



“Sharda Cropchem Limited Q4 FY2017
Earnings Conference Call”

May 23, 2017



ANALYST:

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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Q4 FY2017 Earnings Conference Call, hosted by Edelweiss Securities Limited. 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. Rohan Gupta from Edelweiss Securities Limited. Thank you and over to you Sir!

Rohan Gupta: Inba thanks a lot. Good afternoon ladies and gentlemen. On behalf of Edelweiss Financials, I welcome all the participants who have logged in for the conference call of Sharda Cropchem. From the management we have Bubna Ji, we have Mr. Conrad and it is also joined by Mr. Sylpesh from the Finance Department. Gentlemen, good afternoon Sir.

Ramprakash V. Bubna: Good afternoon Sir.

Rohan Gupta: Bubna Ji, first I will request you if you can share your current quarter performance and also if you can give some color on FY2017 results performance and if you can also share some emerging industry trend and then we can follow-up with Q & A sessions. Please go ahead Sir. Thank you so much.

Ramprakash V. Bubna: Good afternoon ladies and gentlemen. A very warm welcome to everyone present here for the Earnings Call of Sharda Cropchem Limited for the fourth quarter financial year 2016-2017. Sharda Cropchem is represented by myself, Ramprakash Bubna, Chairman and Managing Director, Mr. Conrad Fernandes, Chief Financial Officer, Mr. Sylpesh Dedhia, General Manager Finance.

Talking briefly about the fourth quarter results. Q4 FY2017 the total revenue is increased by 13.7% YOY from 523 Crores to Rs.595 Crores primarily driven by volume growth of 19.5% and adverse currency moment of 3.9%. The increased revenue for agrochemical sales in NAFTA region aided us in achieving the higher volume growth. Q4 FY2017 gross profit increased by 6.2% YOY from Rs.201 Crores to Rs.214 Crores.

Q4 FY2017 EBITDA excluding foreign exchange impact increased by 3.1% YOY from Rs.153 Crores to Rs.157 Crores. Q4 FY2017 EBITDA including foreign exchange impact increased by 6.6% YOY from 153 Crore to 163 Crores.

Net profit after minority interest for the fourth quarter FY2017 stands at 99 Crores. The total number of registrations increased by 409 from 1765 as of March 2016 to 2174 as of March 2017. The company has another 845 registrations in pipeline across geographies. The company maintains a strong net cash position of Rs.168 Crores as of March 2017.



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The net working capital reduced from 81 days in FY 2016 to 77 days in FY 2017. The overall performance during the fourth quarter was as per the expectations. We shall continue to drive growth in our business by consistently investing in new registrations and expanding into new geographies and new market segments. With this I would now like to hand over the call to our CFO, Mr. Conrad Fernandes for discussing our financial performance in brief.

Conrad Fernandes: Thank you, Mr. Bubna and good afternoon to all. Mr. Bubna has touched upon all the key areas and just to add on to a few things there. On the revenue side FY2017 operating revenues grew by 14.5% and was contributed by 6.2% growth in Europe, 43.1% growth in NAFTA, 5.6% growth in LATAM, 7.7% growth in rest of the world.

Revenue composition for the year 47% from Europe, 28% from NAFTA, 13% from LATAM and 12% from Rest of the world. The top ten molecules contributed 53% as against 59% last year.

Gross margins were at 35.9%. The depreciation and amortization expense for the year was higher by 60% on account of capitalization of our registration cost. We closed the year with the PAT increase of 8.7% up from Rs. 1,751 million last year to Rs.1,904 million this year,.

We now invite questions from the participants. Thank you.

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

Chetan Thakkar: Good afternoon Sir. Basically, wanted two or three numbers first on the Europe business I wanted to know in Euro terms what was the revenue for Q4?

Ramprakash V. Bubna: 34.04 million Euro in Q4 last year.

Chetan Thakkar: Q4 FY2017?

Ramprakash V. Bubna: Q4 FY2017: Euro 42.85 mn.

Chetan Thakkar: Sir the Europe sales in Euro?

Ramprakash V. Bubna: Sir but when we have different currencies. Euro sales was Euro 42.85 mn for Q4 FY17.

Chetan Thakkar: Sir, volume growth in Europe was how much this year Q4?

Ramprakash V. Bubna: One second, volume growth in Europe of Agro + Non agro was up by 10.5%.

Chetan Thakkar: Sir, you had earlier shared the volume tons numbers for the Europe, NAFTA, LATAM and RoW, if you can share that number this time also sir for this quarter and last year same quarter?



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- Ramprakash V. Bubna:** Okay in Q4 what is your question Chetan?
- Chetan Thakkar:** Sir the volume tons number for Europe, NAFTA, Latin America, ROW for Q4 FY2017 and Q4FY2016?
- Ramprakash V. Bubna:** Sir, there has been a volume de-growth in Q4 in Europe this year.
- Chetan Thakkar:** And Sir, what was the number?
- Ramprakash V. Bubna:** Number is 52,84,000 tonnes last year and it is 46,87,000 tonnes this year.
- Chetan Thakkar:** Sir, on the number of registrations that you would share by region if you can give that at the end of the year?
- Ramprakash V. Bubna:** In Europe it is 1,041, NAFTA region 134, LATAM 631 and Rest of the World 368. Totally 2,174.
- Chetan Thakkar:** Sir and the inventory build-up that we see at the end of year, which is higher compared to the last year and number of days also, what is the reason for that, is it seasonal shifted or exactly is it?
- Ramprakash V. Bubna:** We have received number of new registrations in United States of America and we wanted to prepare ourselves with sufficient inventories because in many of these countries when they give the order they want the product yesterday. This has built up the inventories and we are very happy that we did that and we have been able to achieve very good growth in the volume in USA because of these inventories.
- Chetan Thakkar:** Sir this will continue into the next year as well?
- Ramprakash V. Bubna:** I think so it will continue.
- Chetan Thakkar:** Sir, in terms of region wise what would be the growth rates be in volume, what would be your expectations for Europe, NAFTA, Latin America and ROW for next year?
- Ramprakash V. Bubna:** It is difficult to say but I would say that we will be in the same range.
- Chetan Thakkar:** Of 15%-20% for the company as a whole?
- Ramprakash V. Bubna:** Yes please. Keeping the currency and other factors constant.
- Chetan Thakkar:** In terms of gross margin for next year what will be the guidance?
- Ramprakash V. Bubna:** We expected to be in the same range around 36%-37%.



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- Chetan Thakkar:** Compared to earlier range of 33% - 36%?
- Ramprakash V. Bubna:** No Sir, this is the range I think I should be wiser enough to say 33% - 37% as that of 36%-37% because there will always be some downside also.
- Chetan Thakkar:** If there are any questions, I will get back. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** Sir it is very heartening to see that US market is growing very strongly, I wanted to understand on the European sales what exactly is the reason why we have we have a double-digit decline in volumes, any specific issues or how should we see this current miss on that?
- Ramprakash V. Bubna:** There is no specific reason. I think the general trend was that the demands were limited and in full year, we have grown about 7% only in Q4 there has been a drop. This is particularly because of situation of Europe, their economic factors and other things, it is difficult for me to pinpoint what would have been one single factor which could give this impact.
- Vishnu Kumar:** Is there any spillover in terms of the product sales that can happen in 1Q next year and is there any shift in timing or any of that sort?
- Ramprakash V. Bubna:** Sir, I do not rule that out it could happen or it may not happen but our sales figures and other things in April has been very comfortable compared to those in the last period.
- Vishnu Kumar:** But in general the fourth quarter season as how you had thought it will pan out and what the actual outcome is it very different or this decline was expected by you?
- Ramprakash V. Bubna:** No, it was not expected by us.
- Vishnu Kumar:** Okay so it is not as expected by you?
- Ramprakash V. Bubna:** Yes Sir.
- Vishnu Kumar:** But in general we have been increasing the number of registrations in Europe so just wanted to understand how will the penetration within the Europe play out in terms of, let us say new number of distributors that we will be appointing or we will get into the newer regions if you could just give some additional flavor as to when you say growth rate of 15% - 20% just wanted to understand at the marketing side what are the strategies that we will adopt so that we will penetrate more?
- Ramprakash V. Bubna:** Our strategy is to register more products, increase our portfolio and also get little deeper into the market and get better share of the market.



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- Vishnu Kumar:** Okay and in terms of distribution if you could just give a broad sense a number of distributors have increased, if you have increased in Europe and many of those sorts?
- Ramprakash V. Bubna:** I do not have those figures but I can tell you that there has been an increase in the number of distributors.
- Vishnu Kumar:** I will come again Sir. Thank you.
- Moderator:** Thank you. Our next question is from the line of Afshan Sayyad from Dolat Capital. Please go ahead.
- Afshan Sayyad:** Hi sir, I just wanted to know in this you have guided for around 15% to 20% growth so is it a value or volume growth?
- Ramprakash V. Bubna:** I am talking about value.
- Afshan Sayyad:** Value.
- Ramprakash V. Bubna:** Yes.
- Afshan Sayyad:** Secondly on the registration, we have added around 400 plus registrations so list on the existing molecules or have we added new molecules as well?
- Ramprakash V. Bubna:** There have been some new molecules as well.
- Afshan Sayyad:** Sir how much would that be in terms of numbers?
- Ramprakash V. Bubna:** Madam I do not have that figure on hand but there have been some new molecules.
- Afshan Sayyad:** If you can name them if it is possible?
- Ramprakash V. Bubna:** I can tell you later on.
- Afshan Sayyad:** Thank you so much and that is it from side.
- Moderator:** Thank you.
- Rohan Gupta:** Bubna Ji meanwhile some participants comes to ask, I have question, I just want to understand couple of things from your side. This quarter if you can quantify volume growth separately for the quarter and exchange impact and pricing impact?



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Ramprakash V. Bubna: Sir, I will tell you volume there has been a degrowth of 10.5% in Europe for the quarter and it is only in Europe, in NAFTA region there has been growth of 182%. In LATAM there has been degrowth of about 40%.

Rohan Gupta: In LATAM?

Ramprakash V. Bubna: Yes Sir.

Rohan Gupta: Of 42%?

Ramprakash V. Bubna: 39.72% to be precise.

Rohan Gupta: 40%.

Ramprakash V. Bubna: And in the rest of the world there has been a growth of 40.4%.

Rohan Gupta: The similar number would have been what for full year FY 2017?

Ramprakash V. Bubna: Yes please. For Europe there has been a growth of 8%, for NAFTA, there is a growth of 72%, LATAM there is degrowth of 8% and rest of the world there is a growth of 3%. Overall there is a growth of 16.8% for the whole year and for the quarter there has been a growth of 19.5%.

Rohan Gupta: 19.5% so there has been a negative impact of price and exchange right?

Ramprakash V. Bubna: Yes Sir.

Rohan Gupta: So price led impact would be how much if you can just quantify that?

Ramprakash V. Bubna: No, I do not have that figure right now.

Rohan Gupta: If I remember our earlier conversation we have been very positive about the growth coming from Europe, you have early guided for at least 15% to 20% should come from Europe. But this year we have done roughly 8% growth. So, do you see that this was driven by anyone of or any emerging trend has been there and this is the number you think that 8% to 10% growth probably going forward also in 2018-2019?

Ramprakash V. Bubna: Sir, it is difficult to say, I would say that we should be able to grow by 10% to 15% in Europe.

Rohan Gupta: 10% to 15% growth you are looking in Europe and that will lead to our total volume led growth 15% to 18%?

Ramprakash V. Bubna: Yes.



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- Rohan Gupta:** For entire company?
- Ramprakash V. Bubna:** Yes please.
- Rohan Gupta:** Sir recently we have seen that China has been facing a lot of issue in terms of supply of some technical ingredients, technical products. So since our sourcing is only from China, are we facing any such issue we have seen that increase in input cost or input prices, which we are getting from China?
- Ramprakash V. Bubna:** Yes we are facing but not to very significant extent so far. There is some shortage of some products and it is effecting on terms of deliveries on time and other things but we are doing our best and the impact has not been very great so far.
- Rohan Gupta:** Sir, probably we are facing two issues, one is shortage of products, second is increase in prices of the product right?
- Ramprakash V. Bubna:** In the cost of the products yes.
- Rohan Gupta:** So whether the shortage of product is there you have no short-term remedy because we are only having forcing partner from China so it means that our whole business of that particular product is gone for a toss?
- Ramprakash V. Bubna:** I do not know, whether you can call it as going for a toss or not.
- Rohan Gupta:** Going for a short-term because?
- Ramprakash V. Bubna:** We are trying to overcome that and some of the products, which are in short supply we try to send it by air and many other issues you know.
- Rohan Gupta:** No sir, what I was trying to understand that since we are fully dependent for the supply of all those products from China and if there is a shortage of product we cannot mitigate that problem or we cannot address that problem in short run like you know?
- Ramprakash V. Bubna:** Rohan, I have told you today China is the factory to the world so if you are trying to ask me that whether I can have an alternate sourcing from other country then my answer is no and it does not apply only to Sharda, it applies to everybody around the world.
- Rohan Gupta:** Correct and as well as the price increase is concerned so that we have been able to pass on to the end customer or not?
- Ramprakash V. Bubna:** Not in all the cases.
- Rohan Gupta:** Not in all the cases.



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Ramprakash V. Bubna: Because we are to follow the footsteps of the multinationals and multinationals are also very conscious of not losing their market share and they do not pass and they do not increase and they are having comfortable margins so it is being absorbed by the big players and not by the consumers and the customers.

Rohan Gupta: Sir in that case are we sensing that there will be any margin pressure?

Ramprakash V. Bubna: Well I cannot forecast, but there could be.

Rohan Gupta: So like this year in FY2017 we did our EBITDA margin very close to 22% to 23% for full year, do you think that it can be almost 100 to 200 basis point or even more than that can be pressure on that?

Ramprakash V. Bubna: I cannot forecast today there are always chances.

Rohan Gupta: Fine enough Sir and any movement in the currency of China and USD or Europe is it having any impact on our business?

Ramprakash V. Bubna: It would have.

Rohan Gupta: Sir we have more participants who are queued to ask questions so I will give first them a chance to ask question.

Ramprakash V. Bubna: Thank you Rohan.

Moderator: Thank you. We will take the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: Good afternoon Sir. Sir, there was just 251 BPS reduction in gross margins YOY in this quarter I just wanted to know what would you attribute this to, would it be region mix, currency impact or the higher sourcing cost from China?

Ramprakash V. Bubna: One minute, see I think our gross margins have been stable for the year compared to the last year.

Tejas Sheth: I talking about Q4 because Q4 your gross margin is always high?

Ramprakash V. Bubna: First of all in Q4 there has been currency impact, Euro has been constantly at the bottom of the scale and as we discussed with Rohan there has been some upward pressure on the sourcing prices.

Tejas Sheth: So, it is these two things and nothing to do with Europe not selling more or not growing?



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- Ramprakash V. Bubna:** Our business in Europe has not grown, that has also had an impact because this was region where we were getting the maximum gross margins you know.
- Tejas Sheth:** Yes, Sir that is what I wanted to understand out of these three what would be the biggest contributor to the fall?
- Ramprakash V. Bubna:** Sir we have not done that evaluation and we can tell you just qualitative figures.
- Tejas Sheth:** My second question is how much have we spent on registration for this year and what is budgeted for FY2018?
- Ramprakash V. Bubna:** One minute, I think our expenditure has been Rs 157 Crores in FY2017.
- Tejas Sheth:** How much is budgeted for this year.
- Ramprakash V. Bubna:** See it is not so easy to make a budget because registrations process has a lot of uncertainties and you cannot predict the registration process; sometimes you feel that you should get the registration three months and it may take more than a year.
- Tejas Sheth:** Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** Thank you. You gave some volume numbers but it was very confusing, can you give the absolute volume in tonnage terms for the region wise for Q4 of FY2017 again.
- Ramprakash V. Bubna:** Yes.
- Dheeresh Pathak:** Region wise in tonnage terms for Europe, NAFTA, Latin America and rest of the world.
- Ramprakash V. Bubna:** Yes, for Europe it was, I think I had given the figures. It was 53.68 lakhs kg for Q4 FY16 and this quarter it was 48.05 lakhs. I am giving you this figure as a gross figure, which includes agro and non-agro.
- Dheeresh Pathak:** Is it possible to give only agro?
- Ramprakash V. Bubna:** Yes it is possible agro.
- Dheeresh Pathak:** Sir, please give only agro numbers region wise?



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Ramprakash V. Bubna: From 52 lakhs kg it has come down to 47 lakhs kg in Europe. NAFTA region it has increased from 12 lakhs kg to 35 lakhs kg. In LATAM it has gone down from 11 lakhs Kg to 7 lakhs kg and rest of the world from 10 lakhs kg to 14 lakhs kg there is an increase.

Dheeresh Pathak: Got it sir. Thank you.

Moderator: Thank you. Our next question is from the line of Sumanth Kumar from Emkay Global. Please go ahead.

Sumanth Kumar: Globally we have seen crop pattern is shifting towards the cotton and other crop, so it is going to impact agrochemical globally and for you also?

Ramprakash V. Bubna: Can you repeat your question once again please?

Sumanth Kumar: Globally we have seen the crop pattern is shifting and it is shifting towards cotton also and so it is going to impact agrochemical industry and Sharda Crop?

Ramprakash V. Bubna: Sir we do not go to the extent of evaluating our business with crop pattern. We go by the products and we concentrate on the products. Our products have multiple use and applications so we have not evaluated the impact of cotton or other crop patterns.

Sumanth Kumar: Thank you so much.

Moderator: Thank you. Our next question is from the line Rahul Veera from Elara Capitals. Please go ahead.

Rahul Veera: Sir just trying to understand what is our hedging strategy like what kind of impose do we hedge or when we take plain forwards or how does it work?

Ramprakash V. Bubna: We do both forward contracts but we do not take positions. We will try to cover up about 50%-60% of our requirements for the next three to six months and beyond that we stand by what is happening and we also have a natural hedge to some extent because our sourcing is in US dollars and also the substantial sales is also in US Dollars.

Rahul Veera: Thank you.

Moderator: Thank you. Our next question is from the line of Manish Mahawar from Religare. Please go ahead.

Manish Mahawar: Good afternoon Bubna Ji. Just on capex front you have not mentioned the number for the next year, it will be broadly in the range what generally used to be around 12 – 14 billion dollar for the next year?



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Ramprakash V. Bubna: Sir we have grown up from that. I think we have spent about 157 Crores and we project that we will continue spend 18 – 20 million dollars in next year as well.

Manish Mahawar: In our business there is two things, one is the registration cost as well as the raw material cost are the most important. Mainly the registration cost are continuously going up on a global market I wanted to know how we mitigate this risk actually going cost how we will compensate in our business going forward?

Ramprakash V. Bubna: We cannot mitigate the registration cost Manish, we have to go by what the cost are prevailing, I can only say that the fees and evaluation cost of all ministries and authorities are going up astronomically. Earlier all the governments were thinking that they are doing a service to the people and to their country and now they have found this also as an opportunity to make some money because the agrochemical companies are making money. So it is difficult for us to mitigate. We tried to find out the best optimum cost from the laboratories and various other expenditures.

Manish Mahawar: Do you see in going forward like the registration cost, which we get may be margins or profitability or return ratios going forward may be I am not talking about next year, may be two three down the line?

Ramprakash V. Bubna: See we hope the return ratio will continue to be the same because all the new molecules are also giving us very attractive returns in terms of margins.

Manish Mahawar: Secondly on raw material side if Q4 versus Q1 how is the pricing environmental in raw material?

Ramprakash V. Bubna: Pricing environment continues to be difficult as Rohan has said earlier and we have to try to our best to make efforts to pass on further this pricing increase. In some geographies is it possible but in European Union it is not possible.

Manish Mahawar: What the guidance you had given for next year 15% to 20% growth in revenue, it is primarily driven by volumes or you have also taken from realization growth as well?

Ramprakash V. Bubna: Can you repeat it please, Manish can you speak little louder?

Manish Mahawar: Yes, growth guidance for the next year 15% to 20% rise, it is primarily led by volumes or you have considered some realization growth as well?

Ramprakash V. Bubna: What growth? Price growth.

Manish Mahawar: Yes, price growth.

Ramprakash V. Bubna: No I consider mainly by volume and may be very small extent like price growth but I will be happy if this is just to the extent of compensating increase in the cost.



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Manish Mahawar: Sir one more question, one of the molecule which is the Paraquat I believe that is almost 30 or more countries are planning to ban that molecule and I believe that molecule are present in our top ten molecules, how do you see the risk going forward?

Ramprakash V. Bubna: We do not see any risk in the next one or two years.

Manish Mahawar: But what could be the contribution that molecules if you can give the numbers sir in percentage terms revenue?

Ramprakash V. Bubna: I will tell you one thing Paraquat was among the top ten molecules for us last year but not this year.

Manish Mahawar: It was there in top ten in last year, right?

Ramprakash V. Bubna: Yes, now it is no longer there and it may not be because could be partly some decrease in the volume but because some newer molecules have joined that group of top ten with higher volumes.

Manish Mahawar: Understood. One last question basically in FY2017 you said volume growth was around 16.8% right?

Ramprakash V. Bubna: Yes.

Manish Mahawar: Sir what was the pricing growth and the currency impact?

Ramprakash V. Bubna: Pricing growth and currency impact we have not worked also for.

Manish Mahawar: No issues. I will take offline.

Ramprakash V. Bubna: Yes please.

Moderator: Thank you. We will take the next question from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

Amit Kadam: We have received almost 400 registrations for this particular year?

Ramprakash V. Bubna: Yes please.

Amit Kadam: You said that most of them are coming from the US - NAFTA region?

Ramprakash V. Bubna: No, I have not said so.

Amit Kadam: How that spread has been of this 400 registration?



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Ramprakash V. Bubna: In European union the new registrations have been 191, NAFTA region 42, LATAM 149, and Rest of the World 27.

Amit Kadam: So majorly it is coming from European Union?

Ramprakash V. Bubna: European Union.

Amit Kadam: How do we see this NAFTA growth, like quarter we have grown at 182% as such for the year we have grown at 72% so with the kind of traction what we are seeing and we are getting new registration also for next year or a couple of years how do we see this piece growing for us?

Ramprakash V. Bubna: We hope that it will continue to grow.

Amit Kadam: Any ballpark number when you say that my volume should be more or less growth for the entire business should be 10 to 15, how much we accounting from this NAFTA region?

Ramprakash V. Bubna: It is difficult to say. We had projected the growth to come from European Union last year but it has come down to the other way. But I think we will have a respectably good growth in the NAFTA region in the year 2017-2018.

Amit Kadam: This will be the second best geography in terms of gross margin to us?

Ramprakash V. Bubna: Yes.

Amit Kadam: The second phase is that just wanted to understand, in LATAM even though it is 20% of the business for us, how the volatility in the currency which we have observed in the last week also and how is it going to impact our business and how do we overcome this challenge?

Ramprakash V. Bubna: Which volatility in the currency you are speaking?

Amit Kadam: Brazilian Real and other parts?

Ramprakash V. Bubna: In Brazil we are not impacted much because we have very small volume of business in Brazil. We do not see any impact of Brazilian currency variation on our business.

Amit Kadam: So I just wanted to have an outlook from your side regarding this region for the next year where my China cost is rising, is this market now capable or absorbing the rising cost and because it is coming from the two years of downward cycle?

Ramprakash V. Bubna: LATAM region I see that the competition is increasing so it is very difficult to get respectable margins when there is a high competition. The cost of registration is not so prohibitive there as it is there in Europe and USA.



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- Amit Kadam:** But then kind of growth how do we see this particular region (LATAM) for the next year as an industry?
- Ramprakash V. Bubna:** I think, if we talk of the industry to grow about 5% to 10%.
- Amit Kadam:** Thank you Sir. That is all.
- Moderator:** Thank you. Our next question is from the line of Vishnu Kumar from Spark Capitals. Please go ahead.
- Vishnu Kumar:** Thanks for the time again. I am sorry to keep asking on China. Just wanted to check let us say if there are ten players selling x-molecule we buy from the top five company or from the bottom five obviously price plays a function but in general do we source on the top guys or the mid layer or the smaller guys?
- Ramprakash V. Bubna:** May I know your good name I did not catch up?
- Vishnu Kumar:** Vishnu Kumar from Spark Capital.
- Ramprakash V. Bubna:** Mr. Vishnu Kumar we source from the top five not from the bottom five.
- Vishnu Kumar:** So even the bottom five let us say over two three years, if they shut down there should not be any problem for us?
- Ramprakash V. Bubna:** Yes it will not be a problem for us and another thing I want to say we form a very small percentage of the productions that the company whom we are outsourcing from these companies in China. So these things will not impact us.
- Vishnu Kumar:** You mentioned cost pass through is difficult in Europe and it is relatively easier in other geographies. If I heard it right?
- Ramprakash V. Bubna:** Yes Sir.
- Vishnu Kumar:** How about in US market?
- Ramprakash V. Bubna:** US market is the same, the competition is there and if you have may be five, six or seven registrations of one molecule then the margins and the prices do take a beating. In Europe those things are difficult because the registrations are very expensive and very difficult.
- Vishnu Kumar:** Sir, ideally by that logic it should be easier to pass on European Union than say other market side because there are fewer players so it should be easier for us to pass through there?



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- Ramprakash V. Bubna:** Ideally yes Sir but there are big brothers in Europe, all these multinational companies are originate from Europe and they do not increase their prices?
- Vishnu Kumar:** Got it Sir.
- Ramprakash V. Bubna:** We have extent that trend.
- Vishnu Kumar:** In general because of these mergers between the top biggies do you see an opportunity in Europe either getting access to say France and Germany historically has been very limited sales for us or do you think because competition commission says that you cannot have such market share so you see cutting down on certain molecules and say Sharda getting a better access to material inclusion of market share of some products not immediately though at least two three years.
- Ramprakash V. Bubna:** We look that these mergers will give us better opportunity.
- Vishnu Kumar:** Have you got any offers for buying out any smaller registrations for many of these companies, at least in the market is of there, any registration are being sold by the biggies and which you would be interested?
- Ramprakash V. Bubna:** No, we do not see any obvious trend in this side but we do get enquires from some of these biggies to buy our products so our quality of customers is improving with these mergers.
- Vishnu Kumar:** Sir just on the point of France and Germany, earlier you mentioned that we have very limited sales rep and though these two being the largest of the markets, is there any strategy to crack those markets later in two three years?
- Ramprakash V. Bubna:** See the only strategy that we follow is trying to register our products and registrations of these agrochemicals in both these countries is extremely difficult.
- Vishnu Kumar:** But is it possible to get some delta from that geography is the question?
- Ramprakash V. Bubna:** We are getting. We already have some products registered in the geography particularly Germany, France is still more difficult but we do have some registrations and we have some customers in these countries also.
- Vishnu Kumar:** Got it Sir. In general the global active and market how you are seeing the excess inventories are moving out of the market or you see the situation improving because still we hear from some company that there is some excess inventory which will take another six to nine months to be in a way, how you are seeing these inventories and the systems and the general outlook for the markets?
- Ramprakash V. Bubna:** Sir this has not drawn my attention how the inventories of the other companies are there but it does take time to get rid of the inventories in agrochemical business these are seasonal businesses



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for some reason because of the weather or any other impact there has been a less demand, the companies are compelled to carry their inventory forward and then the next time is possibly after six or eight months. If it is two season product and many countries have one season so it gets carry forward to the next year.

Vishnu Kumar: Sir you mentioned Paraquat went out of the top ten, if you could just tell us what new molecules came in that top ten and may be what went out?

Ramprakash V. Bubna: See the new molecules that came in is Metolachlor.

Vishnu Kumar: Metolachlor.

Ramprakash V. Bubna: Then Azoxystrobin + Cyproconazole and Pendimethalin.

Vishnu Kumar: Sir margins in these products are better than what went out?

Ramprakash V. Bubna: In of the products the margins are not so good but the volumes are good enough.

Vishnu Kumar: Got it Sir, finally on your cash utilization strategy could you give a thought process, how you intend to use the cash, dividend, acquisition strategy something you have been speaking about so if you could just guide broadly on that side?

Ramprakash V. Bubna: See the major outlet for our cash is investment in registrations and then of course nominal normal increase in the overheads, salaries, wages and consultancy and dividend will continue to give us about 20% to 22% of the net profit in terms of dividends.

Vishnu Kumar: But the excess that is there in the balance sheet about of Rs. 100 cr. plus we have so is there any thought to utilize it for any particular purpose or we will continue to hold them back?

Ramprakash V. Bubna: Sir this excess has been at the same level last three years, so it has not been growing, the cash balance has been in the same range or rather there has been a small graft in the cash balance so I think it is continue to stay.

Vishnu Kumar: That was very useful. Thank you.

Ramprakash V. Bubna: Thank you.

Moderator: Thank you. Our next question is from the line of Afshan Sayyad from Dolat Capital. Please go ahead.

Afshan Sayyad: Thanks for giving the opportunity again. Sir, I just wanted a regions wise break-up of this number of registrations, which we have in pipeline of around 845 registrations?



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- Ramprakash V. Bubna:** Let me see if I have that information readily available. I have 458 registrations in the pipeline in European regions, 131 in the NAFTA region, 199 registrations in LATAM and 57 registrations in the pipeline in the Rest of the World.
- Afshan Sayyad:** Thank you.
- Moderator:** Thank you. Ladies and gentleman as there are no further questions from the participants. I now hand the floor back to Mr. Rohan Gupta for closing comments. Over to you Sir!
- Rohan Gupta:** There was pretty informative. Just couple of things before we close the call the cash as per balance sheet we have roughly 70 Crore rupees so this is in which currency generally we have this cash?
- Ramprakash V. Bubna:** These are all in Indian Rupees.
- Rohan Gupta:** These are in Indian Rupees.
- Ramprakash V. Bubna:** So we do not have any cash or any funds lying idle anywhere in World except in India.
- Rohan Gupta:** So I primarily I believe that will be invested in debt funds or something like investments are already close to 60 Crores rupees are there. So as in general we will be making close to 6% to 7% interest return on these cash and equivalent, which I could not see in other income?
- Ramprakash V. Bubna:** Just one minute Rohan. I would say it is bank deposits about 36 Crores, current investment about 61 Crores, and cash and bank balance is about 72 Crores.
- Rohan Gupta:** Right, so all these things put together we have roughly 168 Crores parked in investment and I just wanted to understand the income generated on that is sitting only in other income right?
- Ramprakash V. Bubna:** Yes please.
- Rohan Gupta:** That is the Rs.17 Crores, which we have and which has fallen actually from Rs.25 Crore in FY2016?
- Conrad Fernandes:** Rohan, the other income beside the investment income also includes the FX gain .
- Rohan Gupta:** Is there any negative FX impact this year?
- Conrad Fernandes:** No, this year there has been a very negligible FX impact we had FX benefit last year.
- Rohan Gupta:** Last year it was FX benefit so out of the Rs.25 Crores in FY 2016 a large part of that you are seeing was FX impact?



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Ramprakash V. Bubna: Yes that is right.

Rohan Gupta: Sir, just one more thing now our business is moving towards to the Europe market and even you also mentioned that this year also you are expecting closer to 10%-15% growth in the Europe compared to other overall growth of 15% to 18%. We always understood that Europe market gives the highest margin among all the other market NAFTA, Latin America and ROW.

Ramprakash V. Bubna: Right.

Rohan Gupta: This understanding history is right?

Ramprakash V. Bubna: It is still right.

Rohan Gupta: So with the falling Europe market contribution we are going to see that margins are continued to go on a decline phase unless you see that this kind of growth in Europe will continue?

Ramprakash V. Bubna: Please repeat your question Rohan?

Rohan Gupta: Sir I am seeing that with the falling revenue, I mean our revenue mix Europe contribution is continuously falling will continue to go down further because last year it was 55% and now this year it is 50% and I believe that it will go down further. So given that Europe had always the highest margin so are we seeing that EBITDA margins are on average basis will keep on falling?

Ramprakash V. Bubna: Well, I do not see that you can term it as a trend, last year 55% was uprising trend. So this is the first year that the percentage has gone down and that to it is mainly because the percentage of revenue growth has gone up in other regions. It has not come down so much in Europe and we are still very bullish in our growth in European region. So I do not think we can say that there is a trend and I have never said that we will go down further in Europe.

Rohan Gupta: You also mentioned that Europe will grow 10% - 15% and while the overall growth will be 15% to 18%, so it is implied that other markets will be growing faster than Europe right?

Ramprakash V. Bubna: Sir these are just done estimates.

Rohan Gupta: Thank you Mr. Bubna Ji and thanks a lot for giving us your valuable time. It was very informative also.

Ramprakash V. Bubna: Thank you everybody and all have a nice day.

Rohan Gupta: I also thank all the participants who have logged in for the conference call of Sharda and once again a special thanks to the management for being supportive and giving us a valuable time. Thank you everyone.



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Ramprakash V. Bubna: Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your line.