Sharda Cropchem Limited
Q4FY2020 Earning Conference Call

June 25, 2020

ANALYST: **MR. MANISH MAHAWAR - ANTIQUE STOCK BROKING**

MANAGEMENT: **MR. RAMPRAKASH V. BUBNA - CHAIRMAN & MANAGING DIRECTOR - SHARDA CROPCHEM LIMITED**
MR. ABHINAV AGARWAL – CHIEF FINANCIAL OFFICER - SHARDA CROPCHEM LIMITEDMR. DINESH NAHAR- GENERAL MANAGER (FINANCE) - SHARDA CROPCHEM LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Sharda Cropchem Limited Q4FY2020 Post Results Conference call, hosted by Antique Stock Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Sir!

Manish Mahawar: Thank you Nirav. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call. From the management, we have Mr. R. V. Bubna - Chairman and Managing Director, Mr. Abhinav Agarwal, CFO and Mr. Dinesh Nahar - GM Finance on the call. Without further ado, I would like to hand over the call to Mr. R. V. Bubna for opening remarks. Over to you Mr. Bubna

R.V. Bubna: Thank you, Manish. Good day ladies and gentlemen. A very warm welcome to everyone present here for the earnings call of Sharda Cropchem Limited for Q4 and financial year 2019-2020. Sharda Cropchem is represented by myself, Ramprakash Bubna - Chairman and Managing Director, Mr. Abhinav Agarwal - Chief Financial Officer and Mr. Dinesh Nahar - General Manager, Finance.

Talking briefly about our Q4FY20 results, revenues grew by 14.7% YoY from Rs.763.3 Crores in Q4FY19 to Rs.875.6 Crores in Q4 FY20. This is mainly due to growth in Europe by 21.2%, NAFTA by 13.9% YoY. On the other hand, LATAM and the Rest of the World degrew by 5.8% and 14.8% YoY, respectively. During Q4FY20 our volume grew by 11.3% YoY.

Gross profit grew by 34% YoY from Rs.236.8 Crores in Q4FY19 to Rs.317.3 Crores in Q4FY20. The gross margin expanded by 522 bps from 31% in Q4FY19 to 36.2% in Q4FY20 mainly due to better price realization and revenue growth in Europe, a high margin generating region.

EBITDA grew by 48.2% YoY from Rs.157.6 Crores in Q4FY19 to Rs.233.6 Crores in Q4FY20. EBITDA margin grew by 603 bps YoY from 20.7% in Q4FY19 to 26.7% in Q4FY20 mainly due to growth in gross margins.

Profit after tax grew by 34.1% YoY from Rs.105.6 Crores in Q4FY19 to Rs.141.7 Crores in Q4FY20. PAT margin during the quarter grew by 234 bps from 13.8% in Q4FY19 to 16.2% in Q4FY20.

Highlights for the FY20, revenue during the year marginally grew by 0.3% from Rs.1997.6 Crores to Rs.2003.0 Crores.

Region wise performance during the FY20, Europe grew by 8.2%, NAFTA, LATAM and the rest of the world degrew by 3.2%, 7.3% and 13.9% YoY respectively.

Gross profit grew by 0.7% from Rs. 610.2 Crores in FY19 to Rs. 614.3 Crores in FY20. The gross margin expanded marginally by 12 bps YoY from 30.5% in FY19 to 30.7% in FY20.

EBITDA declined by 4.7% YoY from Rs.368.9 Crores in FY19 to Rs.351.6 Crores in FY20. EBITDA margin contracted by 91 bps YoY from 18.5% in FY19 to 17.6% in FY20 due to rise in other expenses.

Profit after tax declined by 6.6% YoY from Rs.176.3 Crores in FY19 to Rs.164.7 Crores in FY20 due to increase in the forex loss from Rs.4.5 Crores in FY19 to Rs.15.1 Crores in FY20 and increase in depreciation and amortization from Rs.99.4 Crores in FY19 to Rs.137.1 Crores in FY20. PAT margin stood at 8.2% in FY20 as compared to 8.8% in FY19.

Net working capital days improved from 87 days in FY19 to 74 days in FY20 due to prudent inventory management.

Cash and cash equivalent as on FY20 stood at Rs.269.0 Crores as compared to Rs.335.6 Crores as on FY19.

With this brief overview, I would now like to hand over the call to our CFO, Mr. Abhinav Agarwal for discussing our financial performance. Over to Mr. Abhinav Agarwal!

Abhinav Agarwal: Thank you Sir. A very good afternoon to all. I will give you a brief about the Q4 & FY20 performance.

During Q4 our revenue grew by 14.7% year-on-year, this was due to volume growth of 11.3% YoY and favorable product and price variance by 30.2% YoY in Q4FY20, however unfavorable foreign exchange impacted us by 26.7% YoY.

During Q4FY20 our Agrochemical business revenue grew by 19.3% YoY led by growth across geographies. Europe, NAFTA, LATAM and Rest of the World grew by 23.1%, 13.8%, 10% and 25.4% YoY respectively. Our non-agrochemical revenue declined by 28.3% YoY. Now we will talk about the FY20 performance. During FY20 our revenue marginally grew by 0.3% YoY. This was due to the volume growth of 5.7% and favorable product and price variance of 5.7% YoY in FY20, however, an unfavorable foreign exchange impacted us by 11.1% YoY.

During FY20 our agrochemical business revenue marginally grew by 0.2% YoY. Highlighting the geography wise performance as follows: Europe grew by 9.6% YoY. On the other hand, NAFTA, LATAM and ROW degrew by 10.4%, 2.3% and 3% YoY respectively.

Profit after tax for FY20 stood at Rs.164.7 Crores as compared to Rs.176.3 Crores in FY19. We incurred a capex of Rs.175.1 Crores in FY20 vis-à-vis Rs.149 Crores in FY19.

Thank you, we now open the floor for the question.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: My question is on agrochemical growth versus non-agrochemical, would Q4FY20 be representative of how your revenues will look going forward? Please comment on the operating margins because you are seeing growth in your agrochemical business and degrowth in non-agrochemical business.

R.V. Bubna: Madam our business is seasonal business and Q4 has been historically our best quarter for many years. So, the growth of Q4 cannot be interpreted as a trend going forward. It will depend on many factors that cannot be predicted at this time the main factor is the weather, the cross-currency foreign exchange and political situations in different countries. We cannot interpret this as going forward trend.

Vibha Batra: Okay and non-agrochemical business shrunk so will that decline continue going forward?

R.V. Bubna: See non-agrochemical business was affected by COVID-19. The non-agrochemical business is mainly dependent upon the mining industry, construction industry, etc. where a lot of material handling is involved. The operations in the force and other handling places activities in these industries were highly subdued in the last four or five months and that has impacted the non-agrochemical business.

Vibha Batra: Now that we are in the New Year, what will be your fair expectations on agrochemical revenue being into the business for several years. What kind of growth are you expecting?

R.V. Bubna: We would place a rate of growth about 5% to 10% but it is dependent upon so many factors that are beyond our control and projection at this stage.

Vibha Batra: And what kind of margins would you be projecting for FY21?

R.V. Bubna: It would be in line with what has happened in the previous year.

Vibha Batra: Okay previous year the EBITDA margin shrunk for the whole year to 17.6%. However, they were up for the quarter. So, would that be somewhere between the two or they will be like 17% or 18%? Is it related to quarterly margins and yearly margins?

R.V. Bubna: I would say it will be in the range of 17% to 18%.

Vibha Batra: Okay. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

Chetan Thakkar: Sir two things, one was the volume number region wise that you shared for this quarter and for the year as a whole?

R.V. Bubna: Yes.

Chetan Thakkar: Second. Sir, I just wanted to understand this quarter, we have seen that improvement come in on gross profit margin, so is it fair to assume that for FY21 we will go back to our older range of 33% to 36% or will it still be at the 30% to 33% range?

R.V. Bubna: Chetan, we like to try to play very safe game. I think it would be in line with what has been happening in the last three to four years.

Chetan Thakkar: Sir, we were facing a pricing issue and pricing pressure to some extent. Are we now been able to take a price increase?

R.V. Bubna: The pressure on the margins continues.

Chetan Thakkar: Sir, NAFTA it is good to see that this quarter we have got growth. However, on an FY20 basis NAFTA witnessed a degrowth. Can we expect NAFTA to grow in the range of 5% to 10% in FY21 and Has the issue in NAFTA resolved?

R.V. Bubna: I think we should be able to maintain 5% to 10% growth.

Chetan Thakkar: Please share the volume number for the quarter and the year?

R.V. Bubna: Volume numbers for the quarter or for the year?

Chetan Thakkar: Both Sir?

R.V. Bubna: Volume for Q4FY20: Europe is 5,427,000, NAFTA – 4,201,000, LATAM – 507,000 and rest of the world – 758,000 and for the FY20: Europe is 12,692,000, NAFTA – 8,810,000, LATAM – 2,444,000 and the rest of the world – 2,660,000.

Chetan Thakkar: Okay Sir. Thank you so much. All the best.

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

Rohit Nagaraj: Sir, we have a dependency on supplies from China. So how has been the condition in the current quarter particularly in April, May and June 2020?

R.V. Bubna: The conditions are very comfortable. The factory productions are more or less normal and the availability is good.

Rohit Nagaraj: And in the current quarter, what is your sense in terms of our markets? Are they picking up? Or because of the Corona issue and lockdown at various geographies, there has been slightly lower off take.

R.V. Bubna: You have already answered my question. There is slightly lower off take because of Corona and lot of subdued atmosphere around.

Rohit Nagaraj: Okay and this is also in Indian context or Indian context we are experiencing better things because of the external factors like the monsoon expected to be good that the water levels are good, so the off take has been also good?

R.V. Bubna: No. Mr. Rohit, the Indian context is totally different and if you have looked at our business model, our presence in India is less than 2% of our total revenue.

Rohit Nagaraj: Right.

R.V. Bubna: It is not tandem with the Indian context.

Rohit Nagaraj: Okay and in our portfolio do we have any biological product? or how has been the trend if there have been any biological product in our portfolio in the last two to three years?

R.V. Bubna: Very little.

Rohit Nagaraj: Okay but are we focusing incrementally on adding more of these products in the portfolio given the market wants to have a certain amount of biological also in place?

R.V. Bubna: No. Mr. Rohit, We go with the market trend. The demand for biological products is minuscule and that is not a part of our focus area.

Rohit Nagaraj: Okay fair enough and Sir, one last bookkeeping question. what have been the registrations by FY20 across different geographies?

R.V. Bubna: Our total number of registrations in FY20 has gone up to 2418 and region wise registrations: Europe - 1229, NAFTA - 210, LATAM - 742 and the rest of the world - 237.

Rohit Nagaraj: Okay that is interesting. So, one last question on the capex front. We have done about Rs.175 Crores in FY20. what do we expect in FY21?

R.V. Bubna: It should be in the same range but again as repeatedly said that the registration capex is a very uncertain process. It depends upon so many factors mainly the authorities, weather, etc. The FY21 capex is expected to be in the same range of Rs.170 Crores to Rs.200 Crores.

Rohit Nagaraj: Okay. Thank you so much and best of luck Sir.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir two, three things, Sir in this year we have booked Rs.56 Crores write-off on intangibles and impairment. We have booked Rs.40 Crores amount last year. How should we look at these elements is there any specific reason, which is drove this higher write-off in these two years and how should we look at it going forward?

R.V. Bubna: There have been many factors, mainly some of these expenditures which were incurred historically we were advised by our auditors that we have to follow certain accounting norms and write-off the expenditures which has become old. Even now they still have a lot of value, they generate a lot of revenues, but we have to go by some accounting standards and nature of some of the expenditures.

Nitin Agarwal: Okay and Sir do we expect this kind of amount to recur every year going forward?

R.V. Bubna: You mean amortization?

Nitin Agarwal: Yes. the amortization of Rs.40 Crores, Rs.50 Crores or the write-off that you have taken in FY19 and FY20?

R.V. Bubna: Mr. Agarwal, it could be, but it is difficult for me to predict at this stage. However, it will be not so big as it happened this year.

Nitin Agarwal: Got it. So secondly, in the presentation, you talked about inorganic growth opportunities, what kind of inorganic growth opportunities would be of your interest?

R.V. Bubna: I did not mention anything about inorganic growth opportunities in the presentation.

Nitin Agarwal: Sir, on from a new market perspective, are we looking at growing certain new market beyond the markets that we are present in or any specific market will be targeting over the next three to five years?

R.V. Bubna: Yes. we are looking into new markets as well as greater penetration in the existing market by a greater number of molecules and a higher number of crops.

Nitin Agarwal: Okay, and Sir lastly on the quarter, our gross margin expanded sharply this quarter. Obviously, there is a product mix in terms of Europe and being a lot higher. However, are we witnessing any meaningful improvement in the quality of portfolio within these geographies or will there be probably a much larger component of higher productivity and higher market product geographies?

R.V. Bubna: Mr. Agarwal, it is a mixture of product mix as well as the demand from the market and customers.

Nitin Agarwal: Sir, how does the demand really impact margins?

R.V. Bubna: If the demand is of a higher margin product, then the overall effect is the higher margin.

Nitin Agarwal: Do you see this tends to be sustainable for these higher-margin compositions being in the higher side for us now than what it was in the past?

R.V. Bubna: At this stage, it is difficult to say, again it depends upon the weather demand. However, it should remain in the same range.

Nitin Agarwal: Sir, lastly there is this whole issue, a lot of countries globally are looking to have their own sort of issues in terms of controlling imports from China or restriction of various kinds. Obviously, from India's perspective we are not impacted because we do not import it to India, but do you see does the structural problem or real problem for the market outside in terms of some countries especially countries sort of enacting certain kind of restrictions on Chinese imports?

R.V. Bubna: Not at all. I think these issues are only specific to India because of various boundary issues and these things are not affecting any other countries except India.

Nitin Agarwal: Got it, Sir it is a fair point and other expenses for the quarter Q4 was very high even if you adjust for the forex loss, is there anything which drove up these expenses in this quarter Sir?

R.V. Bubna: This is mainly due to the write-off.

Nitin Agarwal: So, do we have a number for write-off for this quarter?

R.V. Bubna: I will have to look into it.

Nitin Agarwal: Okay Sir thank you.

Moderator: Thank you very much. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir on price hikes in the European markets, can you share some light on what is the environment right now? Are we able to take a price hike or not able to take a price hike? Because in the past, we mentioned about multinational being very aggressive. What are you seeing right now?

R.V. Bubna: The same trend continues; multinationals continue to be aggressive and they do not want the generics to grow. There is no general trend about the price hike, this is product specific. If we have some good product, availability and demand, the products of high margin help us but this cannot be termed as a trend.

Chirag Dagli: Understood Sir and in the NAFTA market, we have this product called Acetochlor, in the past, we had some issues with the formulation. We have also indicated that they pick some of the issues how is the off take there? What is the outlook over there, because we remain the only generic in the market right?

R.V. Bubna: Yes. The off take is improving, and the formulation issues have been overcome.

Chirag Dagli: Despite that, we have not seen growth in NAFTA, so for the full year, if one looks at the numbers, we are still in dollar terms, we have declined. So, if you can throw some light on whether this product is helping, not helping and what is the outlook on this product going forward?

R.V. Bubna: See this product is helping us. We are able to approach more number of customers and sell our other products. There were a lot of other issues in NAFTA regions last year, this continues to be for this year too that is the U.S. China trade war, high import duties, etc. The agriculture sector is not capable to absorb all those import duties. NAFTA farmers/distributors are more resistant for keeping the inventories. They want to buy at very short notice and in limited quantities.

Chirag Dagli: Okay Sir in terms of guidance for depreciation this current number is very volatile. Sir, if you can just give us some sense of how should we think about depreciation number in FY21 and FY22?

R.V. Bubna: See, the effect of depreciation like every year we have capitalized on some intangible assets this year. The effect will continue for the next five years, but I think we should remain in the same range and there should not be any abnormal increase or if there is any decrease that is in the normal natural process.

Chirag Dagli: There will be some increase for sure right Sir on an absolute basis?

R.V. Bubna: For the capitalization done this year, I have not gone in so much details but if we have done a good amount of capitalization this year then it will have an impact compared to the previous year, nothing abnormally high.

Chirag Dagli: Right, so in general if we bake in Rs.20, Rs.30 Crores absolute rupees Crore increase in every year is that a fair number to look at Sir?

R.V. Bubna: Can you repeat, please?

Chirag Dagli: Sir, for FY20, the depreciation number has been about Rs.137 Crores. Can I assume that this will be Rs.167 Crores in FY21?

R.V. Bubna: No Sir, it will not increase so steeply, it will remain in the range of Rs 130 to 145 Crores.

Chirag Dagli: Understood Sir, is this because some of the older products that would become fully depreciated, is that how this works?

R.V. Bubna: Yes Sir.

Chirag Dagli: Understood and is there tax rate guidance that you want to give Sir?

R.V. Bubna: Can we answer this later on.

Chirag Dagli: Sir, we have not moved to the new tax regime, right?

R.V. Bubna: No, we have not moved to the new tax regime.

Chirag Dagli: Okay so the cash flow statements show about Rs.63 Crores of absolute cash tax paid which works out to a very large percentage, 34-odd percent of the PBT, can you just help us understand what is happening, Sir?

R.V. Bubna: We are the highest taxpayer in our ward. There are lot of Income-tax refund receivable for various assessment years.

Chirag Dagli: Okay Sir, will we move the new tax regime any time?

R.V. Bubna: Not for the next two years because we have a lot of minimum alternative tax (MAT)to be recovered for which we have credit entitlement. So, we will not adopt the new tax regime atleast for the next one or two years.

Chirag Dagli: Okay, thank you so much, Sir.

R.V. Bubna: Thank you.

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

Vishnu Kumar: The growth in Europe is pretty good, I wanted to understand is that because some other smaller companies are facing issues and we have gained some market share there?

R.V. Bubna: No. I will answer you part by part, no that is not the case. We are getting market share from big companies or multinationals and because of our registrations.

Vishnu Kumar: Okay any specific new product or a chemical that has contributed for this growth, Sir?

R.V. Bubna: We are getting newer registrations. This year also we have got some new registrations where we may be the only second registrant holder after the multinationals.

Vishnu Kumar: Okay Sir when we say in Europe, we are not so much present in Germany is that correct? we are not present in France and Germany, we are only present mostly in Eastern Europe and Spain, Portugal and Italy these countries?

R.V. Bubna: Yes, so what is the question?

Vishnu Kumar: I meant we present only in these regions or we are also present in Germany and France?

R.V. Bubna: We are making efforts, we have recently got some registrations into these countries, we are trying to organize our sales force so that we should be growing also in France and Germany.

Vishnu Kumar: Okay got it Sir but as of now, we do not have any sales in these two big markets of the region?

R.V. Bubna: No. I would not say that we do not have any sales, we have lesser sales in Germany and France.

Vishnu Kumar: Okay, is there any other competitor who is doing down in that market at least if you could just let us know that we understand that we have gained market share from the innovators, from the bigger companies but if there are smaller companies are some of them shrinking?

R.V. Bubna: I think smaller companies did not exist. The European registration is so expensive and time consuming that the smaller parties do not find it worth their capacity to invest. Thus, smaller parties were not there in the service for a long time and I do not see them coming up in the near future.

Vishnu Kumar: Okay got it. Sir, if you could indicatively give us the gross margins across various regions?

R.V. Bubna: Yes, for the quarter or whole year?

Vishnu Kumar: Both would be helpful Sir.

R.V. Bubna: I will give you for the quarter first. In Europe, the gross margin is in the range of 38.6%, NAFTA – 31.9%, LATAM – 29.3%, and rest of the world – 20.3%. For the whole year, Europe is 36.9%, NAFTA - 24%, LATAM – 27.9%, and the rest of the world – 24.8%.

Vishnu Kumar: Sir at least this gross margin numbers suggest that our margins for the fourth quarter is significantly higher than the full year number, so here what is the key reason?

R.V. Bubna: Product mix and some registrations.

Vishnu Kumar: The key opportunity you have been always saying we have also discussed that it is going to be the mid-west market where the corn, soya, wheat that is the key market and some of the products also you are focusing there, have we seen any big traction in volumes in that particular built in the U.S., in NAFTA market?

R.V. Bubna: There is not a very big demand. Mr. Vishnu if you are talking about the USA it is a very special market where more than 75% of the market is controlled by multinational companies so all the generic companies are fighting for only about 25% of the market share, so it cannot be big traction.

Vishnu Kumar: Okay incrementally next two to three years, if you are focusing on growth let us say in volume and value terms which market would take a lion share of our growth Sir?

R.V. Bubna: Europe and NAFTA.

Vishnu Kumar: Between the two which would be?

R.V. Bubna: I would say Europe and then NAFTA.

Vishnu Kumar: Capital expenditure for the next two to three years would be in the range of about Rs.170 to Rs.200 Crores is that the right number we should work with?

R.V. Bubna: I think so.

Vishnu Kumar: Okay, within this would it be fair to say a lot of them would be because we are doing a lot of re-registrations in Europe would get covered in the next two, three years?

R.V. Bubna: Yes.

Vishnu Kumar: Okay and how much would be the re-registration out of this let us say if I have to cumulatively say Rs.170 roughly about Rs.480 or Rs.500

Crores of capex which we do for next three years how much would be for re-registration?

R.V. Bubna: I do not have the estimates right now Sir.

Vishnu Kumar: Okay it will be covered in the next three years after that we may not have much for re-registration is that at least a right understanding?

R.V. Bubna: As we look at it today, but you do not know what develops in the next two, three years.

Vishnu Kumar: Okay got it and Sir final question on this write off, one of the previous participants also asked, earlier you used to say that there are some registrations which probably the forecasted sales are not going to be that significant and you are writing them off. So, do we probably have at least the next one, two years of pipeline where you need to write off some more registrations?

R.V. Bubna: See we would be writing off some registrations, but I do not think they will have a big impact on the total write off.

Vishnu Kumar: Okay. Sir final question just on the gross margin couple of years ago we used to be 38%. Currently, it is witnessing a drop, so going forward any gross margins guidance that you can give?

R.V. Bubna: I think we should remain in the same range plus or minus 4%or 5%.

Vishnu Kumar: Okay. Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss Financial Service. Please go ahead.

Rohan Gupta: Sir my question is on the receivables, so assuming that we definitely get our large part of sales in Q4 and with incremental sales compare to last year we have done close to Rs.100 Crores additional sales but receivables have gone up almost close to Rs.180 Crores. Is it that because of the COVID scenario we would not collect the payment or do you see that there was a higher demand for credit sales in the market and you have to do the material pushing in the market?

R.V. Bubna: There are the two, three factors combined with the COVID scenario. In some of the countries, particularly the developing countries there is always a request for extension of that time period or payment period and the COVID scenario has impacted the liquidity situations of customers across the globe.

Rohan Gupta: Okay. Do you see that the receivables are getting normalized in a current scenario or there will be further pressure on the cycle?

R.V. Bubna: We are very hopeful that this is not going to impact our business. We will be able to withstand and overcome the current situation.

Rohan Gupta: Okay Sir. My second question is our gross margins and overall profitability of the entire business, if you look at your business almost 37% close to margins which are generated in the Europe market, which is half of your market. Your entire profitability is coming from the Europe markets and other markets are hardly contributing anything at the 10% probably at the bottom line but the investment will be the same as far as the Europe market is concerned. So, will it be fair to assume that by just doing half of the business probably that we will have similar profitability? Is it the way to look at numbers because the gross margin wise Europe has almost 1200 basis points higher than other markets?

R.V. Bubna: Did you say that the registration expenses are in the same proportion, in the rest of the world and other markets the quantum of investment in the registrations is much smaller compared to what we are spending in

Europe and NAFTA regions. So, there are other markets out of NAFTA and Europe the margins are less and the investments are also less.

Rohan Gupta: Okay. So, when we look at the bottom-line margins, you are saying that probably the bottom-line margins are either similar from all the markets ROW, LATAM and Europe NAFTA is it so?

R.V. Bubna: I have not understood the question.

Rohan Gupta: Sir. I am saying that definitely, the expenses and re-registration cost is higher in Europe and NAFTA, so if we adjust for that the high re-registration cost, the net margins you see that across the market and overall net margins are similar?

R.V. Bubna: No, there is a difference, the net margins are more in Europe and NAFTA. It is less in the rest of the world and LATAM.

Rohan Gupta: Sir just last question. Though very small increase but we have an asset-light business model but there has been some increase in your plant and equipment in the current year, it increased from Rs.14 Crores to Rs.28 Crores any particular reason for that?

R.V. Bubna: Sir, this is the result of the new Ind-AS. The office that we are using is on lease, but it is supposed to be capitalized and about Rs.21 Crores have been capitalized for the office that we are using now. It is purely on a lease, we are paying the rent but the accounting standard says that it should be capitalized.

Rohan Gupta: Okay. Thank you, Sir.

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

Resham Jain: Sir I have two questions. One is in India what we have seen is that because of COVID situation there were certain pre buying which has happened from the farmer side because of the uncertainty related to the availability of materials is that something similar happened in Europe as well because of which the growth is little higher is that one of the reasons?

R.V. Bubna: Yes, this can be one of the reasons because this pre-buying is a practice, I think more prominent in the developed countries than in developing countries. A lot of people want to be very safe. People are buying their goods at least 4-5 months in advance and keeping the stock with themselves. I do not know the reason and what uncertainties they foresee. but this is very normal in most of the geographies.

Resham Jain: Does this mean that in Q1 the growth which you might have seen already there because Q1 is already over there might be little lower growth than what we have seen in the past?

R.V. Bubna: See there is lower growth in Q1 if we compare to Q4 but if we compare from year-to-year then the trend is more or less the same, there is not a big difference but it can differ, we have not done the calculation for that.

Resham Jain: Okay, so that was my question. Sir my second question is on in the overall sourcing because when we hear the global commentaries of various companies, agro chemical companies are thinking of changing their sourcing base from China. In the past, you have mentioned that India is very small, and China will continue to remain very large. Is there any change in the thought process because Indian companies also in the chemical space are seeing there is a lot of investment happening so has there been any change in thought over there that some percentage of our raw material we may strategically buy from India?

R.V. Bubna: There is a lot of talk about it but on the ground, the effect is very little, it may have but very insignificant Sir. We will have to be still dependent upon China if we have to keep on sourcing all these chemicals products if not finished products for the intermediates, if not intermediate basic raw materials and this applies not only to agro chemicals but most of the chemicals including pharmaceuticals.

Resham Jain: Okay and Sir just one final question is on margin trend, we have seen a very strong improvement in margins because of the growth in Europe, should we expect Q1 also will be on the similar trend because the rupee has further depreciated since March so should one expect this kind of margins in Q1 at least because this quarter is already over?

R.V. Bubna: First, the rupee appreciation or depreciation has very little effect on our business model because our 97% sourcing is from outside India. Secondly, the spring season is the best in the world for agriculture. So, Q1 is related to the spring season and the best consumption of agro chemicals in agriculture. Q1 financial reporting wise comes at the fag end of the spring season. Currently, we are nearing to the autumn, so we cannot expect the same performance in Q1 as compared to Q4.

Resham Jain: Okay but Y-o-Y will the margin be better because the trend is much better in Q4?

R.V. Bubna: Yes, most of the important products are sourced by the smart players in January to March. From April to June we only fulfill the last moment requirements or specific demand.

Resham Jain: Okay. Thank you very much and all the best.

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

Chirag Dagli: Thank you for the follow-up. The gross margin that you gave was is for the whole business or just agro chemicals?

R.V. Bubna: Whole business.

Chirag Dagli: Okay and Sir in the European market while it may differ but across the continent how many products do we sell?

R.V. Bubna: Across the continent, we have not worked out that, we can pickup that information and answer to you later?

Chirag Dagli: Would it be like, 30, 40 plus molecules?

R.V. Bubna: Yes, it could be.

Chirag Dagli: It could be, just ballpark Sir if you can indicate how many molecules will Sharda in Europe be the only generic?

R.V. Bubna: I would say may be about 10% to 15%. It is a dynamic situation Chirag. Today if I say I am the only one, next week I may find somebody who will also have the registration and this process is not published or it is not transparent.

Chirag Dagli: So, in the ballpark of 10 to 15 products, we will be the only generic in those markets, in a small market let us say like Poland, you could be the only generic?

R.V. Bubna: We have to talk about Europe because if I am second in Poland, I will probably be second in most of the countries in Europe.

Chirag Dagli: In larger markets like France and Germany do we have any products where we are the only sole generic right now and it will open doors to distributors which would have otherwise not opened doors to us?

R.V. Bubna: We will have to figure out, we have not done so much of investigation but in France and Germany there could be definitely few products where we are the second registration holders and the only second generic registration holders. Opening the door for the distributors it is not so easy Sir, because most of the distributors are fairly well off, multinational companies reward them in terms of after sale, bonus and so many things that they do not easily come to smaller generic like us. We have to push ourselves into their office, they do not come to us and then they are not so much dependent upon small molecules or small companies, multinationals take care of them.

Chirag Dagli: But you said that you would still have 5 to 6 products in this market where you will be the sole winner?

R.V. Bubna: Yes Sir.

Chirag Dagli: Okay, thank you, Sir.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, I was just asking on the cash we already have a pretty healthy cash balance and the businesses are generating cash on a fairly regular basis so what are the thoughts on the usage of the cash balance?

R.V. Bubna: We are using our cash generated mainly for the intangible assets and registration processes and we have not reached that stage where we can sleep well that we have enough cash, so we are always on our toes measuring our cash requirements and cash generations.

Nitin Agarwal: Okay Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen that will be the last question for today. I will now hand the conference over to Mr. Manish for closing comments.

Manish Mahawar: Bubna ji, I have a few questions. intangible write offs will not be material in FY21?

R.V. Bubna: Yes.

Manish Mahawar: Last year I recall when this Rs.42 Crores came in FY19. You said the same thing that this will not come but this year again we came out with Rs.52 Crores of number. I am a bit surprised that how to take it for the next year?

R.V. Bubna: I am only a Chemical Engineer, I am not a Chartered Accountant. You see auditors come off with a lot of these requirements and demands which is difficult to avoid and defend, we have to fall in line with what are the requirements of various Ind-AS and other things.

Manish Mahawar: If the write offs done by the auditor and may be because of accounting standards change and there is a good value in the registrations, ideally it should come back again in the next year.

R.V. Bubna: We estimate that the next year even it comes, the figure will not be so high.

Manish Mahawar: Okay understood and second Sir just what could be the top line growth expectation for the next year or may be guidance if you can provide for the next year FY21?

R.V. Bubna: It should be in the range of 5-10%.

Manish Mahawar: Okay 5-10% and you said EBITDA should be 17-18% for the next year right Sir?

R.V. Bubna: This is our rough estimate.

Manish Mahawar: On data point, what is the registration pipeline as on March 31, 2020. You have given a registration outstanding as on date, what is the registration pipeline number, geography wise is possible.

R.V. Bubna: Pipeline is 1038, Europe - 730, NAFTA - 101, LATAM - 139 and the rest of the world - 68.

Manish Mahawar: Thank you Sir that is from my side.

R.V. Bubna: Thank you so much.

Moderator: Thank you very much. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may disconnect your lines.