the volume data for the Agchem business by region for this quarter and last quarter?

Ramprakash V. Bubna: Volume is you mean quantities or value?

Chetan Thakker: Quantities, sir.

Ramprakash V. Bubna: Well, European Union the quantity is about 2,964 tonnes in quarter ended June 2018 and it was 2,770 tonnes in the previous quarter. And NAFTA region it is 1,470 tonnes whereas it was 1,825 tonnes in the previous quarter. LATAM 804 tonnes compared to 670 tonnes rest of the world 580 tonnes compared to 368 tonnes.

Chetan Thakker: Sir, just wanted to know NAFTA we were expecting the growth momentum to continue? So, is this one-off because of the season that has happened in this quarter?

Ramprakash V. Bubna: See, partly it is because of the weather, they had a very extended winter and storms in USA in this year. And other part is probably the consumption pattern.

Chetan Thakker: And so we continue to expect that by Q4 we should be able to meet that growth that we were anyway anticipating from NAFTA this year?

Ramprakash V. Bubna: Yes, sir.

Chetan Thakker: And sir, on gross margin I saw the presentation you mentioned about competitive intensity. So, just wanted to get your sense on does that change our medium term outlook on gross margin range that we generally share or it is still remains intact?

Ramprakash V. Bubna: See, the gross margins are affected by lot of factors which are not in our control and one of them is the cross-currency exchange rates, second is weather and demand pattern, sowing pattern and another things. We feel that we should be in the range of 31% to 34% but we have to wait and watch.

Chetan Thakker: Earlier we used to share that this range will be 33% to 36%. So, just wanted to get a sense on we have reduced it to 31% to 34%. So, is it because of the pressures that you are seeing in the market today?

Ramprakash V. Bubna: Because of the experience that we are going through.

Chetan Thakker: And sir on the exchange loss that is there, this year, is it mark-to-market notional in nature or is it an actual loss that is happen?

Ramprakash V. Bubna: No, it is mark-to-market and notionally in nature.

Moderator Thank you. We take the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Sir, if you could give the breakup of volume price and currency for the topline? Volume price product region impact and the currency impact?

Ramprakash V. Bubna: Well, volume is 4.1%, currency is 9.1% and price product is 20.2%.

Vishnu Kumar: In terms of sir, the impact of prices most of them, 20% seems to be steep price hike which is actually very commendable. Any regions where you think there is still scope for pass on or you think more of the price hikes are more or less done?

Ramprakash V. Bubna: See Mr. Vishnu I have stated earlier also, Sharda is a very small player in the entire international market. So, we cannot determine the prices, we have to follow. In most of the markets innovators are still having 70%-75%-80% of the market share and since these are products which needs to be registered and then marketed. There is no free competition. Registrations are very strong, entry barrier and after we get the registrations we follow the multinational. We offer a price of about 10% to 15% as a discount to the multinational

Vishnu Kumar: My question is whether, you think the prices have been passed on by the multinationals to a great extent or they still have to pass on some more and then only we will get the benefit. That was my question.

Ramprakash V. Bubna: They have not been passed on to the great extent. And I do not know what is their strategies probably, they do not want to lose the market share.

Vishnu Kumar: **But d**o you think, next 6 months any improvement is possible on this?

Ramprakash V. Bubna: And that is anybody's guess. We do not come to know that, how they would decide their pricing policies.

Vishnu Kumar: And what about the China, are you seeing the situation to improve or how are you seeing it or is it continues to remain tough as a situation or is it kind of slightly getting better?

Ramprakash V. Bubna: It is the third one as you said it is slightly getting better. But still they are lot of uncertainties and it is now getting more oriented towards specific products. Some of the products are still in shortage some of the products are getting more tougher to source. But more than 50% of the products have become stable and their availability has eased.

Vishnu Kumar: So, availability is not that much**.**

Ramprakash V. Bubna: Yes.

Vishnu Kumar: Sir and on the working capital days you have mentioned the number of days has come down from 130 in terms of the credit payables to about 100 days. Any specific event in China let us say we are asking to get the payment done quicker or anything of disorder?

Ramprakash V. Bubna: No, sir we have paid on the due dates. The only thing is our sourcing was in advance or it was maybe nearer to the fag-end of the season and we normally get limited credit of 120 or 180 days. So, as and when these invoices become due we have paid. Normally another thing when there is a availability of the product situation then we source the product exactly when we need. Here we had to plan the sourcing sufficiently in advance to get the products on the season. So, that is why we had a higher inventory and that is also the reason why we paid the prices of the inventories earlier than what would have been above 133 days.

Vishnu Kumar: But in general, the terms have not changed more or less it is the 3-4 months….

Ramprakash V. Bubna: In general, the terms havenot changed but for some products the manufacturers insist early payment and they give preference to the people who give them a good payment terms.

Vishnu Kumar: And could you just give the broad indicate to current gross margins you are earning across regions, earlier used to give this number.

Ramprakash V. Bubna: In Europe, the gross margin is about 42.4%, NAFTA region about 19.7%, LATAM 25.5% and rest of the world also 25.7%.

Vishnu Kumar: First quarter in North America our revenues were down, our growth was very slow because as you mention there was a delayed planting and seasonally it was slower because of delayed winter but in Q2 in the last one month are you seeing a pickup in terms of planting and that translates to a better revenue growth for us in the North American market region?

Ramprakash V. Bubna: No, first quarter for us in America was very good because people plan for their demands in advance. So, we had a good performance in terms of volume in the first quarter in NAFTA region. It is the second quarter which has been little subdued compared to the same quarter last year and the reasons are that we started with a good base, second thing is probably the sowing and another things started late because of the extended weather in the second quarter. And as your question whether the fag-end of this thing it is very difficult for us to distinguish so clearly. We find that the demand is little subdued in this quarter as compared to the last year.

Moderator: Thank you. We take the next question from the line of Anand Bhagnani from Unifi Capital. Please go ahead.

Anand Bhagnani: Sir, if you could give the volume currency in price breakup for Q4 of FY18? I just want to compare quarter-on-quarter figures.

Ramprakash V. Bubna: Sir, I will have to dig it out. I do not have it offhand now.

Anand Bhagnani: And second sir, for gross margin across various geographies what kind of trajectory do you see for these margins in the current year. If you can give us some sense whether they are likely to improve?

Ramprakash V. Bubna: See Mr. Anand, we are having very big portfolio products. We do not have single-digit number of products. Some products are high-priced, some products are low-priced, and some give us a very good margin, others gives very normal or less than average margins. So, overall it depends upon what products have a demand and secondly how the weather goes in? If you ask me overall, then I feel that the trend will continue.

Anand Bhagnani: And sir, if you can compare help me understand the product portfolio in North America vis-à-vis EU because the margins are different. So, in terms of quantum of products that we have in North America weather EU or the quantum of products that you are planning to launch in North America vis-à-vis EU in FY19?

Ramprakash V. Bubna: See again quantum which we are planning to launch is very difficult to say, we have given the same information just now to one of your colleagues before, what are the quantum that we have sold in quarter 1 in the various regions.

Anand Bhagnani: No sir, in terms of let say, in thinking in terms of SKUs how many stock keeping units which we have in let say EU vis-à-vis NAFTA at this point in time and how many more additional new products we are planning to introduce in NAFTA this year FY2019 and when can we like expect NAFTA to have as broader product portfolio as EU.

Ramprakash V. Bubna: It will take some time, sir. These are all guided by the registration processes and the demands. Registration process are very unpredictable. So, I would say that it will take many years for NAFTA to catch up with the product portfolio of European Union.

Anand Bhagnani: And sir with respect to the fund raised plan, do you think that may be this year itself we would at some point in time would need to raise the capital which you have kind of the board has enabled you to do so?

Ramprakash V. Bubna: See as on now, we feel that we can do without the QIP but if the situation changes after 6 months or 8 months which I do not think will change, but if it changes then we will take a call at that time.

Anand Bhagnani: Yes, but route is likely to be QIP?

Ramprakash V. Bubna: One of the routes is likely to be QIP.

Moderator: Thank you. We take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Rohan: Sir, first question on the volume growth of 4% which you mention. I understand that this is one of the slowest volume growth probably I have seen in last many quarters. So, that is one that from where this weakness in volume growth we are seeing?

Ramprakash V. Bubna: Sir, volumes aren't very much insignificant or not very much relevant in our business model. What we look at is the value and as I have told you with such a large portfolio and such a wide range of prices it is very difficult, and we do not stress and lay concentration on the volumes. Our emphasis is always on the value.

Rohan: So, I mean we ourselves have focused more on the high value-added products and that is why the price-led growth is roughly 21%.

Ramprakash V. Bubna: Yes, naturally our emphasis is more on the high value products.

Rohan: So, the price-led growth of 21% which you have mentioned is more of the function of normal increase in the prices or more focus on the value-added product? Or change coming from change in product mix?

Ramprakash V. Bubna: Change in product mix and value-added products.

Rohan: Second question will be from the naturally different from the first question itself that if we have already improved our product mix which is up to the large extent 21% price increase have already seen in the product portfolio. Then also we have seen there is a pressure on margins. So, how much scope is there further for improvement in product mix further and then what is the margins which we can achieve?

Ramprakash V. Bubna: See the last part of your question is very difficult to answer. Our emphasis is to introduce more and more newer products for which the registration efforts are continuing, and as new products come into our portfolio, the older products or the commodities start receiving lesser priorities and importance. That is the only thing I can say.

Rohan: Sir, second question is on our depreciation. So, it is actually 4th quarter in a row when we are seeing the depreciation has been almost constant 18 crores. So, while we have been continuously investing heavily in registration last year also I think we have invested significantly in new registration. So, is there any change in our depreciation policy which you are seeing or when the next leg of increase in depreciation will be reflected in the P&L.

Ramprakash V. Bubna: No, Mr. Rohan there is no change in depreciation or amortization policies. We amortize capital assets over a period of 5 years at the rate of 20% per annum.

Rohan: But sir, if I understand rightly last year in FY18 we have invested a significant amount in our registration.

Ramprakash V. Bubna: Sir, all of it is not capitalized. Some of it still stands in the capital work-in-progress, so that also is a factor that we have to take into consideration.

Moderator: Thank you. Next question is from the line of Resham Jain from DSP Blackrock. Please go ahead.

Resham Jain: Sir, just wanted to have this absolute amount details of inventory receivable and payable if you can give?

Ramprakash V. Bubna: What you mean by absolute amount Resham?

Resham Jain: In your presentation number of days has been given I wanted an absolute amount of inventory receivables and payables all 3.

Ramprakash V. Bubna: My colleague says that we do not have right now.

Moderator: Thank you. We take the next question from the line of Jasdeep Valia from Infina Finance. Please go ahead.

Jasdeep Valia: Sir, any success you had in the last quarter in convincing banks to give you working capital loans?

Ramprakash V. Bubna: Sir, we have non-fund based working capital loans from the banks and they have been supporting us year-after-year. They accommodating our request for increasing our working capital loans. So, to that extent we are being supported by the banks.

Jasdeep Valia: Sir, but now your working capital requirement has increased. So, would they be able to fund this incremental working capital also? So, did you have any negotiation with them on this topic?

Ramprakash V. Bubna: See our business model is such that they can support our working capital needs as per the RBI norms and we are not asking them for a fund based limit. This is purely non-fund based limit that we are enjoying from them.

Jasdeep Valia: So, RBI norms will not let them increase these non-fund limits,

Ramprakash V. Bubna: Yes, for fund-based limits the company should have some tangible assets to give us a collateral, which our company does not have.

Jasdeep Valia: Sir, will not your long-term track record matter in this respect, in the sense your company has being doing business since such a long time?

Ramprakash V. Bubna: Sir, if you know the bankers you will have the answer. Bankers always insist on some collaterals.

Jasdeep Valia: And they are not willing to except registration as a collateral.

Ramprakash V. Bubna: No, they do not recognize, and they do not understand what this registration means.

Moderator: Thank you. We take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, you said in China half of the products have seen eased availability, have prices also corrected sir, for those products?

Ramprakash V. Bubna: Yes, sir. There is a correction in the prices.

Chirag Dagli: Sir of the peak how much would prices I mean of just ballpark in over a range would have help, sir.

Ramprakash V. Bubna: Chirag it is very difficult to say because every product has a different trajectory of prices in the last one year and in the time to come.

Chirag Dagli: Are you seeing a trend here sir, that the ones that observed the maximum prices increases those are the ones that are seeing leveling off of prices.

Ramprakash V. Bubna: Yes, sir.

Chirag Dagli: That is a fair statement.

Ramprakash V. Bubna: Yes, but then you see, that from next month onwards these prices are likely to go up and things so on. So, it is a very strange situation, very difficult to fathom out what exactly is going on there.

Chirag Dagli: And sir, in one of your earlier comments you mentioned that 21% of your price and mix growth was largely a mix derived benefit. Does it mean that the price increases have been less than 5% kind of a number, sir?

Ramprakash V. Bubna: Sir, I would say that it has not been a matter of price increase. It has been a change of product mix.

Chirag Dagli: So, price increase is just not contributed anything is what?

Ramprakash V. Bubna: There has not been much of a price increase sir. There have been price increases in some cases but not as much as increase in the cost.

Chirag Dagli: No that is the fair point. So, but in general have you been able to sort of get some price increases at all on a blended basis?

Ramprakash V. Bubna: I will not say we have not been able to get any price increase. In some cases we have been able to get a price increase.

Chirag Dagli: But you do not have a number as to on a portfolio wide basis for Q1, what has been the price increase?

Ramprakash V. Bubna: Chirag Ji, it is very difficult and we are marketing in about more than 70 countries. European Union has a different pattern where the competition is less, Latin America there is more competition. So, it is also a factor of competition number of players.

Chirag Dagli: In Europe has there been a change?

Ramprakash V. Bubna: There has been a change, we see that one, two or more not many but more number of registrants have entered Europe for some products.

Chirag Dagli: And sir this foreign exchange lose mark-to-market is there an element of mark-to-market on forward covers that you might have for the upcoming season or is this entirely mark-to-market on receivables and other assets.

Ramprakash V. Bubna: Both mark-to-market on the forward cover as well as on to the receivables.

Chirag Dagli: Sir, can we split the number of 14 crores loss how is that split between what is mark-to-market on derivative or hedges that you have because that in some sense is related to your future cash flows right rather than your current quarter.

Ramprakash V. Bubna: Chirag, you are knowing us for many years, we have been in contact. We do not go very aggressive into hedging by way of forward contracts and we do simple plain vanilla forward contracts, we do not cover more than 25% of our open position into forward contracts. So, forward contracts will not contribute much to this mark-to-market price, it is mainly the payables and receivables and the change in the exchange rate between March 18 to 30th of June 18.

Moderator: Thank you. We take the next question from the line of Miloni B from IDFC securities. Please go ahead.

Nitin: Sir, Bubna Ji on the product mix being the primary driver of growth this quarter, incrementally sir is this continue to, will this continue to be the main driver for revenue growth for us or if we are looking at 2 to 3 years what to drive growth for us?

Ramprakash V. Bubna: See the product mix would be a driving force because there are lot of products which are commodities and those are the products which do not interest us where the margins are very small and little, and competition is more.

Nitin: So, sir are we undergoing a situation where we are replacing some of us lower value sales higher sales on a regular basis or which is leading to this product mix?

Ramprakash V. Bubna: No, there is no such hard and fast rule or a strategy. We lay more stress and emphasis on the high value products and better margin products and if from the same customer we get requirement for commodity product or low-value product we also comply with that because that does not involve much of an effort on our side.

Nitin: But sir incrementally more of our incremental new registrations would be largely presumable towards the higher value products.

Ramprakash V. Bubna: I think so.

Nitin: And sir on the working capital issue that you highlighted now since there has been a meaningful pick up in our revenue growth at least for the last few quarters and if some of this sort of momentum sustain on a much higher revenue base that we have. I mean how are you thinking about handling capital issues on a sustain basis?

Ramprakash V. Bubna: Sir, there were only 3 means either to go for QIP or increase our borrowings or limits from the bank and third is our own internal generations.

Nitin: But you said you will constraint by the non-fund base fund funding that the banks do.

Ramprakash V. Bubna: Yes.

Nitin: So, I mean, this working capital need will keep increasing for us in the business right. If you continue to grow at this kind of rate that we are?

Ramprakash V. Bubna: See one of the alternatives that we are thinking is to provide some kind of a comfort to the bankers from the promoter’s side if the company cannot provide.

Nitin: Sir, in terms of some of these measures that you are talking about on like for example give comfort lender to the banks and all by when you think you will have a greater clarity in terms of whether its clarity on how to handle these working capital challenges going forward, sir?

How much over the next 6 months or 12, 6 to 9 months will be reasonably clear in terms of how to handle these working capital issues for us?

Ramprakash V. Bubna: Yes sir, into 6 to 9 months the things will be more clear.

Nitin: And so on the last one sir, this repayment of the promoter loans what would be the source of fund from a company perspective for repaying of these loans, sir?

Ramprakash V. Bubna: Sir, liquidating on inventories and better collections.

Nitin: Basically, it is through the working capital release which will happen in the coming quarters.

Ramprakash V. Bubna: Yes, sir.

Moderator: Thank you. We take the next question from the line of Sumant Kumar from Motilal Oswal Securities. Please go ahead.

Sumant Kumar: We have around 984 registrations in pipelines. So, what is the breakup for that across the geographies?

Ramprakash V. Bubna: The breakup is 619 registrations in European Union, 98 in NAFTA, 200 in LATAM and about 67 in rest of the world.

Sumant Kumar: And talking you about your 10 molecules contribution is continuously decreasing and you are focusing of more on product mix and new product. So, what is the 3 to 4-year target for top 10 molecule contribution? What can be the contribution in next 3 to 4 years for the top 10 molecules?

Ramprakash V. Bubna: So, the top 10 molecules should contribute about 50% to 60% of our total revenue.

Sumant Kumar: So, it will decline to 40%-45% in next couple of years?

Ramprakash V. Bubna: Well, we did not expect it to come down to 50% as it has come down now. So, it could go to 45 but the likelihood is less.

Sumant Kumar: So, rest of world you have shown a growth of 82%, this because of product mix or geographical expansion?

Ramprakash V. Bubna: No sir, because in the previous quarter the ROW contribution was very low. This has improved in current year.

Moderator: Thank you. We take the next question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: If I were to assess registration process in terms of the amount of time it takes and amount of money it takes? How would you compare NAFTA with Europe and LATAM with Europe?

Ramprakash V. Bubna: See, the registration process in Europe is the most difficult, most time consuming and very exhaustive. And in NAFTA there are 3 main countries the rules are different in each one of them. In USA, United States of America it is faster but more expensive and in Canada and Mexico it is more or less similar to Europe. And in LATAM it is not so expensive and also it takes lesser time.

Anand Bhavnani: And sir, with respect to our fund raise the entire quantum was for working capital or there was some element of fixed capital that was being planned as well?

Ramprakash V. Bubna: No. It was mainly for working capital.

Anand Bhavnani: And sir, just out of curiosity we must have considered raising working capital limits from global banks in the countries where we do business. So, any options did not materialize in those regions as well as for us to raise working capital limits?

Ramprakash V. Bubna: Mr. Anand, we do not qualify because we do not have any permanent establishment outside India. So, you must have some tangible assets and fixed assets as the establishment in those countries to qualify for some banking facilities for those geographies.

Anand Bhavnani: And sir lastly this is more of marketing kind of a question. I was actually trying to understand the products better and I visited our website for Poland and other countries in the product zone I see that almost all of different products have similar container size and packaging and visually also they look similar. So, is it more by regulation or is it by our choice because in India I have seen products have different colors, different kind of containers, different so as to attract the customers. So, just wanted to understand in from marketing perspective, our packing is pretty bland if I were to use the word.

Ramprakash V. Bubna: See, actually we are getting these products packed there in Europe only. And our packaging job workers are also doing the same job for lot of multinational companies. So, I think we are in line with what is happening there.

Anand Bhavnani: But like most of our products are same kind of container, same kind of packaging, just the name is different. So, it is almost if layman looks it from a distance will not be able to …

Ramprakash V. Bubna: Sir, it is not a consumer product. It is an agricultural product where the content is more important than the container.

Moderator: Thank you. We take the next question from the line Resham Jain from DSP Blackrock. Please go ahead.

Resham Jain: Sir, on the CAPEX front because of the current working capital situation, have we changed our CAPEX plan for FY19. FY18 I presume you had $18 million of CAPEX?

Ramprakash V. Bubna: I think it was more.

Resham Jain: What was that, sir?

Ramprakash V. Bubna: Sir, I think it was in the range of $20 to 30 million.

Resham Jain: And sir this year what is the CAPEX we are planning for?

Ramprakash V. Bubna: See, Mr. Resham I have to repeat once again. The CAPEX is one thing which is very uncertain and very difficult to plan. It all depends upon the progress of the various registration processes that take place. And we have to conduct lot of field trials on the ground in the season. Sometimes there is a season which let us down sometimes the disease does not come. And most of them are being evaluated by Ministries and various committees in every country. Those Ministries and committees do not sit, so regularly as they are expected to be. So, we are passing through lot of uncertainties. Then there are lot of rule changes that come up in between. So, it is very difficult to plan. We have to go through it or swim with it as the stream flows.

Resham Jain: Sir, so I am specifically asking this because as you mentioned initially also that current working capital situation is little stretched and given the kind of CAPEX which we have done last year. Is there any flexibility for us to reduce some of the CAPEXs to ease out the working capital requirement that is what I wanted to understand?

Ramprakash V. Bubna: Very good, I am very happy that you asked this question. That is the strategy exactly which we have been working on. We were little open and liberal in 2018 and we want to tighten our fist little and tighten our belt in the year 2019, so that the working capital does not go out of our hands.

Resham Jain: But any ballpark number which you are looking at that is between this and this number in terms of …

Ramprakash V. Bubna: Well, I would say that our expenditure on CAPEX was about 209 crores in the year March 2018. In the previous years it was in the range of 140 crores to 150 crores. So, we would like to work within the limit of 150 crores this year unless there is a need which is unavoidable.

Moderator: Thank you. We take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, last year's balance sheet March 2018 shows a CWIP of 360 crores. Just trying to understand when is these gets capitalized? Do we have any line of sight of when this capitalized and over what period?

Ramprakash V. Bubna: Sir, my answer would be fairly similar to what I have answered to Mr. Resham Jain just some time back. It all depends upon how the process of registration progresses. And this becomes capitalized the time we get registration document in our hand.

Chirag Dagli: Sir, these 360 crores how many active ingredients would this be spread across?

Ramprakash V. Bubna: We do not have that break, right now, Chirag.

Chirag Dagli: And sir this Europe growth market has not done very well in this quarter. You have done very well. Is this on the back of 1 product, 2 product, new launches if you can give any color of what is driving this growth?

Ramprakash V. Bubna: There is not been any significant new launches. But our registration process is a continuous process after we get a registration we add more crops to the same registration. We add more diseases we add more formulations. So, that is the continuous process and that keeps on consuming some expenditures. It is not very significant but it does help us. And they also contribute.

Chirag Dagli: So, this growth that we have seen in the quarter in otherwise lull quarter is largely driven by existing products?

Ramprakash V. Bubna: Yes.

Moderator: Thank you. We take the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Rohan: Sir, in a working capital scenario when its already its getting tightened with the receivables and inventories. So, there is a, it seem that there is an additional pressure coming from the creditor days. So, is it by choice that we are getting some higher margins or discount from the Chinese supplier? Or that in China itself we are facing problem and that other the reduction in creditor days is getting reflected because of that?

Ramprakash V. Bubna: No. There is nothing like that. We enjoy very good credit and support from our Chinese suppliers and manufacturers. And in fact, we get some accommodation from them if we request them to extent some credit they do not grumble so much, and they support and help us. So, there is no pressure.

Rohan: Current scenario then we would have asked probably, or I would have excised more creditor days than to fund our rising working capital rather than reducing it by 30 days?

Ramprakash V. Bubna: No, see as I have explained these 30 days is not by design. 30 days has happened because the due dates of my purchases have come under we have paid on dues dates. It is not, but in some very rare cases when the material is in extreme shortage and manufactures has alternative buyers who are willing to buy from him in advance and other things. Those could be some possible cases, but they are very rare. We have paid our suppliers on due dates on the normal credit and there is no pressure from the suppliers on this front.

Rohan: So, sir, in general how many and what is the credit days we get? Will the benefit on the Chinese suppliers?

Ramprakash V. Bubna: We normally like to pay them in cash because that is the cheapest and the best price. The cost of credit there is not as same as that you would expected in India. But in case we have some issues of our cash flow then we get credit up to 180 days from the date of shipment.

Rohan: And then if we avail the complete benefit of 180 days, then what would be the additional money will be paying to them, I mean what is the interest rate they will be charging on that?

Ramprakash V. Bubna: I think, they would charge around 3%-4% or 5%.

Rohan: 5% for 180 days or annualized?

Ramprakash V. Bubna: 180 days.

Moderator: Thank you. We take the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: If I look at your March 2018 inventory you had about 540 crores from then on even after that the prices of technical has started going up or more or less it is stabilized after that point in time?

Ramprakash V. Bubna: See, Mr. Vishnu Kumar there has not been a cutoff point. I would say right from the month of February, March 2018 the situations started easing up. It took us a month or so to realize that it is really started easing up.

Vishnu Kumar: The question is whether after March or you are saying since February it is kind of started ease up. So, there is not been a real stress from February to April at least in the …

Ramprakash V. Bubna: I did not say it is not real stress because for the easing up to our level and to match with our requirements is also another factor. By that period, we had source most of our products and our sales did not have much of a demand in the first quarter of this year. So, we have not done much sourcing, much buying except when it is buying for what you call B2B sales directly product going to our customers from China.

Vishnu Kumar: Sir, if I take rough 30% gross margins on our inventory it would probably support about 750 crores to 800 crores of sales. So, we have already done some 450-460 in the first quarter, so would it be fair to say that whatever inventory we had till March will probably support up to second quarter and whatever fresh inventory we take is going to come in or books only by third quarter. I understand there are some molecules that may sell here and there but on a broad note is that a fair assessment?

Ramprakash V. Bubna: Mr. Vishnu Kumar Ji please understand that we are working in a model of seasonal business. And our third and fourth quarters are very weak quarters. We have not much of sales. So, some products which we might have source this in the month of first or beginning of second quarter of this year. We may be able to sell it only at the end of third quarter, because now for lot of products there is an off season. So, it is not a very simple and straight question or says straight answer.

Moderator: Thank you. We take the next question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Just an accounting question. Sir, in early part of the call you mentioned that there are lot of commodity products which lose our interest once we have higher value products that can replace them. So, accounting wise, do we write down the intangible assets associated with the product that no longer interest us?

Ramprakash V. Bubna: No, sir. We normally write it down, over a period of 5 years. But our auditors do look into this that if some registrations are not contributing any revenue for maybe a year or so, they have their own standards. Then they sit down with us and say that this registration expenses should be amortize faster. But that situation is not in use which use to be about 5 years back. Now a days that situation is not there just because we are not dealing in a product which does not interest us. That does not mean that we will no deal with it. If we get the demand and if we get some sufficient margin then we still deal with them. So, they do contribute.

Anand Bhavnani: And sir, in case of Ind AS there is some requirement that at the time of sales on the expected credit loss model you have to have some provisions for receivables. So, sir have we shifted to that and what has been the impact because of that shift?

Ramprakash V. Bubna: Anand ji, I will request Mr. Conrad Fernandes to answer this question.

Conrad Fernandes: With our transition to Ind AS, yes. You mandatorily have to follow that model. We do follow that model and it is a very negligible impact on our overall sales.

Anand Bhavnani: Sir, what could be the amount in crores?

Conrad Fernandes: I do not have the absolute number here, but the provisioning is less than 2%.

Moderator: Thank you. We take the next question from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: Sir, just only one question. Just your whatever question I heard actually. Consistently, we look at your topline basically your product mix is improving over last 3 quarters and even you are saying prices are going up. And if you look at the China season it is still easing and despite that you are giving a gross margin you used to give 33%-36% of range and now you are giving 31% to 34%. You cut the basic gross margin that is by 200 basis points roughly, I would say despite the situation is improving. So, what was the reason exactly?

Ramprakash V. Bubna: Sir, I explained you if our big brothers, the innovators they do not pass on the price increase to the market, then we have to follow that trend. It is not in our hand to pass on the increase in the cost and prices to the customers.

Manish Mahawar: But still we are witnessing the pricing pressure because we are seeing in December quarter, I believe last December quarter all the companies have witness a pricing pressure in the market.

Ramprakash V. Bubna: Yes, but on the ground the multinational companies prefer to show poor results or lesser profits rather than passing on the price increase with the customers because they do not want to lose their market share. They still want to command a big share of the market.

Manish Mahawar: So, basically going forward whatever realizations will come in the business will come from the product mix only you are seeing, right?

Ramprakash V. Bubna: Yes, sir. Or the multinational companies are going out of the market for some products or they decide to increase the prices.

Manish Mahawar: In that case our gross margin will become to the back to the 33% to 36%**?**

Ramprakash V. Bubna: It can.

Moderator: Thank you. Well that seem to be the last question. I would now like to hand the conference over to Mr. Pratik Tholiya for his closing comments.

Pratik Tholiya: Yes, thanks Janice. I think sir, we have had a very long and detailed interaction today and thanks a lot for giving us this opportunity to host this conference call. On behalf of Emkay Global, I would like to thank all the participants who logged into this call. Thank you so much. Sir, you would like to make any closing comments?

Ramprakash V. Bubna: No, thank you. I just want to say thank you to everybody. It has been a very nice conference and very enlighten questions, I am very happy with that. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services, we conclude today's conference. Thank you all joining us, you may disconnect your lines now.