



“Sharda Cropchem Limited 1QFY2018
Post Results Analyst Conference Call”

July 31, 2017



ANALYST:

MR. RITESH GUPTA – AMBIT CAPITAL

MANAGEMENT:

**MR. RAMPRAKASH V. BUBNA - CHAIRMAN &
MANAGING DIRECTOR - SHARDA CROPCHEM LIMITED
MR. CONRAD FERNANDES – CHIEF FINANCIAL OFFICER
- SHARDA CROPCHEM LIMITED
MR. SYLPESH DEDHIA - GENERAL MANAGER (FINANCE)
- SHARDA CROPCHEM LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the Sharda Cropchem Limited 1QFY2018 Post Results Analyst Conference Call, hosted by Ambit Capital. 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. Ritesh Gupta from Ambit Capital. Thank you and over to you Mr. Gupta!

Ritesh Gupta: Thanks. Hello friends. I welcome you all on behalf of Ambit Capital. With us we have the management of Sharda Cropchem. Thanks for taking out time to discuss the 1QFY2018 Results with investors and analysts. The management is represented by Mr. R.V. Bubna – Managing Director, Mr. Conrad Fernandes – Chief Financial Officer, Mr. Sylpesh Dedhia – GM (Finance). Thanks and I will hand over the call to the management for opening comments. Thanks!

Ramprakash Bubna: Good day, ladies and gentlemen. A very warm welcome to everyone present here for the earnings call of Sharda Cropchem Limited for the first quarter of financial year 2017-2018. Sharda Cropchem is represented by myself, Ramprakash Bubna – Chairman and Managing Director, Mr. Conrad Fernandes – Chief Financial Officer, and Mr. Sylpesh Dedhia – General Manager (Finance).

Talking briefly about our first quarter results, the revenues increased by 8.4% year-on-year from Rs314 crore to Rs341 crore. We have witnessed a very strong growth in the NAFTA region on the back of new registrations, which helped us to offset degrowth in other regions.

Gross profit declined by 2.4% year-to-year from Rs113 crore to Rs110.27 crore. Gross margins declined by 358bps from 35.9% to 32.3%. This was primarily due to hardening of raw material procurement prices in China.

EBITDA, including foreign exchange impact, declined by 6.6% year-on-year from Rs66.53 crore to Rs62.17 crore. EBITDA margin declined by 292bps from 21.1% to 18.2%. EBITDA, excluding foreign exchange impact, declined by 13.7% year-to-year from Rs72.01 crore to Rs62.17 crore. EBITDA margin declined by 466bps from 22.9% to 18.2%.

PAT after minority interest increased by 5.6% from Rs40.92 crore to Rs43.22 crore. PAT margin marginally declined by 34bps from 13.0% to 12.7%. The total number of registrations was 2,069 as of June 2017 as compared to 1,830 as on June 2016 and 2,174 as of March 2017. Registrations declined compared to March 2017, as we did not renew few registrations which expired and had lower profitability. The company has another 862 registrations in pipeline across geographies.

Going forward, our strategy shall continue to remain focussed on investing in new registrations and expanding our product portfolio and geographical presence.



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

Conrad Fernandes: Thank you, Mr. Bubna and good evening to all. The revenue composition for the quarter was 44.7% from Europe, 37.2% from NAFTA, 10.4% from LATAM and 7.7% from Rest of the World. The decrease in share of Europe has impacted the gross margins. The top ten molecules contributed 51% of revenue.

With regard to depreciation and amortisation expense for the quarter, it was higher by 21.8% on account of capitalisation of registration cost. The company has incurred a capex of Rs40.7 crore relating to registrations during the current quarter.

Working capital cycle for the quarter was at 75 days as against 77 days in the immediate preceding last quarter.

Thank you and I now invite questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar: The net working capital days increased from 56 days to 75 days and receivable days increased from 135 to 151 days. So can we assume higher net working capital days for FY2018?

Ramprakash Bubna: Yes, we can.

Sumant Kumar: What was the reason for increase in working capital?

Ramprakash Bubna: The receivables have been little slow and we are catching up with them and we hope to improve in this quarter.

Sumant Kumar: Can we assume the farmer profitability for the particular crop is still low in the key crop?

Ramprakash Bubna: You can say that is one of the reasons. There are several reasons. Sometimes the impact of the total economy and delay in the harvesting of the crops and also liquidity with our distributors can affect us as we do not deal directly with the farmers and work with distributors.

Sumant Kumar: Sir you mentioned in PPT that revenue declined by 3.4% in Europe driven by unfavourable product mix. So what is the unfavorable product mix?

Ramprakash Bubna: This means that the products which were giving us better margins have seen lower demand and products with lower margins had higher demand.

Sumant Kumar: Can we say that there is crop pattern shift?



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- Ramprakash Bubna:** Yes it could be.
- Sumant Kumar:** So what kind of crop pattern shift is there? Is it because of higher sowing of cotton?
- Ramprakash Bubna:** We have not gone into that much details. We just go by the demand and we restrict ourselves to see if we get a demand of high-margin products or low-margin products.
- Sumant Kumar:** The third question is the revenue declined by 16.8% in LATAM region and you mentioned it was because of higher competition. So how is the channel inventory in LATAM?
- Ramprakash Bubna:** It continues to be the same. There the registration process is getting little simpler and more competition is entering the field. Further some of the countries are not doing well financially so we are also not very aggressive in pushing the sales because there are delays in the receivables in that region.
- Sumant Kumar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.
- Chetan Thakkar:** Good evening. Sir, just wanted to understand for the full year where do you see gross margins given where the currencies are and the demand outlook particularly in the Eurozone and even the growth rate that you expect this year?
- Ramprakash Bubna:** We think that the gross margins will continue in the range of 33% to 36% and EBITDA will continue to be in the range of 18% to 20%.
- Chetan Thakkar:** This quarter, the lower gross margin is largely because NAFTA was a larger share?
- Ramprakash Bubna:** Exactly.
- Chetan Thakkar:** So this gets corrected by the time you move to 4Q?
- Ramprakash Bubna:** Yes please.
- Chetan Thakkar:** On the registrations if you can give the break-up by the registration pipeline by region?
- Ramprakash Bubna:** In Europe we have 460 registrations in the pipeline, NAFTA region 134, LATAM 184 and Rest of the World was 84.
- Chetan Thakkar:** Sir, when the Euro was depreciating MNCs did not take price increases and it impacted us as well. Now as Euro currency has appreciated, did they take any price action?



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- Ramprakash Bubna:** No they are not taking any price action.
- Chetan Thakkar:** Okay so all that will flow through as the quarters go back.
- Ramprakash Bubna:** Yes please. Of course, everybody is trying to buy for a better share of the market so that can have a little pressure on the prices.
- Chetan Thakkar:** The similar pressure that we are seeing on the market share price in LATAM is that the case in Europe as well in select products?
- Ramprakash Bubna:** To a very small extent but yes.
- Chetan Thakkar:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** My question is on the pesticide price increases that have been happening. So have you been able to pass it on fully? Which regions if at all we have been able to pass it on and which regions you have not?
- Ramprakash Bubna:** See in general we are not able to pass on the price fluctuations because of the cost increase because this is not a normal market with supply and demand factors. We are having a very strong barrier for registrations, we normally do not pass on the price increase because as we are working with very comfortable margins and we go by the actions of the multinationals, if they reduce the prices then we follow otherwise we do not.
- Vishnu Kumar:** But do you think that the prices in general will trend higher in the next two, three quarters or it will remain at the similar levels?
- Ramprakash Bubna:** There could be a slight increase, but not a massive increase.
- Vishnu Kumar:** Okay, but in general, are you seeing the market is still oversupplied with materials in the European or the US markets?
- Ramprakash Bubna:** No such significant thing has come to notice.
- Vishnu Kumar:** In Europe for the last two quarters, we have been seeing some sales decline. Could you broadly give some thought process as to what will our strategy be to further growth? What are the key strategic ways in which we will achieve that?



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- Ramprakash Bubna:** See, we are working on a number of registrations in the pipeline and if we succeed on that and get some good products, which we are seeing, we are expecting in a very short period in near future that will give a boost to the sales in the European regions.
- Vishnu Kumar:** We do expect both the sales and the margins to pick up in the second half.
- Ramprakash Bubna:** Yes Sir.
- Vishnu Kumar:** Your revenue guidance – your revenue growth guidance?
- Ramprakash Bubna:** Revenue growth will be there in the range of 15% plus or minus.
- Vishnu Kumar:** Sir and one last question on the LATAM region it has been coming down as you highlighted that there is a lot of competition on that side. Will we focus our incremental efforts there or it is just going to be US and Europe going forward?
- Ramprakash Bubna:** We will be mainly focusing on US and Europe. LATAM countries are not very comfortable in terms of their economies and the receivables are also under pressure.
- Vishnu Kumar:** Sir, could you just give the total capex target for the year?
- Ramprakash Bubna:** For the registrations?
- Vishnu Kumar:** Yes.
- Ramprakash Bubna:** We expect it in the region of about \$20 million plus or minus 5%, 10%.
- Vishnu Kumar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta:** Sir, the question is on the NAFTA region sales for you. Is there a change that you have undertaken in the way you distribute your products in the USA and Canada. The second part is that given that the crop prices continue to remain suppressed and especially more on the corns, soya bean etc., do you expect that the global agrochem market, which was growing at 5-6% two years back, can possibly bounce back. While you have still been going fine but I see other players have seen fairly lower growth rates versus what they have been posting in the past due to weak crop prices. Can you shed light on two of these things?
- Ramprakash Bubna:** Weak crop prices will always impact the agrochemical market adversely to everybody across the board.



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- Ritesh Gupta:** But do you see something? What would be the key things to watch out for when we see that recovery is happening on the agrochem side because I think it has been like two-three years since we have been facing this kind of challenge and crop prices still remain subdued?
- Ramprakash Bubna:** We are not concentrating more on the crop price patterns and other things. We just see that if the crop prices will continue to be weak then the margins of everybody across the board will be affected adversely. I cannot predict because these are all dependent upon the weather pattern and sowing patterns and all.
- Ritesh Gupta:** Sir, the second part is that on NAFTA side. Has something changed in your strategy on the US, Canada side? Because I think, earlier you were facing some challenges related to the big dealers, which are kind of captured by large MNC players. So is there a bit of change in strategy over there which is driving the growth in NAFTA?
- Conrad Fernandes:** See we were passive watchers of this price pattern and markets so far. In the last six to eight months, we have started being little more aggressive and proactive. We were finding that the potential is very huge, only if we are able to match up the price requirements to the distributors. Earlier we were not trusting them, we thought it could be a bluff but then we found that if we reduce the prices then we are able to get a better share of the market. So we have changed our approach to this extent that we have become more aggressive at the cost of the margins but we are able to get the volumes because this market has a lot of potential in terms of volumes and the payments are fairly secured.
- Ritesh Gupta:** Sir, the kind of M&As we have seen over last one year, how does it change things for you over the next few years? Does it increase your opportunity size? How should we see it in context to Sharda? Secondly on the China side, we see raw material prices increasing. So probably the supply chain advantage you had sourcing from China probably that might not be as lucrative as it was two years or three years back.
- Ramprakash Bubna:** Our business model is based is on the registration chain. So if we keep on getting new registrations where we are the second or third registrant, then we have a lot of opportunities. We are investing so much of capital only to get additional registrations.
- Ritesh Gupta:** On China side, anything that you see threatening over there?
- Ramprakash Bubna:** No, I do not think there is a big threat there. Except for maybe two, three or four molecules, large majority of the molecules have been very stable and this also we are informed by our suppliers that these are all temporary phenomenon because the government is tightening their screws on the pollution control measures.
- Ritesh Gupta:** Thanks.



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- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** Can you give the volume numbers region-wise like you give every quarter?
- Ramprakash Bubna:** Tonnage in European region it is 2766000, LATAM is 670000, NAFTA 1825000 and Rest of the World 368000.
- Dheeresh Pathak:** Sir in Europe you said inferior mix, so which particular molecule did not do that well?
- Ramprakash Bubna:** We lost one registration of Quizalofop-Ethyl, which was selling very well with good margins. This registration was open through some me-too registration based on some registration in other country. The original registration was expired and we also lost that registration.
- Dheeresh Pathak:** Why did you not renew when you are spending \$20 million every year?
- Ramprakash Bubna:** The cost of investment on this molecule would have been very high and it is not just a question of spending, it also is a factor of time. If we renew it, it will take us at least three, four years to generate all the data.
- Dheeresh Pathak:** Sir, just as a thumb rule, I want to understand that when you are investing in a registration at the time of first time registration versus renewal what is the difference in the cost?
- Ramprakash Bubna:** Significant difference, first time registration cost is very high. Renewal cost is very insignificant but this does not apply to this Quizalofop, which I mentioned this was based on somebody else's registration where some window was open and we were able to make an entry. Now the principle product on which our product was – if that has expired then that company had to renew it if they have renewed it then we would have been able to follow it.
- Dheeresh Pathak:** Do you measure like what percentage of your revenues is coming from registrations which had done in the last two to three years like new registrations?
- Ramprakash Bubna:** No, we do not have this calculation and you see the new registration can sometimes give you a result within three months. Sometimes it may take about a year because the products, the business is seasonal, if we get the registration at the fag end of the season then we have to wait for the season for almost nine to ten months and if we get in three months then the results are faster sometimes even if you get the registrations just before the season there is not enough time for us to encash on the registrations and we have to wait for more than 12 months to get the impact of the registrations.
- Dheeresh Pathak:** Thank you.



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- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** Thanks again for your time. Just coming back on this molecule that you just mentioned on Europe in terms of renewable how much would it have cost vis-à-vis how much revenues kind of we have lost now?
- Ramprakash Bubna:** This registration was in Germany. The costs are very high and the time taken is also very long. We are having the same product registration in other European countries but we have lost the registration in Germany. It is a very lucrative market with very good margins.
- Vishnu Kumar:** So is it not possible to buyout the registration of the person who where it got expired and probably renew it just asking on that side which could help us for the rest of the markets also?
- Ramprakash Bubna:** See as I explained even if we have to go through this process the timeline is very uncertain since you could get in a period of three to four years, it may still take longer and if we spend the same amount of money in other molecules in other countries the results are more likely on our side.
- Vishnu Kumar:** Sir on a full-year basis would it be possible how much did this molecule generate for us in the last year in Europe.
- Ramprakash Bubna:** Well it must have generated about 1.5 million Euros approximately
- Vishnu Kumar:** Sir, earlier you had mentioned that France and Germany are two pockets where we have been finding it difficult and we are trying to make some inroads in terms of getting new registration there how is it going on that side?
- Ramprakash Bubna:** The challenges are still there and the job is very difficult.
- Vishnu Kumar:** Any opportunities to buyout registration that you are getting from any of the biggest because of their antitrust reviews and competition?
- Ramprakash Bubna:** We have not come across any proposal.
- Vishnu Kumar:** But at least in the market are you hearing something that you think that it is worthwhile though they may not have come?
- Ramprakash Bubna:** No. We do not hear this. Registrations are very rarely sold.
- Vishnu Kumar:** Sir, lastly on the marketing and distribution in the last three years if you could just explain how have you expanded it and over the next three years how do you intent to expand it let us say if we are continuing to grow at 15%, 20% if is what our target is what we need to achieve in terms of a marketing and distribution and how are we positioned for that?



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- Ramprakash Bubna:** See we have been increasing our product portfolio with newer registrations and we have also been increasing our distributor base, number of customers and more acceptability by the customers, more trust on the customers and this will continue to grow.
- Vishnu Kumar:** Does it mean we need to put up, set up or get into new third-party formulation plants getting more access to distributors put people on the ground more in that side?
- Ramprakash Bubna:** In some countries yes and we are doing that but this does not apply. See European Union is also a group of so many countries, which were having lot of differences in their cultures, economies, business cycles and all that. In some countries yes but we cannot say that in across the board of the entire opinion will.
- Vishnu Kumar:** Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Sumant Kumar from Emkay Global. Please go ahead.
- Sumant Kumar:** Sir you have mentioned that Quizalofop for which we have lost the registration so what was the revenue for that?
- Ramprakash Bubna:** I have mentioned it was around 1.5 million Euros but this is an approximate idea. I do not have the exact figure in front of me.
- Sumant Kumar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Ramprakash Bubna:** Sir on this Quizalofop again you know like in Europe the understanding was that me-too registrations are not there right because the hurdle for registration is very high and everyone has to do their own registration. So can you just explain like what was this me-too registration and just explain that?
- Ramprakash Bubna:** I want to tell you that we have both that registrations at a very, very low cost and there was a window available in which we had to apply for that there was some you can say concession of some I do not know full details. My registration team will know that so we got this registration about six years back at a very low cost and it was a very good opportunity that we were enjoying. Now we could not have probably even if we wanted we are holding and we are growing the same product in other countries but in Germany the things are very difficult. Our rate of success of registrations in Germany is very, very low.
- Dheeresh Pathak:** I want to understand that when you say me-too registration did you pay data compensation at the time of registration?



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- Ramprakash Bubna:** No we did not pay data compensation for this. This registration came to at a very low cost and me-too registration normally means if I have a registration of a product in one country with the same information, I can seek registration of the same molecule in another European country if the first registration belongs to me but this registration came to us on the basis of a registration, which was belonging to another party and the authorities had given some kind of a liberty for a short period of time and we were able to in cash on it.
- Dheeresh Pathak:** But this sort of practice is not widely followed?
- Ramprakash Bubna:** No it was a very specific very unique window.
- Dheeresh Pathak:** Just to the earlier question, when I asked, you said renewable cost for the registration is very insignificant what is it like? Is it 10% of the initial cost, 30% can you put the number to it?
- Ramprakash Bubna:** Most of the times these renewals are just an administrative process and it depends upon again one molecule-to-molecule and country-to-country. If there have been some more developments in the time period between our first registration and the renewable period then sometimes authorities ask us to repeat those, carry out more tests on our molecules, more trials on our molecules then the cost becomes higher. If they do not have such development then the renewable is just an administrative process, the payment of certain fees and some additional data and information so it is very difficult to put it down in terms of percentage. It varies from molecule-to-molecule and country-to-country.
- Dheeresh Pathak:** But would it be let us say those additional costs, additional studies are not required then would it be fair to say that it would be like less than 20% of the initial cost?
- Ramprakash Bubna:** No Sir then it will be about \$20000 to \$30000.
- Dheeresh Pathak:** Dollars per registration per crop per country like that right?
- Ramprakash Bubna:** Correct.
- Dheeresh Pathak:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Afsha Sayed from Dolat Capital. Please go ahead.
- Afsha Sayed:** Sir just wanted to check the first that matter Quizalofop-Ethyl, which have come off the registration so has there any such molecules, which will be going off registration in the coming future?
- Ramprakash Bubna:** No it was only one of the few cases.



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Afsha Sayed: Thanks.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Ramprakash Bubna: Thank you so much. Thank you everybody.

Moderator: Thank you. Ladies and gentlemen on behalf of Ambit Capital that concludes today's conference. Thank you for joining us. You may now disconnect your lines.