"Sharda Cropchem Limited
Q4FY23 Earnings Conference Call"
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MODERATOR: **MS. DARSHITA SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to the Sharda Cropchem Q4FY23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Darshita Shah from Antique Stock Broking. Thank you, and over to you, ma'am.

Darshita Shah: Thank you. Good evening, everyone. On behalf of Antique Stock Broking, I would like to welcome all the participants in the fourth quarter and FY23 earning call of Sharda Cropchem. On the call with me, we have Mr. R. V. Bubna, Chairman and Managing Director; and Mr. Ashok Vashisht, Chief Financial Officer. Without any further ado, I would like to hand over the call to Mr. Bubna for his opening remarks, post which, we can open the floor to Q&A. Thank you, and over to you, Mr. Bubna.

R. V. Bubna: Thank you, ma'am. Good evening, and a warm welcome to everyone present here on the call. Along with me, I have Mr. Ashok Vashisht, our Chief Financial Officer; and Mr. Dinesh Nahar, General Manager - Finance and SGA team of Investor Relations on the call. Hope you all have received our investor deck by now. For those who have not, you can view the same on the stock exchanges and the company website.

We are a global agrochemical company engaged in the process of marketing and distribution of agrochemicals by procuring wide spectrum of formulations and generic active registrations across the globe. Leveraging on our expertise and product registration capabilities by identifying generic molecules, preparing dossiers, seeking registrations, marketing and distributing. The company continues to identify opportunities in generic molecules.

Sharda Cropchem's total product registrations stand at 2,821 as on 31st March 2023. Additionally, 1,143 applications of the product registrations are in pipeline. The capex for the financial year 2023, stood at INR 355 crores.

Every jurisdiction has different legal and procedural requirements for providing registrations. The company has successfully obtained the regulatory approvals from these jurisdictions. The company is well equipped to respond to all the potential issues as well as has the readiness to efficiently respond and comply with the regulatory requirements.

We maintained a healthy relationship with multiple manufacturers, mainly in China and India. Sourcing from multiple manufacturers helps the company in getting quality products at optimal price, thereby derisking its sourcing dependencies.

Over the years, we have built a strong network within our global markets. We are benefiting through the economies of scale and leveraging value of our supply chain to deliver value to the customers.

In Q4, 2023, the revenues grew by 3% to INR1,482 crores, and for the full financial year, the revenues have grown by 13% to INR 4,045 crores. The revenue growth was led by better product mix and price realizations. During quarter 4 FY23, the gross margins have improved by 240 basis points due to increased sales in Europe and better margins.

Most of the currencies have depreciated against U.S. dollars in the first 6 months of the financial year mainly due to the ongoing war between Russia and Ukraine. In the first half of the year, the company incurred forex losses of INR 82 crores. In the last 2 quarters, that is second half of the year, we have seen some rebound of these currencies. For the full year, the company has incurred a forex loss of INR 58 crores due to favorable moment of INR 24 crores in the last 2 quarters.

Over 53% of our FY '23 sales of agrochemical business have been to Europe where the majority of the company's raw materials is imported from China and the payments are done in U.S. dollars. This had impacted the company's gross margins and overall profitability in first half of '23. We have seen this trend reversing in the second half of FY '23 as euro has started appreciating against dollar and rupees.

We have accelerated focus on revenue-generating investments and are continually looking to improve the operational efficiencies which will help improve our margins. With this brief overview, I would now like to hand over the call to our CFO, Mr. Ashok Vashisht for discussing our financial performance. Thank you very much, ladies and gentlemen. Now I give it to Mr. Ashok. Thank you.

Ashok Vashisht: Good evening to everyone over the call.

Coming to Q4 FY '23 performance. Our revenue stood at INR14.82 billion (Rs. 1,482 crores) albeit INR14.34 billion (Rs. 1,434 crores) in Q4 last year, thereby registering a growth of 3% year-on-year. And the company is focusing on value-based growth. Gross margin stood at 31.6% in Q4 FY '23 against 29.2% same quarter last year, higher by 240 bps mainly due to increased sales in the European region and better margin in Europe and rest of the world.

The EBITDA margin stood at 21% at INR 312 crores in Q4 FY '23 versus INR 317 crores in Q4 FY '22. Profit after tax was at INR 199 crores against INR 169 crores in quarter 4 last year, registering a growth of 18%. PAT was supported by better product mix and price realization and positive impact of forex gain.

In Q4FY23, agrochemical business grew by 6% year-on-year, to Rs. 13.16 billion (Rs. 1,316 crores), whereas the non-agro business grew by 13% year-on-year to INR166 crores. In the agrochemical space, Europe grew by 46%, NAFTA degrew by 37%. LATAM degrew 58%, whereas the sales in the rest of the world grew by 88%.

In total, Europe contributed 68%; NAFTA, 23%; LATAM 4%; and ROW, 5% of the agrochemical business for Q4 FY '23. In the Non-agrochemical space, Europe degrew by 64%; NAFTA region marginally grew by 1%; LATAM degrew by 50%; and ROW grew by 78%. Europe contributed 12%; NAFTA, 67%; LATAM 3%; and ROW, 18% of the non-agrochemical business for Q4 FY '23.

Now coming to our full year performance, FY '23, revenue stood at INR4,045 crores for the full year FY '23 against INR3,580 crores last year, FY '22 registering a growth of 13% year-on-year. Revenue growth was led by better product mix and price realization. Gross margin stood at 29.3% in comparison to 30.2% in FY '22. So, if we compare this from the first half of the year, margin of full year, so we have nearly improved by 300 bps in H2 versus H1.

EBITA degrew by 2% to INR 713 crores and PAT stood at INR342 crores versus INR349 crores FY '22. Coming to the split of agrochemical business, agrochemical business grew by 11% year-on-year to INR3,348 crores whereas the non-agrochemical business grew by 21% to INR697 crores. In the agrochemical space, Europe grew by 29% NAFTA region de-grew marginally by 2%. LATAM degrew by 24% and rest of the world grew by 34%.

In agrochemicals business, Europe contributes to 53% for full year, NAFTA 34%, LATAM, 7% and rest of the world, 6%. In the non-agrochemical space, NAFTA grew by 47%, LATAM grew by 35%, rest of the world grew by 23% and Europe degrew by 24%. Europe contributes 20% of the total loan agro business, NAFTA contributes 61%, rest of the world contributes 14% and LATAM 5%.

In terms of working capital, as on 31st March 2023, in terms of days, it's 104 days. We are a net cash company. Our cash and cash equivalents stood at INR328 crores as on 31st March 2023, and total debt stood at INR3 crores. With this, so we are now keeping the floor open for questions. Thank you very much.

Moderator: The first question is from the line of Harsh Beria, Professional Investor.

Harsh Beria: My first question is regarding our property, plant and equipment shown in the balance sheet. I think this has reduced from INR14.4 crores in FY '22 to INR5 crores in FY '23. Can you tell what did we sell that has resulted in a reduction of this?

Ashok Vashisht: Just give us one minute. This is essentially the lease assets, which has as per in line with INDAS 116. So, depreciation had come down like this. Mainly due to the depreciable lease assets.

Harsh Beria: Okay. My next question is about working capital. If you see like -- we have seen a bit of an increase in our working capital, can you tell the reasons behind it?

Ashok Vashisht: Yes. Two reasons. One is quarter 4 is ~ 45% of the business comes in quarter 4. But having said that, so there are in terms of inventories, there are certain challenges in NAFTA region, so which has temporarily led to the little higher working capital. And barring that we are in line with our last year. So essentially, the major inventory was in the NAFTA region.

Harsh Beria: Is there also a possibility that we might have to write off a bit of inventory in NAFTA region if it doesn't get solved?

Ashok Vashisht: Not really, just because of temporary demand issues led by the weather conditions. So as of now, we do not foresee any such kind of this thing, write-off.

Harsh Beria: And can you just tell us a bit about the broader agrochemical scenario? It seems that there's a lot of inventory in the channel and a number of companies are struggling in terms of growth. Can you just give a basic outlook of the industry?

R. V. Bubna: See, this agrochemical industry is a seasonal business and very much dependent upon the weather. This year, coincidentally, NAFTA region is facing a lot of hardship. And whatever was planned has not been able to taken off or given it to the agriculture because of adverse weather conditions. Otherwise, things are very much normal and there's not much things to worry about.

Moderator: The next question from the line of Diyanshu Kumar Taneja, an individual investor.

Diyanshu Taneja: Congratulation Mr. Bubnaji for the very good set of numbers. My question is interest rates are increasing in Europe and in other places, what is your view on how much impact can you see on your business?

R. V. Bubna: Sir, interest rates, Sir, I do not think that our business has much more connection with interest rates except that if there is a cross currency exchange rate variation then that impacts our business. As was explained in the speech of Mr. Ashok Vashisht, our sourcing is almost 90% in U.S. dollars, and sales are in local currencies globally, mainly Europe in euros and Canada in Canadian dollars and all those things. So, if these currencies depreciate against dollar, then it has an adverse impact on our business. And if they appreciate, then we get a benefit. Interest rates, in my opinion, does not impact our business much.

Diyanshu Taneja: So, sir, pricing pressure is also being seen or is it stable?

R. V. Bubna: See pricings are guided by 2 or 3 factors. In our case, the sales prices are guided by the multinational companies and innovators who are the innovators of these molecules. And the second factor is the cost of sourcing, which is mainly China and India. Due to many factors in China, the prices of our inputs, raw materials and technical products vary because of the local situations in China. In the first half of this year, the Chinese situation was not so comfortable and the prices were high. In the last quarter of this year, Chinese prices are on the downside and that will have a positive impact on our business.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: My first thought is if you're looking at the decline in input costs and the pressure on margins, do we see any risk of some pressure on margins before we see the recovery in margins because you'll obviously be able to pass on the lower cost and improved demand. So how do you see the outlook for margins given that there is an overall reduction in the top line as well as raw material costs?

R. V. Bubna: Mr. Ramesh, this is a mixed situation. In some of the territories where we have some inventories, it will have a pressure on the margins because everybody is looking at the prices in origin, that is China. But a lot of our territories, we do not have such inventories. So there, we are getting benefited.

S. Ramesh: Okay. On the receivable side, it's gone up, it's almost between 5 and 6 months. So, do you see that coming down in the foreseeable future? Or will this continue for a while? How do you see that?

R. V. Bubna: It should improve. The receivables would improve because our business being seasonal business, a big chunk of our sales are happening in the fourth quarter and in the last month of the financial year, mainly because of the spring season coming closer to the closing. So initially in every financial year, our receivables are at the top and then they start going down. And I don't think any big impact will be there on account of higher receivables.

S. Ramesh: So, one last thought. So if you look at third quarter and during even the Rabi season, there's a lot of generic competition, even the leading companies, they are under pressure. So where do you see the industry kind of settling? Will we see some improvement in volumes in the Kharif and the international market in the next 6 months, particularly in Asia and other markets that we have agriculture season. Or will it take another one year before, we see the overall outlook for exemption growth improve. What is your thought on that?

R. V. Bubna: No, I don't think we have to wait for a year. The impact will start within the next 3 to 6 months, and it will be gradual.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund.

Dhruv Muchhal: Can you give the volume price and FX split for the quarter? Revenue growth...

R. V. Bubna: The impact on the growth is plus 2% because of product and price mixture. Volume growth has been a negative impact of 3% and foreign exchange impact has been about 4.3%. Total growth is 3.3%.

Dhruv Muchhal: And sir, same for the full year, if you have.

R. V. Bubna: One minute. Full year, the impact of price and product mix is plus 15%, volume minus 4.6%. Foreign exchange impact, plus 2.5% and total growth, 13.0%.

Dhruv Muchhal: Sir, how do you look at the growth for the next year? I'm also asking in context, we are seeing that also you mentioned that technical prices from China are lower now. And last 2, 3 years, we had a good benefit in revenue growth because of pricing. So do you think that reversing and how can it cause some drag on revenue growth for the next year?

R. V. Bubna: No, not very much. I think we should grow at around 15% to 18%.

Dhruv Muchhal: So sir, this will be largely driven by -- because if I'm not wrong, price to negative, there will be some delta negative because of price. So do you think volume will offset that negative impact?

R. V. Bubna: No, volume will increase when the price is on the drop, the volume increases, demand increases.

Dhruv Muchhal: All right. But sir, just sir, but the then the impact of the benefit of price in the last 2 years has been reasonable. For you itself, I think the growth has been about 25% in FY '22 and 15% in FY '23 driven by pricing, and we see that technical prices are coming up in China. So I just wanted to reassure that you still are comfortable with 15% growth.

R. V. Bubna: Yes, we are comfortable, sir.

Dhruv Muchhal: Right. And sir this your inventory just coming back to that question earlier, your inventories. So we understand prices have fallen significantly, like glyphosate have fallen probably more than half. So we don't see that as a risk of inventory write-off on us that we are very confident about.

R. V. Bubna: There will be some small impact, but not very significant, only in the territories where we are left with the inventories and those happened because of adverse weather conditions and drop of demand. But on the other side, where we don't have much of an inventory, we will have benefit also.

Dhruv Muchhal: Okay. So that's primarily the increase in inventory that we see versus normalized. Normally, you have about 60, 70-odd days of inventory. This time, it is about 90-odd days. So this is primarily because of NAFTA only, for other regions you are fairly confident.

R. V. Bubna: Yes, mainly because of NAFTA.

Dhruv Muchhal: Okay. And sir, my last question is on the capex guidance. So what could be the number for FY '24? And when you say capex, do you also include the registration costs which you partly expense out in your P&L?

R. V. Bubna: No. We are capitalizing the capital work in progress when we received the registration. And then we start depreciating them by straight line method over a period of 5 years.

Dhruv Muchhal: Okay. Sir, why I'm asking this is because in your commentary, you mentioned the capex is INR355 crores. But if I look at the cash flow statement, the amount is, if I'm not wrong only INR244 crores. So I'm just trying to understand what is the difference? Is that INR100 crores booked in expenses and hence you are saying it that way?

R. V. Bubna: One minute.

Ashok Vashisht: So Dhruv, what happens is capex, whatever we incur, it doesn't mean -- all the cash flow to happen in the same year. So the opening closing creditors and those kind of things, capitalize depreciation.

Dhruv Muchhal: Got it. So sir, capex for this year will be about what sir? In FY '24?

Ashok Vashisht: Around INR400 crores

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Firstly, congratulations on a great set of results. Sir, my question was regarding margins. So with lower prices, would that impact our EBITDA margin and how would our EBITDA margin play going forward in the next year?

R. V. Bubna: See, our EBITDA margins is project as between 18% to 20%.

Darshil Jhaveri: Okay. Between 18% to 20% for next year?

R. V. Bubna: Yes.

Darshil Jhaveri: Okay. So this would incur basic forex expense that we could reasonably estimate would be included in this or could there be any other risks that we see forgetting towards this margin?

R. V. Bubna: No, we have taken all that risk into account when we have projected this 18% to 20%.

Moderator: The next question is from the line of Sameer Deshpande from Fairdeal Investments.

Sameer Deshpande: Congratulations on a very good set of numbers because we started the year on a very difficult note, but in the half 2, we have covered the entire loss which was incurred in the half 1. So really, it was -- it is a commendable job for the company. congratulations, Mr. Bubna and all the team for the hard work.

R. V. Bubna: Mainly to the team, sir.

Sameer Deshpande: Yes, but it is under your stewardship. So it goes to you also. But this year, we are hearing a lot of noise about EL Nion and the weather conditions being adverse, not only in Asia but also abroad. So because in a large company's conference call, we heard that the product prices have also fallen. And after China's reopening, the prices of the products have fallen significantly in this quarter, a reopening of China. So actually, does it benefit us in any way?

R. V. Bubna: It has a mixed impact. See, you are Mr. Sameer Deshpande, as I explained, because of a very healthy relationship with the suppliers and manufacturers, we get the advantage of the drop in the prices. We are the first to get the advantage. And the advantage takes some time to be passed on to various levels. So during this intermediate period, we get benefited. You understand? When the prices go down, our business gets positively impacted.

Sameer Deshpande: Yes. And any these weather issues at this point, we don't feel anything much adverse.

R. V. Bubna: I still remember the word you had said for this weather, you hear a lot of noises. It is not bad set of noises. You use the right word, these are all noises. So the world is going to stay, people are going to eat, people are going to live. So you require agriculture. And the population is growing. When the agriculture has become so resilient, we can withstand a lot of noises in it.

Sameer Deshpande: And I was just going through out that data, which we have provided for last about 4 years, consecutively. For FY '18/'19, I have seen the sales have grown from INR2,000 to INR4,000. So it is a growth of 100%. So which is a good growth of more than 20% CAGR. And our operating profits and net profit also have grown by about 18% to 19% CAGR over the last 4 years.

So that is really a good thing. And I hope that things continue in the same way. I had a question about the Q4. Our other expenses have shot up from INR107 crores to INR147 crores. So any one-off in that?

R. V. Bubna: Sir, this is mainly due to increase in the cost of living and a significant increase in the cost of living in the European region. And this has happened because of the Russia-Ukraine war. The cost of fuel going up, energy going up, transportation going up. The surface transport is extremely high in Europe nowadays and these are all adding and then also our consultants, amount of consultants coming out from Europe.

So Europe has been a very stable economy for the last many decades. This is the first time that they are getting impacted because of all these things, but they'll find a way out. Everything has a short life this Russia-Ukraine war was never expected to last so long, but it's still going on.

Moderator: The next question is from the line of Himanshu Binani from Prabhudas Lilladher.

Himanshu Binani: So my question was largely on the revenue and the margin outlook going forward. So what we have seen in the global agrochemical company till date who have reported their numbers so the major thing or the common thing which was coming out is that the generic players were facing immense pressure across geographies. But despite that, we have actually booked that trend, and we have posted a decent sort of like growth into the agrochemical side.

So what different we have done basically as compared to the other players or the global majors, number one. And secondly, what we have seen is there has been a huge margin erosion also across NIMs, but despite that, we have posted a very decent sort of like gross margin expansion during this quarter. So the question was largely around this only, sir. So maybe you can...

R. V. Bubna: Mr. Himanshu, you have to see our business model. Our business model is very unique. It is not like other generic players who are sitting with a lot of fixed assets, manufacturing facilities, and they have to live with those manufacturing facilities even if the demand for their normal products go down. We are very nimble-footed. If any product has less demand and less margins, we try to put that on the side or give it the last preference.

We have wherever we find that the margins are good, demands are good. We pay attention to that molecule or that product and leave aside like we say, glyphosate. Glyphosate prices are very high, now it is going down and the prices go down. We give least importance to this product where the manufacturer cannot avoid that. They have to live with them. So that's a very big difference between other generic players and our business.

Himanshu Binani: Right. And sir, secondly, on the margin side, so have we taken any sort of like high cost inventory provision into our numbers and which is reflected into the gross margins despite this 240 basis points of margin expansion?

R. V. Bubna: Sir, we have taken into account whatever inventories we have today, you call it high cost or low cost, but the overall cost of those inventories are not significantly high as compared to the current prices.

Himanshu Binani: Got it, sir. So sir, how should actually one look at the gross margin profile going forward for FY '24. So we continue to maintain that 26% to 30% sort of range in the gross margin, sir?

R. V. Bubna: Yes, sir. We are very comfortable. It could be nearer to 30%. 26% was in the first half of this year, mainly because of the exchange rate variation.

Himanshu Binani: So going forward, sir, now the forex are turning favorable and moreover, the RM prices are like correcting. So are we like giving a conservative sort of guidance into the gross margin, sir?

R. V. Bubna: So we prefer to be practical. We don't prefer to be very optimistic. We know that we have to face our investors every 3 months. So we like to give as realistic and estimate as possible, you can call it optimistic or pessimistic.

Himanshu Binani: And sir, one last question, basically. Can you please help us with the region wise gross margin as well as the volumes for this quarter and for the full year FY '23.

R. V. Bubna: Yes, sir. Region wise gross margins have been 36% in Europe, Latin America, 26.5%, NAFTA, 24.5% and rest of the world, 22%. As usual, Europe has been the best margin and very regulated market and very little fluctuations.

Himanshu Binani: Sir, LATAM, we have seen a decline, a huge contraction in the revenues. However, we are seeing a huge expansion in the gross margin. So what have been the reason basically for this?

R. V. Bubna: See, last year, we had a very big volume of 1 or 2 particular products, which were not giving us very good margins, we're now comfortable but the volume was very high. Now this year, that molecule is not playing that important role. And things have become more normal.

Himanshu Binani: Got it, sir. And sir, the volume, the region-wise volumes?

R. V. Bubna: The Europe, the volume is 8,200,000. Latin America, 520,000. NAFTA, 3,200,000 and rest of the world, 1 million (10 Lakhs).

Moderator: The next question is from the line of Resham Jain from DSP Asset Managers.

Resham Jain: Sir, my question was on generic manufacturing. We hear that with China opening, some of the Chinese players are also selling several products at cost as well. And some of the Indian players are saying that because of this, they have shut down their plant also in some cases. So in this kind of situation, how does it helps or it impacts Sharda. I presume it will help Sharda, but any sense on will it help our overall volume growth in '24?

R. V. Bubna: It should. Resham, See our sourcing is mainly from China. When China was getting difficult and Indian manufacturers had appeared on the scene, it was very slow rate was also shifting towards India. And now it will go back to China, if the Indian manufacturers are not able to compete with the Chinese in the price. So that will be, to some extent, beneficial to Sharda because of Sharda's business model. As I'm very repeatedly saying, we are nimble-footed.

We have all the possibilities and very convenient for us to shift from one source to the other source, both approved sources.

Resham Jain: Sir, my second question was related to the off-patented product. A few years back, you mentioned that there are several large products going Off-patent. And in the next few years, those opportunities should come. There are several products getting off-patented since last year. Are you seeing any major opportunities there? And how are we positioned in those products and tie-ups as the manufacturer?

R. V. Bubna: Sir, these products-- they will definitely give us a good opportunity. But the off-patented products are also very difficult for registration and also for manufacturing. So there will be some quality issues. We will have to pay more attention. And we'll have to spend more time and resources to get the registrations. But we are on the right track and right path, and that will help us in the long run.

Resham Jain: So any color if you can give on the registrations which you have been doing last 2 years and in the coming 2 years, 3 years? How is the mix between, let's say, a traditional generic product versus slightly more complex product where the petition probably at the marketplace is lower or the price differential is better or the margins are better? Any cost comments, if you can help it?

R. V. Bubna: Sir, it is very natural and obvious that the new products, which are going Off-patent, the competition is very less. So if we can get the registrations of these products, in a good time or short time, the benefit will come to us because there's very little competition. Other generic products, which are generic for the last 20 years or 15 years, we call them as commodities. There the competition is more and margins are less.

We also market those products because we have to fulfill the requirements of our customers for as much products that they want, and they'll prefer also buy from one source. So that is why we also market them, but our stress is on the newer products.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: Sir, my first question is on the capex guidance that you gave, which is around INR400 crores. As I remember right, it used to be in the range of INR150 crores, INR200 crores some time back. And you have alluded to the fact that registration costs have been going up. But is this purely because of the rising registration costs? Or do we have more number of molecules in the pipeline compared to what we used to do before.

R. V. Bubna: See, my friend, this is because of both the factors. But more because of the cost of registration is going up, not because of the molecules. Every time, every year, the cost of registration is going up because of the requirements of the authorities, they are more and more stringent, and they want to do a very thorough test and make very sure. And the same molecule, if I had registered 6 years –- 5 years back, it would have cost me say, $1 million. Today, the same molecule will cost anybody between $1.2 million to $2 million. The requirements of the authorities are also increasing and expanding.

Archit Joshi: Understood, sir. My second question, sir, apologies for harping on the same issue. A lot of participants have asked on your margins previously. But you mentioned that we have grown in terms of pricing for this quarter by about 2% and even more for the entire financial year. And we have seen that the generic prices are falling as many participants mentioned before. I'm just curious to understand, were we extremely better off position at the end of the third quarter to take benefit of the situation in China falling raw material prices and that we must have procured at a very low cost. And then on the top of that, you were able to pass it on quite well in the European and other geographies. Would that be a fair assumption?

R. V. Bubna: No, sir. When you say very low prices, that assumption is not correct. The drop in the prices in China has also been gradual. And the current prices, which are probably at the lowest level, nobody has been able to take advantage of because there is a time factor. You have to source the product, transport them, deliver them, pack them as per the requirements. So any advantage of the drop in price, there's a time lag of at least for 2 to 3 months. We would be able to do it a little faster, but most of the people who are doing their own manufacturing, they are also buying penultimate raw materials from China. And for them to get advantage of all these things will the time lag is still more in.

Archit Joshi: Understood, sir. I was actually curious how, in this environment, we were able to improve on the pricing also. That was my main question and wanted some more understanding from you. And usually, a price increase that we were able to take usually happens when our inventory levels are very comfortable from the previous quarter.

I'm sure that there must have been some amount of inventory back in 3Q that you're already sitting on, and as you rightly mentioned that the price fall was gradual, how did we manage the inventory and eventually subsequently passing on these prices or being able to sell at a higher realization? That's my last question. Sir, if you can answer.

R. V. Bubna: Very obvious, my friend, as I told, there's a lot of noise about the prices. But most of the customers, they want the goods next day. They don't wait for 3 months to take advantage of the prices. These are all seasonal products. Many times, if I tell a customer that, yes, the goods have landed on the port and will be there with you in 2 weeks, he doesn't come back to us. People want the product the day they need it. So whatever could be the price in China after 3 months, it doesn't help them. They have no other choice but to come to me because I'm able to deliver to them the next day. Then they have to pay my price and price in China is just an imagination for you.

Moderator: We'll move on to the next question that is from the line of Somaiya V from Avendus Spark Capital.

Somaiya V: My question is on the revenue guidance outlook that we have given, led by volume growth. So I just want to understand what would be the primary driver for the strong double-digit outlook on volume growth? Is it because the macro is something -- this kind of a macro something that suits us that in the low RM price environment allows us to take a lot of market share gains? Is that the primary drag? That's my first question.

R. V. Bubna: That is going to be both price and product mix as well as volume.

Somaiya V: So this 15% plus revenue growth guidance, so it includes a mix of all 3. Is that...

R. V. Bubna: Yes.

Somaiya V: Okay. Sir, in terms of geographical outlook between the geographies, I mean, any color that you are at this point in time, looking at your outlook for any of these 3 geographies? So how you're expecting things to kind of grow.

R. V. Bubna: Our best geography is European Union, where there's a discipline and the rule of law is being followed, and there are no shortcuts or parallel products entering and strong products entering into the territory easily. So there, we will get the best value for the product. NAFTA has been increasing for the last 2 years. But this year, there has been a little bit of a dip because of the sudden adversity of the weather. But this is also improved because ultimately, the farmers are also doing their best to grow their crops. And they will need also agrochemicals.

Somaiya V: In terms of our registration portfolio that we have, so do we see the last 1 or 2 years, things have improved in terms of the portfolio that you have in hand that gives us a better confidence in terms of increasing our market share in these geographies. Is there any material shift that you see that has happened in the last 2, 3 years?

R. V. Bubna: That it gives us a very good level of confidence. And when you look at our portfolio, we feel very proud. And anybody who looks at our portfolio who knows the products and the registrations, he has a lot of respect for Sharda that we have been able to get the registrations in time and choose good molecules for registry.

Somaiya V: So one final question for me sir, in terms of distribution reach for this incremental market share or volume driven growth, so is this something that we need to argument or we already have in place a good distribution reach. So that level itself is good enough for us to further take it up in terms of volumes.

R. V. Bubna: We have a good set of distributors, and we are adding. The distributors remain more or less the same, but there's also an addition into that.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Congrats on a good set of numbers. Sir, first question is on the patent, off-patent products. So just wanted your perspective historically, whenever there is a state Off-patent products, does it actually have a positive impact or in the short term it could be a negative impact because the competitive products are coming at a lower price once these off-patent products are being genericized. And then over a period of time, it is actually favorable for us. So just wanted to get a perspective the short-term impact of these off-patented products and a medium-term impact on our business?

R. V. Bubna: I want to just explain you that the registration and off-patent process in agrochemicals is very much different than in the pharmaceutical sectors. In the pharma sector, when the product goes Off-patent, all of a sudden, there are a large number of players who are sitting with the registrations and they jump into the arena very quickly because the process of registration is not so expensive and not so time consuming in pharma sector. And in agrochemicals, it is absolutely different.

In pharma, the innovator loses interest of that molecule or product within next 2, 3 years. But in agrochemicals, an innovator continues to be playing a very significant role in an off-patent product commanding 70% to 80% of market share even 10 years after the product goes Off-patent. Because the process of entry of the competitors is very slow and very difficult and not so attractive for any investor.

If you want to invest some capital, he prefers to invest this capital into many other areas, including plant and machinery fixed assets rather than going for registrations which is not so interesting for him, and it's built up with a lot of uncertainties. This is answering your question.

Rohit Nagraj: Yes, sir, this is absolutely helpful and probably the analogy can be applied for other off-patented molecules as well. Thanks very much for that. Sir, second question is from the product pricing perspective. And again, apologies harping on the same issue. So given that the generic prices have corrected meaningfully over the last one year, what is your sense that now those prices are stabilizing and probably will stay at these levels, given that even the raw material prices have corrected and the associated operating expenses, logistic costs have also corrected.

So effectively, from here, there will not be any downside for the product pricing. And whenever things improve, inventory gets consumed, the product prices will start again moving up slowly. Your sense on this, sir?

R. V. Bubna: Sir, as I'm explaining to you, again, probably I'm going to repeat, the prices don't correct in the agrochemical field so abruptly and so fast. And multinationals and innovators continue to share 75% to 80% market at their prevailing prices. And these things get impacted if there are many competitors jumping into the field, all of a sudden.

In agrochemicals, you will find that even today for 7 to 8 years or 10 years, maybe we are the third or fourth registrant of our molecule, getting a very good margin on those molecules and no competition. And our strategy is not to kill the product in the market. Our strategy is to support the innovators, we don't drop the prices more than 10% of the innovators price. So innovator is also not very much angry with us that we are going to kill this molecule.

Rohit Nagraj: Right, Sir, got it. I was more talking from the generics, like say, glyphosate where the prices have dropped and those prices are getting stabilized now from that perspective, sir.

R. V. Bubna: Sir, these kind of generics don't interest us. We call them as commodities. When there are 20 people sitting with the registration, then it is no longer a sort of entry barrier. I'm not talking about these products when I talk of agrochemicals and in context of Sharda.

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

R. V. Bubna: I would thank everybody and all of my investor friends who have spared their valuable time to join this conference call. I hope we have been able to answer all your queries. And we learn a lot from the queries that you put to us, it help us to ride and pilot our business. We look forward to such interactions in the future. We hope to meet your expectations in the future, too. In case you require any further details, you may contact us or our, Strategic Growth Advisers without any hesitation. Thank you so much.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Antique Stock Broking, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.