



“Sharda Cropchem Limited
Q4 FY2019 Earnings Conference Call”

May 15, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Limited Q4 FY2019 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 phone. 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 Mr. Mahawar!

Manish Mahawar: Thanks. Bharath. On behalf of Antique Stock Broking, I would like to welcome all the participants in the earning call of Sharda CorpChem. From the management we have Mr. R.V. Bubna – Chairman and Managing Director along with Mr. Ashish Lodha – CFO on the call. Now I would like to hand over the call to Bubna for opening remarks. Over to you Sir!

Ramprakash 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 Q4 and financial year 2018-2019. Sharda Cropchem is represented by myself, Ramprakash Bubna, Chairman and Managing Director and Mr. Ashish Lodha, Chief Financial Officer.

Talking briefly about our FY2018-2019 results, revenues have increased by 17.3% year-to-year from Rs.1,707 Crores to Rs.2,001 Crores. This was driven by growth of 14% in Europe, 20.5% in NAFTA and 64% in the Rest of the World. Partially offset by de-growth of 19% in Latin America.

Gross profit increased by 9% year-to-year from Rs.563 Crores to Rs.613 Crores. Gross margins declined by 232 BPS from 33% to 30.7%. EBITDA excluding CWIP write off increased by 7.6% from Rs.345 Crores to Rs.372 Crores. EBITDA margin was decreased by 167bps from 20.2% to 18.6% due to lower gross margins. Profit after tax declined by 7.6% from Rs.191 Crores to Rs.176 Crores in FY2019. The company has focused on cash flow generation and efficient working capital management.

In FY2019, the company generated a free cash flow of Rs.383 Crores and net balance stood at Rs.335 Crores in FY2019 as compared to cash balance of Rs.123 Crores in FY2018 and a debt of Rs.170 Crores in that year. Net working capital has got reduced by Rs.248 Crores from Rs.788 Crores in FY2018 to Rs.540 Crores in FY2019. Net working capital days have declined from 101 days in FY2018 to 86 days in FY2019.

Coming to Q4 results, the revenues remained stable at Rs.764 Crores in FY2019. Gross profit declined by 9.9% from Rs.264 Crores to Rs.238 Crores with a gross margin of 31.1%. EBITDA has declined by 20.2% year-to-year from Rs.198 Crores to Rs.158 Crores with margin of 20.6%.



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Profit after tax declined by 6.7% from Rs.113 Crores to Rs.106 Crores with margin of 13.8%. I am happy to inform you that the board of directors have considered and declared a final dividend of Rs.2 per equity share for the FY2018-2019.

With this brief overview, I would now like to handover the call to our CFO, Mr. Ashish Lodha for discussing our financial performance. Thank you.

Ashish Lodha:

Thank you Mr. Bubna and a very good evening to all. I will give you a brief about the FY2018-2019 performance.

Our revenue grew by 17.3% year-on-year in FY2019. This was on account of price and product mix of 17% along with the favorable foreign exchange gain of 7.3% which was partly offset by volume de-growth of 7.1%. Our agrochemical business grew by 13.8% and non-agrochemical revenue grew by 40.2% year-on-year basis. EBITDA excluding the write off of intangible asset in CWIP was increased by 7.6% on year-on-year basis, with a margin of 18.6%. Depreciation during the year increased by 42.1% from Rs. 69.9 Crores to Rs. 99.4 Crores driven by higher capitalization of the intangible assets.

Profit after tax declined by 7.6% from Rs.191 Crores to Rs.176 Crores in FY2019. This was mainly on account of CWIP write off of Rs.42.2 Crores in FY2019. There was a forex loss during the year of Rs.4.5 Crore compared to a forex gain of Rs.8.5 Crores in FY2018 and increased depreciation of around Rs.30 Crores in FY2019.

With the increase in the share of NAFTA region and reduced share of LATAM region in our agrochemical business, the working capital has reduced significantly. So, it has reduced from 101 days in FY2018 to 86 days in FY2019. Further, we have spent Rs.149 Crores in the current year as capex against the 209 Crores of last year number. A strong growth in revenue, a lower working capital and normal capex has led us to generate a healthy free cash flow with the current net cash position of Rs. 335 Crores as of March 31, 2019.

Thank you. Now open the floor for the questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Chetan Thakkar from ASK Investments. Please go ahead.

Chetan Thakkar:

Sir, I just wanted to understand two things. One was if you can share the volume data by region in kilo, what was it for Q4 and second Sir, just wanted to know while Europe's share has increased, but gross profit margin come down, while that region has the highest gross profit margins. So, just a take on where gross profit margins are currently and how do you see them going forward?



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Ramprakash V. Bubna: Mr. Chetan as you have yourself explained, the revenues have increased in Europe, but there is pressure on the margins and that has led to a lower gross margins and lower gross profits.

Chetan Thakkar: Sir, do we see the situation improving soon enough because is it on an account of still price hikes are coming through despite raw material volatility or raw material prices high or is it that demand itself has an issue why everyone is not taking a price hike?

Ramprakash V. Bubna: It is a mixture of both. In some countries, there has been a pressure on the demand because of the drought and unfriendly weather. The other issue is that we have not been able to pass on all the price increase of the raw materials to the customers for finished good.

Chetan Thakkar: Sir, how do see this ensuing Q1 going through as well because I think Q4, Q1 will probably give you a good sense on that, entire season has progressed, so just wanted to get a sense on whether there is an improvement versus Q4 in terms of gross margins and demand or it still continues to remain the way was in Q4?

Ramprakash V. Bubna: It is too early to say because we have only had one month of Q1. But I will say that the situation is stable and it is continuing in the same range as Q4 of last year.

Chetan Thakkar: Sir, you can give that volume data by region for agrochem term in KL term?

Ramprakash V. Bubna: Sales in Europe has been Rs 88,490 lakhs, in LATAM it is Rs 14,367 lakhs, NAFTA is Rs 73,168 lakhs and Rest of the World Rs 24,090 lakhs. The quantity is 12,279 tons in Europe, 2,002 tons in LATAM America, 8,383 tons in NAFTA and 2,562 tons in Rest of the World.

Chetan Thakkar: Sir, NAFTA any particular reason why growth was lower this quarter because NAFTA was growing quite well, just wanted to know is weather specific issue in NAFTA?

Ramprakash V. Bubna: It is mainly weather specific by chance the third quarter of this year was very good in NAFTA and fourth is good, but not as good as you would expect in the third quarter.

Chetan Thakkar: Sir, guidance for next year given the situation on gross margins?

Ramprakash V. Bubna: I think we should stay at the same level as FY2019.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Sir, just wanted to understand is there any one-off expenses in this quarter because in last two quarters we have seen some write-off of intangibles, which has happened, so in this quarter is there complaint like that?

Ramprakash V. Bubna: Not very much. This quarter has been very much normal as compared to the other years.



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- Resham Jain:** Because other expenses is slightly higher than usual, so just wondering is there anything one off in the other expenses, which has gone up?
- Ramprakash V. Bubna:** No, there has been a little bit of write off of the intangible assets in the development and depreciation.
- Resham Jain:** What is that amount, which has been written off in this quarter?
- Ramprakash V. Bubna:** I think, I made a mistake. There is no amount written off in this quarter.
- Resham Jain:** Depreciation is slightly higher in this quarter, I missed the opening remarks actually because I could not dial in, if you could repeat the depreciation amount is slightly higher in this quarter, has there been any registration commercialized?
- Ramprakash V. Bubna:** Exactly, this is because we have received some registrations and CWIP has been capitalized and that's how the depreciation has also increased.
- Resham Jain:** Also Sir, we have heard we have been reading in the news about North American rain floods and because of which there is some delays in planting, so just wanted to understand is there any impact on our side because we will be selling it to distributors, the actual retail sales may not have happened, but has there been impact on that front in North American market?
- Ramprakash V. Bubna:** No, for us, not so much.
- Resham Jain:** Sir, any forex related, your views or comments, how are we placed versus last year?
- Ramprakash V. Bubna:** There has been some depreciation of Euro versus Dollar, that has impacted our figures to some extent. But it is not very significant.
- Resham Jain:** How is the overall outlook for the coming year?
- Ramprakash V. Bubna:** I think we will continue to perform in a very steady way to about 15% to 20% on the topline growth. Bottomline, there are some uncertainties about situation in China and China-US trade war and other things. So I think we should be able to stay at the same level or will grow further.
- Resham Jain:** Sir, if you look at inventory, your inventory has come down significantly as compared to last year, but typically higher inventory gives a visibility of the future sales as well, so any comment on that front because you are carrying a lower inventory this year versus last year?
- Ramprakash V. Bubna:** Mr. Resham, last year has been a little bit of an aberration because of very difficult situation in China and late deliveries by the suppliers. So by the time we shift the goods and landed in the various regions, it was bit late for that season. So we are left with the lot of unsold inventories.



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This year we have been more alert and more efficient to manage at the optimum size of inventory. So there is no reflection on the demand.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss Financial Services. Please go ahead.

Nihal M. Jham: Sir, my first question was on the growth aspect itself, you have already seen a focus of improving our balance sheet, so is it that this quarter, we specifically in an effort to improve our balance sheet somewhere by reducing of growth?

Ramprakash V. Bubna: No, Sir. We are not consciously or as a strategy reduced the growth at all. We have done our best to grow it as much as we could.

Nihal M. Jham: Sure, you mentioned about NAFTA and may be Europe and RoW have done well, but in case of LATAM we have consistently seen that the situation is not great for this entire year, so any specific reason this quarter also, and what is the outlook you see for the LATAM region for the coming year?

Ramprakash V. Bubna: See, in our opinion the LATAM region is passing through very difficult economic situation. The economies are not in good shape. They are suffering very abnormally. Heavy inflation and very heavy depreciation of the currencies. With these two factors they are not able to handle the products, they are not able to pay for the goods on time. So we are not pushing, also we are not being aggressive to sell the goods.

Nihal M. Jham: But I guess you do not expect the situation to be improving in the coming year also based on what you are expecting?

Ramprakash V. Bubna: As far as we can see the situation continues to be the same.

Nihal M. Jham: Sir Just one more question on the depreciation part, if I see that sequentially we have seen an increase from Rs 23 Crores to run rate of around Rs 38 Crores to Rs 40 Crores, so will this be the kind of run rate for the coming year also for depreciation?

Ramprakash V. Bubna: Mr. Nihal, depreciation depends upon our ability to receive the registrations and do the capitalization. This is a process, which has a lot of uncertainties. We hope that we should continue at the same level, but it is not in our hands. We are dealing with lot of government authorities and many uncertainties.

Nihal M. Jham: Just one last point on this that, you know compared to last year, we have capitalized around 150 Crores of registrations looking at the intangible asset, but our depreciation annually if I look at Q4 to Q4, this number has gone up by around 20 Crores, which on an annualized basis comes to



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something like an 80 Crores. So, are we increasing the depreciation, are we reducing the number of years which are amortizing our registrations?

Ramprakash V. Bubna: No Sir, we are not doing any such changes in the basic policy, this could be also result of timings. If we have got more registrations in the later half of the year, then the depreciation amount is not proportionally that much high as compared to the capitalization.

Nihal M. Jham: Are you expecting any intangible write-off that we see till possibly happening in the coming year also because we did a 40 Crores kind of write off for last year, but in the coming is there an expectation that you could see some shaving off from the registrations?

Ramprakash V. Bubna: Nothing that we can see at this point of time. I do not expect it to be so, but it is something small minor things that happen then we will do it at the time when it is required.

Rohan Gupta: Just to add. Sir, definitely you did a great job on your balance sheet improvement this year. Now you have a net cash of roughly Rs 335 Crores as against debt of almost Rs 170 Crores last year, so what we are planning to do now with the cash, which we have already put on the balance sheet?

Ramprakash V. Bubna: Sir, we do not have any specific plan. But it will be used mainly for our working capital needs. Sometimes we may have to give extended credit to the customers or cash payment basis. It will be used mainly for the working capital needs. We do not have any fixed plan for the capital at this stage.

Rohan Gupta: So, do you want to say that the last year, which has seen the significant amount of improvement and the work, which you have done on improving your working capital and that has led to this kind of cash flow generation and discipline in our debtors days and inventory mainly, so it is going to deteriorate from this level now and we have seen the best of peak level where we can improve on working capital and FY2020 may see to push the revenues further, we may see some deterioration in working capital?

Ramprakash V. Bubna: I cannot make any comment on this Mr. Rohan. I think we will be alert, and we will keep full stretch on our fund flows, better quality of receivables and selling to only person whom we feel that will pay on time and recover our receivables as promptly as possible.

Rohan Gupta: Sir, any guidance you will give for this year capex?

Ramprakash V. Bubna: It will be in the same range around Rs 150 to Rs 170 Crores.

Rohan Gupta: In FY2019 we did roughly Rs 150 Crores, so?

Ramprakash V. Bubna: Yes, it should be in the range of Rs 150 Crores to Rs 170 Crores, again this depends upon the progress of registrations. If the registrations come fast, then the amount of capitalization may



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increase. We are also dealing with lot of negotiations with our data suppliers in USA, so as and when those negotiation gets concluded we have to come out with the payments to those people and that will impact our capex.

Rohan Gupta: But you are guiding roughly 150 Crores to 180 Crores as of now?

Ramprakash V. Bubna: Yes, please.

Rohan Gupta: Sir, next question on our significant change in revenue mix, our region mix are not changed completely roughly from Europe 37% has now come down to just 30% and Rest of the World, which was just hardly below 20% is now close to 36%, so with this change in revenue mix and the first participant who asked the question Europe generally have a high margin and we understand that LATAM America or RoW margins are not that high, so there is a structural shift in our margins or change in margins, which we should work on now because the highest margin territory has anyhow come down to below 30%, so is that understanding right that now the margin for the company, which you earlier to guide roughly 32% to 35% gross margins, should now be on a lower slab only with the change in revenue mix itself?

Ramprakash V. Bubna: I would say it should be in the lower range of the band that we have stated instead of 32% to 35% or 36% it could be around 32% to 34%.

Rohan Gupta: But this year itself we have seen roughly 31% gross margin and you are saying that In FY2019 also you do not see any significant improvement, so even this year itself we should be seeing 31%?

Ramprakash V. Bubna: It is difficult to say the exact figure, Rohan. I would say it could be 31% to 33%. We are having a lot of volatility and situation is also very volatile. So it is very difficult to give precise figure about the margins.

Rohan Gupta: Just last question and then we will come back in queue again, we recently have seen further problem in China because of some fire recently happen and chemical prices have started going up, have you started seeing the pressure again in terms of procuring of your raw material the prices have started going up again?

Ramprakash V. Bubna: In some products, yes, because the factories that were closed have not yet started. Many of these factories are producing raw materials. So there is a shortage of raw materials in China for manufacture of the technicals and in some cases the prices are low, but for the few products the prices are going up.

Rohan Gupta: Not across?

Ramprakash V. Bubna: Not across.



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- Rohan Gupta:** But, Sir you already seeing the Europe market is not having much appetite for the price increase, so with the further raw material costs going up and you may not be able to increase the prices further it means that at least in near term there seems to be margin pressure?
- Ramprakash V. Bubna:** Yes, but I cannot say for sure that Europe will continue to absorb the price rise. There could be a change in the situation and Europe will have no choice, but to absorb the price rise.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management Company. Please go ahead.
- Chirag Dagli:** Sir, in the past you have been sharing gross margins region wise, for full year of FY2019 versus full year of FY2018. If you can just us the regional gross margins?
- Ramprakash V. Bubna:** In Europe the gross margin was 39.1%, NAFTA 23.8%, Latin America 25.8% and the Rest of the World 24%.
- Chirag Dagli:** And same last year, FY2018?
- Ramprakash V. Bubna:** Europe was 43.5%, NAFTA was 24%, LATAM was 24.4% and Rest of the World 23.8%.
- Chirag Dagli:** So, the big change is really in Europe only, otherwise broadly may be LATAM America some of it?
- Ramprakash V. Bubna:** There is a little margin in LATAM America, and NAFTA has been little bit of a pressure.
- Chirag Dagli:** Sir, when you look at the product portfolio that you sell in Europe, is there a change in terms of the mix per se of what you sold in FY2019 versus FY2018?
- Ramprakash V. Bubna:** There would be some change, Mr. Chirag.
- Chirag Dagli:** But not a whole lot?
- Ramprakash V. Bubna:** Because we get some new registrations in Europe. They get added to our portfolio. Some products are being banned or being eliminated by the authority. So there would be some change, but I cannot say it is a significant change.
- Chirag Dagli:** Sir, what will be the cash tax outflow in FY2019?
- Ramprakash V. Bubna:** Beg your pardon?
- Chirag Dagli:** The tax that you actually paid in FY2019?
- Ramprakash V. Bubna:** I think it is in the range of about Rs 76 Crores.



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- Chirag Dagli:** Alright and our exports that we do to US from our Chinese vendors, are they considered as exports from China to US or are they considered as some other jurisdictions, how does this work?
- Ramprakash V. Bubna:** I think it is a very simple question. If I am shipping them from China, they consider as an export from China.
- Chirag Dagli:** But the registrations will belong to us?
- Ramprakash V. Bubna:** The registration belongs to us. We are the owners of the registration and holders of registration. But we have to indicate in the registration what is the source of the goods and the source is China.
- Chirag Dagli:** Is there any plan to develop alternate sources for some of our products may be the key ones?
- Ramprakash V. Bubna:** In my opinion, alternate source at this point of time does not exist and is very difficult to plan. If it continues for very long time then some alternatives may come up, but at this stage China is the factory to the world and it continues to be so.
- Chirag Dagli:** Just last bit, this depreciation number, should we extrapolate the quarterly run rate of 38 Crores for full year of FY2020 or can it quarter-on-quarter go down as well?
- Ramprakash V. Bubna:** It may go down slightly.
- Chirag Dagli:** So, then the YoY depreciation even in FY2020 can be a meaningful increase?
- Ramprakash V. Bubna:** Yes.
- Moderator:** Thank you. The next question is from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.
- Prashant Biyani:** Mr. Bubna, can we see some incremental revenue in Q1 from NAFTA region since there was flooding related impact in Q4?
- Ramprakash V. Bubna:** Beg a pardon, can you speak a little loud, Mr. Prashant?
- Prashant Biyani:** Can we see some additional revenue in Q1 from NAFTA region since in Q4 the region was impacted because of floods?
- Ramprakash V. Bubna:** We had a growth in NAFTA region over the previous year. I feel there would be some small improvement.



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Prashant Biyani: Sir, just one bookkeeping question, how much was registration and registration pipeline at the end of Q4?

Ramprakash V. Bubna: The registration at the end of Q4 was 2,297 and those in the pipeline are about 1,028.

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

Vishnu Kumar: Firstly, on other expenses from a full year basis it seems have jumped almost from about Rs 180 Crores to Rs 250 Crores broadly what has increased in this if you could comment on it?

Ramprakash V. Bubna: Yes, as I explained you, about Rs 42 Crores to Rs 43 Crores was the write off of the intangible assets under development. Then there has been very big increase in the legal and professional expenses about Rs 4 Crores and there has been increase in the CSR contribution. These are the three things, which makes about Rs 70 Crores. There has also been some, adjustments of Rs 4 to Rs 5 Crores in negative side, mainly is the write off and the legal professional expenses.

Vishnu Kumar: Sir, just to confirm my understanding this write off comes only in other expenses and not part of depreciation?

Ramprakash V. Bubna: No.

Vishnu Kumar: Secondly if I extrapolate it your current depreciation rate let us say Rs 38 Crores have become Rs 35 Crores then annually is about Rs 140 Crores on a net block of about Rs 370 Crores, which means your writing off your assets over a two and half period, normally our understanding was that you write off over 5 years. is there some disconnect?

Ramprakash V. Bubna: Mr. Kumar, as I said there is not change in the rate of depreciation. There is no accelerated depreciation. We are still writing it off over a period of 5 years, it has 20% per year.

Vishnu Kumar: But the net block today is only Rs 370 Crores, if I take that number, it is 5 year period it comes only to Rs 75 Crores, the Rs 35 Crores run rate would give us about Rs 140 Crores, there is a gap that i am trying to understand.

Ramprakash V. Bubna: I will ask Mr. Ashish to explain to this.

Ashish Lodha: The depreciation will be on the gross block. So the gross block will be divided by 5. So it will not be on the net block.

Vishnu Kumar: Secondly you did mention on the fourth quarter, you had a lot of capitalization, is there any new registrations that new molecules that we have got and is there any large upside that we have seen coming over this?



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Ramprakash V. Bubna: We have many registrations in the last quarter. Now as far the upside is concerned it is not instant. On the long-term, it will increase our revenues shares. The timing is difficult to predict.

Vishnu Kumar: Which regions have we completed these registrations, US, Europe?

Ramprakash V. Bubna: Mainly in Europe.

Vishnu Kumar: If you can give the region wise registration?

Ramprakash V. Bubna: In Europe it is 1,140, NAFTA 204, LATAM 724 and Rest of the World 229.

Vishnu Kumar: Sir, in terms of the pipeline if you could give that number as well?

Ramprakash V. Bubna: Europe 740, NAFTA 80, LATAM 150 and Rest of the World 50.

Vishnu Kumar: Sir, you did comment on the capex saying that some negotiations are going on with some data owner for a compensation, when do we expect that to close and what sort of numbers that we are looking from this?

Ramprakash V. Bubna: It is difficult to predict Mr. Vishnu. As I told you for some molecules it took us about 11 to 12 years to complete the negotiation. In some of the cases we did in a matter of 1, 2 to 3 years. It all depends how fast the data owner responds to our reply and how our experts and data owner experts have time to meet and progress the negotiation.

Vishnu Kumar: But have we started selling the molecule?

Ramprakash V. Bubna: No Sir. We have the freedom to sell molecule immediately after we get registration.

Vishnu Kumar: My question is whether we have got the registration and data owner is yet to ask for compensation, I am patiently trying to understand whether you have started selling the molecule and the data owner is yet to come and confirm the amount?

Ramprakash V. Bubna: We had started selling the products, molecule and data owners. The initial demand can take 2, 3, 4, or 5 months to put up. Then we response and again this is the process of negotiation. The data owners in some cases have already put the demand and in other cases they may be in the pipeline.

Vishnu Kumar: Got it Sir, and this Rs 150 Crores capex that you are talking about does not include the data compensation that you probably expect?

Ramprakash V. Bubna: It includes that.

Vishnu Kumar: So, Rs 150 Crores would be a capex including that?



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Ramprakash V. Bubna: Yes.

Vishnu Kumar: Sir, for fourth quarter if you could give the split of volume, product and price?

Ramprakash V. Bubna: See, the product and price mix is 16.7%, positive currency impact of 4.2% and volume is negative 21.1%.

Vishnu Kumar: Sir, and coming to your region wise sales, in dollar terms the US business has declined, typically this is serving one of the top region for us, just trying to understand that based on the inventory also we see that you have destocked, so what has happened in this market, we probably thought that there will be double digit growth again, what exactly has change in this market, if you could explain a little bit more on this region?

Ramprakash V. Bubna: I have not understood the question. Can you repeat it please?

Vishnu Kumar: Sir, in US business fourth quarter typically considered as best, in this quarter we have got a degrowth of 2% in dollar terms, so how did start of the quarter was the decline, just want to understand what has change in the market due which our growth has come off?

Ramprakash V. Bubna: In NAFTA region?

Vishnu Kumar: Yes, Sir.

Ramprakash V. Bubna: There is a growth in the NAFTA region.

Vishnu Kumar: I mean it is still very minor if I see on INR, but if I see in dollar terms it is minus 2%?

Ramprakash V. Bubna: I do not have the dollar term figure in front of me.

Vishnu Kumar: But the growth still slow, even if I look at INR terms the growth is pretty low, so trying to get some understanding on that if the placement be slow or a lot of other analysts were also asking because of weather related issues, is there any issue on that side?

Ramprakash V. Bubna: I cannot specifically point out, but it would be weather related issues in some parts of the country. In the other parts there could be also some heavy demand, which we have not been able to meet with our stocks and transportation or some other things. In many cases it was also very difficult to get trucks to transport the products because of the weather.

Vishnu Kumar: Any chemicals probably the demand for which has come off in NAFTA region?

Ramprakash V. Bubna: Not that I can point out on the spot.



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- Vishnu Kumar:** Sir finally, just on the border re-registrations in Europe when does it really start or have you already started and what is the rough number that we expect and when will the pace of capex pick up for the pre-registration in Europe?
- Ramprakash V. Bubna:** The re-registration we call it as renewal of the registration, the process is already going on. We are investing good amount of money in the re-registration process.
- Vishnu Kumar:** Annually how much we will do in the next 2 to 3 years?
- Ramprakash V. Bubna:** I do not have that figure off hand, Mr. Vishnu.
- Vishnu Kumar:** I will take it later and one final question, you used to mention that China expect FY2020 to be slightly better, 2021 to be even more better in terms of pricing supplies, are you seeing the same or do you see that slightly getting delayed?
- Ramprakash V. Bubna:** Since the statement that you are quoting me, there have been some developments in China. There is some explosions in the factory, which have led to hundreds of lives getting lost. So the Chinese authorities are taking these things very seriously and they have stopped many factories and things like that. So the situation continues to be very fluid. I do not know how long the Chinese will continue the stoppage of the plants. But there has been some change in my last statement that you are quoting me, which is still unclear and little bit of fluid.
- Vishnu Kumar:** On the pricing front, again you used to mention that you are not taking the price hikes, are you seeing some positivity there at least in US and Europe?
- Ramprakash V. Bubna:** We are mainly confronting these situations only in Europe and US where we have to follow the multinationals very closely and this is the region where the prices are not being absorbed as much as it should.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss Financial Services. Please go ahead.
- Rohan Gupta:** Sorry, maybe I will be asking the same question again, on depreciation. In last two years, this year and last year we have invested roughly Rs 350 Crores on capex. If I look at our depreciation in FY2017 full year was roughly Rs 56 Crores, but this quarter Rs 38 Crores it means we have 160 Crores annualized depreciation. So from Rs 56 crores we have gone to Rs 160 crores mean roughly incremental of Rs 100 Crores depreciation in two years with the capex of Rs 350 Crores in last two years. Somehow, I am not able to understand that since you mentioned that there is no change in depreciation policy, which I understand properly, but then what is the change, which is driving such a increase in depreciation?



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- Ashish Lodha:** You rightly said Rohan, but if you see our CWIP had reduced significantly. So, capitalization includes the money spent beyond last 2 years as well. In current year we have done the capitalisation of around Rs 240 crores.
- Rohan Gupta:** How much was FY2018 capitalization?
- Ashish Lodha:** FY2018, I do not have the number, but I will give you that later.
- Rohan Gupta:** Fine, but even if you capitalize roughly Rs.400 Crores also I mean Rs 250 you have mentioned this year and assuming Rs 100 Crores to Rs 150 Crores last year, so on a capitalized of Rs 400 Crores, we have a incremental depreciation of Rs 100 Crores generally depreciation rate, which you were charging earlier was just 5% to 7%, so that still is a very large number?
- Ashish Lodha:** We are amortising the assets in 5 years. So it is 20% per year what we are charging.
- Rohan Gupta:** Sorry, correct, so even on that basis of Rs 340 Crores to Rs 400 Crores capitalization, we are seeing Rs.80 Crores incremental depreciation. So the higher capitalization of gross block in current year and in last year has led to this increase in depreciation?
- Ashish Lodha:** Yes, mainly current year.
- Rohan Gupta:** Any idea that how much we are likely to capitalized in FY2020?
- Ramprakash V. Bubna:** Mr. Rohan, it is very difficult, as I am rapidly saying it all depends upon the progress of registrations.
- Rohan Gupta:** I understand, even if we spend Rs 150 Crores assuming a number, I am just saying that is there still any CWIP, which we have to capitalize more or now onwards we have normalized and from here onwards this year whatever investment or capex, which we will do that is will only come on a capitalization?
- Ramprakash V. Bubna:** We still are about Rs 240 Crores of CWIP at the end of this year and that will result into some capitalization. It will not be just the fresh investments.
- Rohan Gupta:** Second question on this other expenses, you mentioned roughly Rs.60 Crores to Rs.70 Crores that includes roughly Rs 40 Crores to Rs 50 Crores of the write off and the legal and professional expenses was another one, so I understand that our legal and professional expenses is actually one part of our salaries only because generally in other markets we hire consultants and that is why our salary is low and we pay higher professional expenses, right?
- Ramprakash V. Bubna:** Yes, please.



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Rohan Gupta: So, in that whatever increase we have seen in professional expenses so that is inline with our annual growth, there is no abnormal in that right or is there any extraordinary element is there?

Ramprakash V. Bubna: There is some increase in the legal services that we have hired, but not significant.

Rohan Gupta: So, this year only extra amount you can say Rs 40 Crores to Rs 50 Crores actually Rs.40 Crores write off, which you took and that was only extraordinary element and you mentioned that now it is almost over, it is unlikely to come in FY2020?

Ramprakash V. Bubna: It may not be a zero, there might be something, it will not be Rs 42 Crores, it could be about Rs 10 to Rs 15 Crores, we cannot rule out that.

Rohan Gupta: But it will be up to the extent of only Rs 10 Crores to Rs 15 Crores?

Ramprakash V. Bubna: Yes, hopefully.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Just wanted to understand this US negotiation part, which you mentioned for example, let us say any molecule, which you have got registration and which you are telling and the negotiation is on and whatever with the negotiation amount., Do we do any provisioning for that? assuming some number in mind that we might need to pay Rs 10 Crores or Rs 20 Crores or Rs 30 Crores whatever that amount and what was that provision if at all that is being reported or accounted?

Ramprakash V. Bubna: See, we do some provision. We do provision in all the cases and these provisions are made based on the best experts estimates.

Resham Jain: Under what head this is getting captured?

Ashish Lodha: We are capitalizing this provision and the other part we are showing as a capital creditor, so on the assets side this is shown as a capital asset. On the liability side we show as a capital creditor.

Resham Jain: This account is now reached to what level, cumulatively?

Ashish Lodha: Roughly around Rs 60 Crores to Rs 65 Crores.

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

Rohit Nagraj: Sir, my question pertains to the inventory levels in the system, so how do we foresee the inventory levels across different geographies that we are currently operating because we have



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been hearing that in the last couple of years global players have reduced their inventory levels across the board, so what is your sense of the current situation?

Ramprakash V. Bubna: Mr. Rohit, can you please repeat your question once again?

Rohit Nagraj: Sir, the product inventory levels in the last couple of years we have been hearing from the MNC players that they have reduced the inventories, which were pushed in the market with the distributors, so what is the current situation, the inventory levels have been reduced to some extent and probably once there is a pickup in demand from any of the regions, that will benefit the agrochemical players including us?

Ramprakash V. Bubna: I can only say that our inventory was about 87 days last year and it has come down to 82 days.

Rohit Nagraj: Right, I am just talking generally about the industry as such, I mean our levels have been better in the last one year, but on the industry wise basis if you have any indication?

Ramprakash V. Bubna: No, industry wise, I do not have any information.

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

Vishnu Kumar: Sorry to circle back on the depreciation question again. This question is to our CFO. For FY2014, we had a gross block of Rs 250 Crores, which think roughly is about Rs 840 Crores to Rs 850 Crores in FY2019, so that is a average gap of about Rs 600 Crores,, if I consider the FY2014, the 250 Crores over a 5-year period would have got fully depreciated, so we have about 600 Crores from 2014 to 2019, if I take a 5-year life, it will eventually come down to 90 Crores as a base on depreciation?

Ashish Lodha: If we say that Rs 600 Crores, which we have added. and if you divide by 5 it will come to Rs 120 Crores per year. You rightly said depreciation was slightly higher in this quarter because we have also taken the depreciation on capitalization of data compensation for two years. So, when we capitalize the data compensation liability and we charge depreciation from the date of capitalization of registration to. So during the year on the data compensation the depreciation will be of two to three years, hence this quarter depreciation is higher.

Vishnu Kumar: And what would be that number for annually, the data compensation depreciation?

Ashish Lodha: This quarter the extra depreciation was roughly in the range of around Rs 6 Crores to Rs 8 Crores.

Vishnu Kumar: So, recurring is about Rs 120 Crores plus this data compensation for about Rs 8 odd Crores per annum that is only for two years?



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- Ashish Lodha:** Yes.
- Vishnu Kumar:** It is only for two years or three years, this data compensation?
- Ashish Lodha:** It depends on the date of registration and gap when we have capitalized the data compensation. So it can be 2 years, it can be 3 years, and it can be 1 year.
- Vishnu Kumar:** But you will effectively use it over the timeframe that you see fit right, irrespective of data compensation, so you are saying either the depreciation timeframe if you reduce the depreciation timeframe, which means the depreciation charge will increase?
- Ashish Lodha:** Yes.
- Vishnu Kumar:** As you said Rs 60 Crores to Rs 65 Crores is the liability part, so we will have to assume the depreciation on that however the timeframe is?
- Ashish Lodha:** Yes.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would like to hand the conference over to the line of management for closing comments.
- Ashish Lodha:** From Sharda Cropchem, I will thank you all the participant and looking forward to hear you in future. Thank you very much.
- Moderator:** Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us. You may now disconnect your lines.