

## “Sumitomo Chemical India Limited Q2 FY2023 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Sumitomo Chemical India Limited Q2 and H1 FY2023 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. 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 “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded.

From the management today, we have on the call, Mr. Chetan Shah, Managing Director; Mr. Sushil Marfatia, Executive Director; Mr. Masanori Uzawa, Non-Executive Director; Dr. Suresh Ramachandran, Chief Commercial Officer; Mr. Kunal Mittal, Senior VP (Planning and Coordination Office); Mr. Pravin D. Desai, Company Secretary and Compliance Officer; Mr. Anil Nawal, Chief Financial Officer; and colleagues from SGA, their Investor Relations advisers. I now hand the conference over to Mr. Chetan Shah, Managing Director of Sumitomo Chemical India Limited. Thank you, and over to you.

**Chetan Shah:** Thank you, thank you very much. Ladies and gentlemen, a very good afternoon to all of you and welcome to the conference call to discuss the Q2 and H1 Financial Year 2023 financial performance of the company, Sumitomo Chemical India Limited.

First kindly let me give you a brief overview of the agri input industry landscape.

The country overall received 7% more rains than the long-term average during 2022 June - September monsoon season. However, overall trend of monsoon spread was erratic. Several regions received less than normal rainfall, while some other regions received normal to abnormally surplus rainfall overall and faced deficiency during the crucial sowing season. Across several districts in Bihar, Jharkhand, West Bengal sowing of Kharif crop was less than 75% due to deficiency in rains. Farmers in the eastern part of the country have lost one full season due to deficiency in rainfall during the ongoing Kharif season. However, the rainfall in September and October has helped in enhancing the soil moisture. Good soil moisture and water reservoir level augur well with the upcoming Rabi season. The income of farmers has grown in the range of 1.3 to 1.7 times, which is a very welcome sign. This is as per the State Bank of India's Economic Research Department which augurs well for the Indian agrochemical industry as well. This has in turn led to higher share of agriculture in the country's GDP since March 2019. Apart from enabling policy push, the growth is also attributed to the changes in various nutritional and eating habits by the general public. Another growth driver was a steady increase of minimum support price, which are increasingly aligned with market linked prices. The minimum support price have increased

by 1.5 to 2.3 times, playing a pivotal role in ensuring better prices for farmers and leading to optimal price discovery. This has also encouraged farmers to gradually move over to crop varieties that have better yield and value. For the India agrochemical industry per se the higher placement of agrochemicals during the March and June quarter coupled with slower on ground activities led by uneven rainfalls resulted in lower liquidation of inventories, particularly in insecticide category. The industry is also likely to report the below par performance for the July - September quarter this fiscal year as uneven distribution of the monsoon impacted sowing activities due to lower pest infestation during the Kharif season. However sales of herbicides and fungicides continue to do robust business. We as a company witnessed robust increase in sales of herbicides and better sales of branded generics last year as our active grassroots level marketing and activities continue to reap us maximum benefits.

Despite agrochemical industry taking price hikes, falling raw material prices from July 2022 onwards amidst high cost carryover inventories may likely impact gross margins of Indian agrochemical companies. EBITDA margins for the industry are also likely to be under pressure due to lower gross margins and higher other expenses on account of higher advertisements and promotional expenses as this being the first normal year of operations post COVID-19 restrictions. Working capital for the industry has remained stretched owing to higher cost inventory and slower receivables compared to last year. However, fortunately, in our case due to constant two-way communication between our teams and channel partners and joint efforts, we were able to freely pass on the rising cost and hence we could improve our margins against the overall industry trend. This gives us immense confidence in strength of our brands, demand generation activities, and strong trusted relationship with our channel partners.

While on export front the Indian agrochemical industry has recorded robust growth, we at Sumitomo also have achieved an export growth of around 53% in H1 this year compared to last H1. The overall situation during the financial year for agrochem industry looks positive and we can only do better from this point of time. I will with that note request Mr. Anil Nawal to take you through the consolidated financial performance of the company. However before Anil bhai takes over I would like to make one announcement that I am sure everyone is eagerly awaiting the questions and answer session on the subject of the new notification that the government has just introduced regarding Glyphosate to be sprayed only by pest control operators. What I intend to do is I would give you a small synopsis of what is going on prior to the question and answer session begins, so that maybe you will have the automatic answers to your questions or based on my note on the subject, you can ask specific questions to the points, which I mentioned if required. Thank you. Over to you Anil bhai.

**Anil Nawal:**

Thank you Sir. Consolidated Q2 FY2022-23 financial performance. We delivered strong topline growth of about 23% in Q2 FY2023 at Rs.1,122 Crores as compared to Rs.910 Crores in Q2 FY2022. The sales growth was primarily driven by impressive growth in herbicide segments and all-round robust growth in both domestic and export markets. We have witnessed sales growth on account of both volumetric growth and improvement in price realizations. EBITDA came at Rs.278 Crores in Q2 FY2023 recording a jump of 30% as compared to Rs.215 Crores in the same period last year. Operating leverage benefits kicked in leading to incremental EBITDA margins which came at 24.8% in Q2 FY2023, up by 121 basis point year-on-year as compared to 23.6% in Q2 FY2022. Profit after tax stood at Rs.202 Crores in Q2 FY2023 up by 31% as compared to Rs.154 Crores in the same quarter last year. PAT margin stood at 18% up by 102 basis point year-on-year basis vis-à-vis 16.9% in Q2 FY2022.

Now coming to our consolidated performance for H1 FY2022-23,. Revenue from operations in H1 FY2022-23 stood at Rs.2,107 Crores up by about 25% as compared to Rs.1,692 Crores in H1 FY2021-22. The share of exports in our total revenue has increased from about 15% in H1 FY2021-22 to about 19% in H1 FY2022-23. This was on account of increase in exports to Europe, North America, South East Asia and increase in shipments over affiliate companies in Latin America. In H1 FY2022-23 insecticide contributed about 41% of total revenue while herbicide plant growth regulator and fungicides contributed about 27%, 10% and 9% of total revenue respectively.

EBITDA witnessed a growth of about 28% from Rs.365 Crores in H1 FY2021-22 to 466 Crores in H1 FY2022-23. Our EBITDA margin stood at 22.1% in H1 FY2022-23 as compared to about 21.5% in same period last year. We were able to maintain and to some extent improve our operating margin as a result of our initiative to pass on higher input costs. This was further aided on account of improvement in operating leverage, better product mix, cost optimization and synergies. Profit after tax for H1 FY2022-23 witnessed a jump of 31% to Rs.340 Crores from Rs.260 Crores last year.

We maintained lower inventory levels as compared to previous two quarters on back of smoothening of input supply chain channels and decrease in input cost. During H1 FY2022-23 our collections were Rs.2,131 Crores as compared to Rs.1,875 Crores during H1 FY2021-22. Our net working capital cycle stood at 94 days in H1 FY2022-23 as compared to 72 days in H1 FY2021-22 primarily due to sharp fall in creditor's days and elevated inventory levels. We have cash and cash equivalents aggregating to Rs.800 Crores as on September 30, 2022.

I now request my colleague Dr. Suresh Ramachandran, Chief Commercial Officer of our company to give more information on our business operations.

**Suresh Ramachandran:** Thank you Anil. Good afternoon ladies and gentlemen, thanks for taking time out to join this call today.

During last year we have taken various strategic initiatives to strengthen our business fundamentals such as expanding our strategic marketing team, demand generation team, product development team, and channel partner analytics teams, and we are also focusing on implementing higher discipline across our commercial policies.

Currently we have about 200 brands spanning the entire value chain of agrochemicals including more than 20 mega brands that have a high level of brand recall. With over 16,000 direct distributors and more than 60 depots and warehouses located all over the country, we have one of the most extensive distribution networks to reach different parts of the country.

Price increases were a major contributor to the expansion of our domestic agro solution business. Both volume and price increases contributed significantly to our expansion in animal nutrition and environmental health markets. As a result of both price and volume increases, exports grew nicely.

We have also established long-term footholds in a number of export markets, our sales to Latin American and African countries expanded in H1. Some of our products have been approved for registration and these are the ones on which we are seeing strongest demand, as a result, they give us solid foundation on which to expand our future export business.

The demand for our insecticides, herbicides, fungicides and PGR products continue to be strong. We anticipate taking market share from unorganized players, thanks to our well established supply chain and recognizable brand names, apart from the reach to different parts of the country. Herbicides, PGR and bio rationale products are three segments where we expect to see the most growth, stability and profit. To lessen the impact of seasonality on the company, we have expanded our product offerings for both Kharif and Rabi crops and intend to increase contribution from PGR segment. We are planning some new product launches in this segment, where we expect to continue to grow as one of the leaders.

In H1 FY2023 we have launched eight new products across all categories about three insecticides, three PGRs, one metal phosphate, and one fungicide. There are plans to launch few more products in the upcoming Rabi season. As an ongoing process, we continuously take stock of the gaps in our product portfolio and strive to fill in the gap. Our newly launched 9(3) registration products have been accepted well by the channel and end users and recorded sales in quarter two. Our continuous focus in the coming period is to grow these new products in a robust manner.

These new products were launched successfully to the channel partners and farmers in physical meetings as well as through many digital meetings in first half of the current year across different geographies of the country. Through our extensive field promotion activities, we are able to connect directly with the farmers, facilitating their access to best farm management practices that will allow them to maximize productivity and run more efficient agri business. We can strengthen our connection with our farmers and learn about their needs immediately and grow as a company thanks to the real-time feedback. Around 4.41 million farmers and 31,000 partners direct and indirect channel partners were directly reached out to by us.

In addition, we have developed 'digital marketing' as a parallel support to or we should say strengthen our digital marketing as a parallel support to traditional marketing system in order to raise consumer's level of product awareness and educate farmers on most of the effective farm management practices. Our digital assets include 23 websites and various social media platform through which we have generated approximately 17 million digital engagements. With that I will hand over to Kunal to take us through an update on Capex projects.

**Kunal Mittal:**

Good afternoon everyone. In financial year 2021, we had disclosed plans to undertake two Make in India projects with an additional capital expenditure of approximately INR 1.2 billion which is about Rs.120 Crores and the objective is to produce five SCCs proprietary products for our parent company and our affiliates all over the world. This was additional Capex in addition to our normal capital expenditure which we do for maintenance and capacity enhancement in our existing products.

In terms of the timelines, the projects are on track. One project at our Bhavnagar for a very important global proprietary product has begun commercial production just recently and we are expecting revenues from this product coming in the second half of the year and full revenues coming in the next year. The second project which is being implemented at our Tarapur site, which involves multiple products for our parent company, is expected to begin commercial production in the first quarter of next financial year FY2023-2024. These two projects are executed at our existing facilities and the estimated operating margins from these products are comparable to the margin which our company is earning on similar projects. As the global demand for these products increases in future, we have potential to expand the capacities for these products in the future. In addition, several additional products are being discussed with our parent company and global affiliates as part of the 'Make in India' initiative and some of these products we are expecting to manufacture in India depending upon various discussions which are currently ongoing. Once the projects and products have been selected, finalized and approved by our board, we will provide you more specific information regarding some of these projects and our Capex plan for these projects. In addition to that, our R&D team in India is continuously engaged in developing

processes and getting ready to produce several off-patent products and some of the pre mixture combination products for the Indian market and also for the global exports market which also includes some of the high growth regions such as Latin America, Africa and Asia Pacific regions where these products are targeted towards.

With this now I request our Managing Director, Mr. Chetan Shah to give a brief comment on a very important point which he highlighted and after that we will open the line for question and answers.

**Chetan Shah:**

Ladies and gentlemen, on 25th of October the Government of India decided to give us a Diwali gift by way of introducing a notification that Glyphosate, one of the important products of ours and also the product which is globally used as the largest consuming or largest selling product in the world. So, what is this notification? So, my first positive point about this notification is that there is no ban on Glyphosate. As you may be aware that Glyphosate was always under the hanging sword whether it will get banned, whether it will not get banned, whether we will have to defend it etc., etc. So one thing is very clear that the government authorities have seen the importance of the product to the farmers and they have only restricted the mode of usage as to how it can be used in the fields. So there is no ban. The only restriction is that the usage of this product has to be done by pest control operator.

Now of course there are questions especially in the very initial stages, even we had questions in our minds that how and what will happen, but as five days. - this is the 5<sup>th</sup> day of the notification, we are also much at ease in mind and we see a lot of possibilities to ensure that our Glyphosate sales are not affected. Having said that, I would like to give you some statistics of what is our Glyphosate situation for the year which we are discussing that is H1 2022-2023, which we are discussing now, what has happened to Glyphosate in that period. So number one, our domestic sales of Glyphosate by way of volumes or quantities have come down by 40% as compared to the previous year. So whatever result we are seeing today is after taking into account 40% drop in Glyphosate volume in any case. The second important thing that has happened is that in the same H1 of this current year, our export of Glyphosate has increased by 451% as compared to the same period last year. The third important point is that H2 which we are talking about Rabi season, H2 is a period for Glyphosate for export market, because every single year in H2 our export of Glyphosate all over the world is the maximum. So, these are the three important points that we need to keep in mind when we are talking about H1 of this year vis-à-vis Glyphosate. I also see many opportunities, new opportunities that will come up because of this notification. One being very clearly maybe we can offer a value-added solution to the farmers for our brands, maybe we can have like many companies are doing sprayers and drones and things like that - maybe we can have a value-added service given to farmers by way of making an infrastructure of our field staff to become a pest control operator, which is a very, very

possible thing to do. Of course, all these things take time. Our main grievance on this notification is that government has not considered giving any time to implement what they intend to implement and the implementation cannot be done overnight as what they are seeing because there is no infrastructure available to an extent it is required. Of course there is an infrastructure available, but not to an extent that it is required. So we have now three to six months to develop this, at the same time we will request the government authorities to give us more time. How much that will fructify is only time can say. But I do not think that as of today we feel that given the Glyphosate circumstances of H1 and what we can do and what we can prepare for, I do not see any problem in maintaining our Glyphosate situation.

I read some articles or some message where also it was suggested that the farmers will make their own arrangements of either getting the certified sprayers or PCOs or whatever, but farmers need this product because it is so economical for them and so important to them that they are not going to give up on this product and there is no replacement of this product, Glyphosate, by any other product that is likely to be available in the market. The way Glyphosate can work no other product can work. So, farmers are going to find their ways and means to use this product within the legal framework of the notification.

If you have seen the notification, you will see there is a remark that because of health hazard the government has decided that it can be used only by PCOs. Now this is a little bit in our opinion, it is a little bit ill-founded logic, because till date the Glyphosate is used here for last 40-50 years till date there is not a single incident which has come to the light where Glyphosate has created any health hazards in safety of either the manufacturer or the user. So this is one point which may be government under this umbrella they wanted to do something it looks like that. But even globally as of today in last one year we have seen that so many countries have openly supported Glyphosate, they have openly announced that Glyphosate does not cause any carcinogenicity - and that it is safe to use. Bayer as you may know had many, many cases only recently they have won the fifth consecutive case against them on Glyphosate positive. So even the courts are now believing that on the scientific data provided by the companies that Glyphosate is not harmful. But this I am just giving a note to you as an information because you are a stakeholder, you are part of our company, you should also not feel that we are manufacturing a product which is harmful to human beings and that is my only purpose of giving this example of other countries and Bayer winning the case. So having said that, I think I have clarified or touched upon certain points of this notification, and I have also told you that we are confident that we will see to it how to come out of this situation. So, if you have any questions in question answer sessions if there is anything new other than what I have said, I will be very happy to answer. Thank you. Open the question and answer session please.

- Moderator:** Thank you Sir. We will now begin the question and answer session. We have the first question from the line of Abhinav Chandak from Ratnabali Investments Private Limited. Please go ahead.
- Abhinav Chandak:** Thank you so much for taking my question and congratulations on a good set of numbers. I have one clarity on this whole Glyphosate thing. So in terms of our sale we will continue to sell Glyphosate through the channels that we have been selling or the notification has to be read that we can only sell it to PCOs, how will the sale process happen.
- Chetan Shah:** Well we have read the notification I do not know how the State Government or what they will do, but the notification is very clear that it should be sprayed by the pest control operator. So we expect that the sales to the trade or the dealers network will continue to happen and the farmers will be allowed to purchase from these points. It is impossible that pest control operators will buy the Glyphosate from the companies, stock it and then they will operate. Because the point of the notification is that it has to be sprayed by the pest control operators. It does not talk anything about buying or selling by pest control operators. So, we are very clear that the notification is only as far as the usage of Glyphosate is concerned has to be done by pest control operator.
- Kunal Mittal:** Distribution channel in terms of taking the products from our factories or from warehouses to the end user areas where this needs to be used even for that we have established network and we are not sure whether this pest control operators will have as Shah San mentioned in terms of warehousing base or logistically moving this product to the farm and those kind of infrastructure.
- Abhinav Chandak:** So now coming to business, recently I have noticed over the last three, four years our margins have expanded significantly whereas our generic to proprietary or specialty product ratio has remained stable at 70-30. With the intent to move more towards specialty, at what margin levels should you be comfortable maintaining for the company in the long run.
- Chetan Shah:** With our sale expanding, if we can maintain the margins at current level the overall profitability will be much better, but whether we can maintain or not whether we can go higher or not that all depends on the seasonal conditions, market conditions and the situation of competition.
- Abhinav Chandak:** Now my last question. So recently we have received a few approvals for a few products from our Tarapur plant that is for Pyriproxyfen, Diafenthiuron and one more product. Could you just elaborate on these products, what could be the margins, what could be the revenue potential, what kind of products are these.

- Chetan Shah:** These are mainly Pyriproxyfen is of course an insecticide which we have a very strong brand of and also we are developing certain combination brands along with Pyriproxyfen so that is one insecticide. We are also expanding the capacity of our Diafenthiuron over there in the same plant which is meant for export as well as domestic market. And then there are four other products which we are going to manufacture that which are basically proprietary products of household division of Sumitomo, Japan. So, these products will be manufactured and exported all over the world.
- Abhinav Chandak:** Thank you and all the best.
- Moderator:** Thank you. We have the next question from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.
- Dheeresh Pathak:** Thank you for the opportunity. Sir you mentioned in your remarks that for 1H of this year domestic volumes are down 40%, but can you also share that of the total volumes of Glyphosate what percentage is domestic and what percentage is export and why our domestic volume down 40% this year.
- Chetan Shah:** No, the domestic volume is down 40% purely because of climatic conditions. This year what happened - normally we receive pre-monsoon showers. Now when pre-monsoon showers come down, the germination of weeds starts. This year there was a total lack of pre-monsoon showers, so the Glyphosate demand did not pick up and late in the month of June end. And otherwise it starts from April onwards that was the main reason and the second reason was continuous lack of rain during the month of June and July and then very, very high amount of rains in the month of August and September. So climatic conditions really gave a push down to Glyphosate as a molecule.
- Dheeresh Pathak:** Of your total volumes, that you sell in a year roughly what percentage would you be selling in domestic and what percentage would be export of Glyphosate.
- Chetan Shah:** No, domestic is very, very large. So even though when I say that we have exported 451% more Glyphosate in the first half as compared to the previous half, still the overall value of that export would be around Rs.53-54 Crores.
- Anil Nawal:** So it is roughly domestic is 90% and export is 10% of the Glyphosate.
- Chetan Shah:** Second half will be majority of exports. The ratio if you are looking at it is 15% which may go up to 17% this year, but otherwise it is 85% domestic, 15% export.
- Dheeresh Pathak:** Okay in a normal year for a full year basis 85% is domestic and 15% is exports. And this 40% decline in domestic this year is it also because the base is very high for last year is that also the case.

- Chetan Shah:** Sorry can you repeat it.
- Dheeresh Pathak:** This decline you are seeing is it also because of the base effect that last year we did a very high, very good season of glyphosate is it also the reason.
- Chetan Shah:** No, it wasn't. I think it was we see some impact what we saw what that the prices of Glyphosate had gone up tremendously during this year. So, I mean if you compare the base of the price level in the previous year and this year, there was a huge difference. So, while we in our experience or what we saw in the market - while the farmer was not disturbed to use Glyphosate even at a higher price, it was mainly the trade who were scared to take a position on Glyphosate. So maybe some sales, small percentage of sales dropped because of failures of the trade not taking the position, but the majority of the sales drop is only because of seasonal condition.
- Dheeresh Pathak:** One last question on Glyphosate - the mix you have given on revenue and volume but in terms of profitability is Glyphosate a more profitable product versus your overall portfolio it is in line with company average or it is lower versus company average.
- Chetan Shah:** It is lower than the company average. In a normal year, the glyphosate gives us a gross margin of 25%, last year it has given us a little higher percentage and this year that percentage is 27.5%.
- Dheeresh Pathak:** At gross margin level.
- Chetan Shah:** At gross margin level.
- Dheeresh Pathak:** Okay, thank you so much for taking my question.
- Moderator:** Thank you. We have the next question from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.
- Sudarshan Padmanabhan:** Thank you for taking my questions. Sir, my question is on the implementation of the government notification. One is as you mentioned there is no infrastructure in place. So, I mean if the onus to develop the infrastructure is in the hands of the farmers or the companies like you. I mean, I am a little confused with respect to what is the qualification required for a PCO, will they require training and how fast they can come up as far as implementation is concerned.
- Chetan Shah:** So, the PCO license is a very simple procedure. There is already a system in place. They give the training for three months. You can go to universities for 15 days. Now the training period is 15 days.

**Suresh Ramachandran:** There are three institutes in India who are authorized to train PCOs.

**Chetan Shah:** Yes, so this the training is for the period of 15 days, fees are very small and you can create infrastructure - as I said we have three to six months to create an infrastructure and I think we are good with that. Of course, I cannot say that there will be zero impact, but things are new - there can be 30 days plus minus it can happen. Maybe we will not take a decision for next 15 days to 30 days to even have a position on raw materials of this glyphosate for the production. But once we do this our exercise is within 15-20 days, 30 days – then we are back to normal absolutely.

**Sudarshan Padmanabhan:** Sir, my second question is taking this from the previous participant, I mean, this is clearly a lower margin business compared to our other businesses. If you look at our sister concern, I mean, products like Diquat is there. I mean it is also a powerful herbicide and can be, probably it might not be apple-to-apple comparison, but could be relatively used if excess use is kind of restricted so from that purpose...

**Chetan Shah:** I am sorry which product you mention I could not hear that.

**Sudarshan Padmanabhan:** Diquat so it is basically from Nufarm.

**Kunal Mittal:** So in our understanding the applications are very different so it is not directly comparable.

**Suresh Ramachandran:** And the lead spectrum of 2-4-D is also different compared with glyphosate.

**Sudarshan Padmanabhan:** Sure there will not be any product which is there in our basket which will have higher margins which we can replace it for Glyphosate.

**Chetan Shah:** No, we have a specialty product in our portfolio which we are selling as of today, but it is a very highly specialized product, very expensive, it cannot match the economics of Glyphosate. But we already are selling that product and expanding the sales of that product. We already have one product in our basket.

**Sudarshan Padmanabhan:** Diquat is Reglon by the way

**Chetan Shah:** Not 2-4-D.

**Sudarshan Padmanabhan:** That is largely from me thanks a lot.

**Moderator:** We have the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

- Ankur Periwal:** Hi! Sir, thanks for the opportunity and congrats for good numbers. Just continuing with glyphosate, you did mention H1 of this financial year witnessed a significant growth in the exports. Any specific reason here or is it largely the global network benefiting us and if this is more sustainable and how.
- Chetan Shah:** Yes, we got the registration of Mera 71 which is one of the brands of Glyphosate in Sudan and we could sell very good quantities over there - so that is a good market for us that we are looking forward to expanding that market.
- Kunal Mittal:** Also, I think typically in the previous year in the first half because the volumes in the domestic market is so high so our entire focus was to supply the product in domestic market and this year because our volumes were little down as compared to previous years, so we have additional capacity that volumes to be supplied that export markets also.
- Ankur Periwal:** Continuing with the same logic, if there will be a restricted supply in the domestic market and as you mentioned H2 is slightly heavy on the export side for glyphosate, then the entire capacity or at least most of the capacity can be compensated from exports.
- Chetan Shah:** Yes, so in the second half typically what we do is we cater to export market plus say at least two to three months we also make ourselves ready for the ensuing Kharif season to keep the stocks, because such large volumes we cannot move within short period of time. So we prepone our manufacturing of glyphosate brand for domestic market from the month of February.
- Kunal Mittal:** And, the delta is so high. I would say 85% versus 15% - so I do not think it will be possible to cover it up fully within a very short period of time, but best efforts will be taken from our side. So what you mentioned that can we replace the entire domestic loss by export, that may not be possible on immediate basis - that will be over a period maybe.
- Chetan Shah:** But we are not as of today on 25th October I cannot say that I would have said the same thing, but on 31<sup>st</sup> I am saying that we do not see much of a challenge to maintain our numbers on glyphosate in domestic market as well.
- Ankur Periwal:** Will it be fair to assume that margins whether in domestic or export the product will be earning the similar margins in both the markets.
- Chetan Shah:** No, domestic market margin will be better than the export market by a few percentage points.
- Suresh Ramachandran:** Yes, but it will be in the similar line of what we are in - it will be in similar line.

**Ankur Periwal:** Just secondly on the pricing front - the RM inflation you mentioned is still slightly elevated and your thoughts on the competitive intensity here given that historically over the last few years we have been pretty aggressive in terms of passing through all the RM inflation probably at the cost of volume growth as well. But how do you see the competitive intensity and whether the competition is also taking as aggressive stands on the RM inflation pass through.

**Chetan Shah:** Well, I think everybody if they want to maintain their margin they will have to be aggressive on this front. We have seen some companies doing it, some companies not able to do it, but we are very clear and we have given a very clear communication to our team as well as channel partners that this has to be in the manner in which the raw material prices move. So even if the raw material prices come down, we are willing to drop the prices, we do not want to take undue advantage of the pricing levels with the farmers or with the trade at all but we want to maintain our profitability, our margins, our volumes - we have to see that even in higher trade price we do not drop the volumes.

**Ankur Periwal:** Sure Sir, that is helpful, that is it from my side. Thank you.

**Moderator:** Thank you. We have the next question from the line of Chintan Modi from Haitong Securities. Please go ahead.

**Chintan Modi:** Thank you Sir. My first question is with respect to the 800 Crores of cash that we have in books now and which may probably go up further by the year end. So, if you could highlight some on how do we plan to use this cash and also in this context we have bought two large land parcels also. So if you could highlight some of your long-term Capex plans that would be helpful.

**Chetan Shah:** Yes, sure I think being in this position is definitely advantageous not only for the future Capex, but also for running of our day-to-day business. I mean we can leverage the raw materials, inventories in a much more effective manner as compared to competition because of this advantage and of course our ultimate plan is to use these surplus funds in expanding the production activities. So, as you rightly said, we are now after we finish our Tarapur expansion in the first quarter of 2023-24 - we are already on the drawing board as far as the products to be manufactured at Dahej is concerned. And we will take up that once this expansion of Tarapur plant gets over. So, I think you can expect that from 2023-2024 that activity will start and in 2025-26 we will see quite a major chunk of investment will be made in the new facilities in Dahej. Also, we are talking about Bhavnagar land parcel, which we intend to use to expand our any of the plants at Bhavnagar today - where we will have to increase the capacities like for example Tebuconazole, if our global demand of Tebuconazole because of the new launch of a combination product with the proprietary product of Sumitomo Japan if that kicks off well the demand is going to be double then

what we are able to manufacture today. So, we are also going to keep that land parcel free for expanding Tebuconazole capacities.

**Chintan Modi:** So at least we can assume that your Capex aggression will increase going ahead compared to what we have seen in last fiscal.

**Chetan Shah:** Absolutely.

**Chintan Modi:** Secondly, again with respect to glyphosate. Can you highlight what is the size of market in India and secondly I believe that this notification is also to do with judicious use of the product by the farmers in order to control risk. Do you think this market can shrink?

**Suresh Ramachandran::** So this glyphosate molecule is about Rs.1,100 to 1,200 Crores at the ex-company level. At the farmer level it will be maybe another 30%-40% more than that. See this whole new development is based on safety, health concerns as Mr. Chetan san has said at the beginning which was ill founded and the government has taken a decision with this notification. But glyphosate is such an important molecule for the farming community to control the weed which is expanding year-on-year due to various reasons. We will definitely find a way and the government will also cooperate to establish the infrastructure to enable spraying of this molecule. So, there would not be any shrinkage. Probably there could be a temporary setback for next 30 days or 60 days, but overall this molecule will be normal in the coming months and years.

**Chintan Modi:** One last question from my end, this 40% decline that you mentioned in volumes for glyphosate and despite that if you look at the overall domestic sales has grown at a decent pace. So, could you highlight which are the products which could have kind of replaced or offset that negative impact?

**Suresh Ramachandran::** See the growth was mainly on account of two reasons, one is a good price increase across the portfolio and major volume increase in many of the insecticides as well as herbicides. All these portfolios volume and price growth together across the portfolio has given us this overall growth.

**Kunal Mittal:** And just to clarify regarding the glyphosate while the volumes are down, but the overall amount wise there is not so much of the negative impact.

**Chetan Shah:** That is only because of the price. No but also another important point is that whatever growth we are seeing in spite of glyphosate being down, those products are not replacement of glyphosate. The glyphosate did not do well as I said because of climatic conditions. But the other products or other pockets or other areas where we could increase our sales of other products - that is why you are seeing the sales growth in spite of glyphosate being down.

- Chintan Modi:** Just one last if you may permit. In Latin America, our sales were a little slow this quarter like about 8% growth I believe. Any specific reason for that and do you expect the growth rate to increase going ahead.
- Chetan Shah:** As a matter of fact, we have increased our Latin America exports first half of this year by 49%.
- Chintan Modi:** I am talking about this particular quarter, first quarter growth was good.
- Kunal Mittal:** We have heard the news what you have mention that recently I would not say the quarter but maybe last one or two weeks or three or four weeks we have started seeing some reports that there will be some little bit of a slowdown in Latin America, but so far whatever our products are - we are not seeing any impact even the orders and everything which we have we are not seeing any immediate impact as such in the second half. And we have Uzawa san on the call from our parent company SCC. So Uzawa san if you have any more intell or information about the Latin America market overall growth, if you want to add anything.
- Masanori Uzawa:** As you can imagine, the demand in that region is very strong and then particularly the last six to seven years especially the first half of the last six-seven years, **(inaudible)**. So probably the demand could be milder with the current way the situation, although there is confidence regards to the growth in that region. That has shown growth. **(inaudible)**
- Chintan Modi:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Swati Hiroo from Ratnabali Investments. Please go ahead.
- Swati Hiroo:** Firstly congratulations on yet another great quarter. My first question is that because of this particular order, what kind of an incremental expense will a farmer have to bear because I have recently read somewhere that the plantation industry is already asked for some sort of an exemption saying because of like affordability issue.
- Chetan Shah:** We have also heard that, that the tea plantation people have asked for exemption and they are going to represent also to the Ministry of Commerce on the subject. See the spraying cost by the farmer which if you count it is around Rs.300 to Rs.500 per acre even in case of if they hire assistants or hire somebody to spray their fields. They spend anything between Rs.300 to Rs.500 per acre. So, I do not think that the cost is going to go up more than what they are already spending.
- Suresh Ramachandran:** So another second point is some farmers spray their own field. They do not engage laborers. If they are engaging labors, the cost may not increase significantly. They are spraying on their own - if they have to hire a PCO for example then their cost would go up.

**Chetan Shah:** So that is where I also say that there is an opportunity to give a value-added service to farmers.

**Swati Hiroo:** My second question is around this bio-rational business that Sumitomo Japan has a lot of focus on. So, what kind of a market share do we have in that business globally, in India what role is Sumitomo India potentially going to play in that?

**Chetan Shah:** Yes India is a very important market for this bio-rational dream of Sumitomo and we are constantly discussing with them. This, bio-rational come mostly from USA, from the Valent Bioscience which is the subsidiary of Sumitomo Chemical Japan and we are in constant discussion with them to introduce new products. As of today, we have lined up three products which we would like to register over here. The work for which has already begun. As you know that now these products are going to be registered by under Fertilizers Act and we have some minimum requirement of data to be submitted which we are already in the process of generating and so these products will come in as a matter of fact it will come in or can coming quicker than the registration process of insecticides or plant growth regulators which is covered under Insecticides Act. But now that the government has very clearly bifurcated that this product should be registered under Fertilizers Act this bio rationales, it is much quicker - so we have already narrowed down three such products. The bio-efficacy work and the field trials everything is completed. We have fantastic results on these studies and I think we should be introducing them in 2023-24.

**Swati Hiroo:** All right thank you so much.

**Moderator:** Thank you. We have the next question from the line of Amit Thavani an individual investor. Please go ahead.

**Amit Thavani:** Hi. Thank you for taking my question. My first question is that the stance of the government is rather confusing, in the sense that since October we had GM mustard which was approved and they also had, I do not know what stage it is, but I think it is kind of also gets implicit approval of HTBt cotton.. If I am not wrong, HTBt cotton basically has to be used with glyphosate - so if the government wanted to reduce the consumption of glyphosate why would they legalize HTBt cotton?

**Chetan Shah:** I do not think that the intention of government by this notification is to reduce the usage of glyphosate - what they are only saying is use whatever glyphosate you want to use, but get it spread by a certified pest control operator. So, you are right if HTBt cotton is approved, then of course the glyphosate usage has to be there.

**Amit Thavani:** Correct I mean the usage of glyphosates will go up in the country if that happens right.

**Suresh Ramachandran:** That is right, logically yes.

**Amit Thavani:** So, this is quite a confusing notification. And the other thing is that it is basically like the government is scared of some Yavatmal kind of incident happening again. So they want to like kind of just put their hands up and blame the state machinery that you did not implement our notification.

**Chetan Shah:** I do not think so, because see we have not seen any adverse report on glyphosate. Maharashtra itself is one of the largest consumer of glyphosate and there is no report at all of any harmful effect of glyphosate anywhere in Maharashtra. Gujarat is another state where the usage is high.

**Amit Thavani:** You know the Yavatmal incident right where 60 farmers died.

**Suresh Ramachandran:** That was not glyphosate, that was completely different product.

**Amit Thavani:** Okay, I am very sorry about that. The second point is that I mean HTBt cotton illegally is being used abundantly in this country even today and it is not even legal - so actually I mean stopping a product which can be legally sold like glyphosates, how are they going to implement this pest control notification - when they cannot even stop the sale of an illegal seed.

**Chetan Shah:** Yes, I think you are right there are certain, I mean this type of questions are very, very logical and one would wonder as to if you are going to allow this seeds, then why put this restriction? But you and me cannot control what government is thinking and how they will pan out the notifications and how they will pan out the policies, but I think that somewhere down the channel, or somewhere down the tunnel this light will be seen. And maybe something will come out. Maybe another day they will come out and there will be a number of youths in the villages and all these rural areas will be in lakhs of numbers and they will become official pest control operators.

**Suresh Ramachandran:** Now with regards the HTBt cotton that is governed by Ministry of Environment and Forest while this is governed by Ministry of Agriculture and probably they will start coordinating.

**Amit Thavani:** Coming to your point that you made, a lot of individual in villages going to become pest control licencees. I was reading that you need to be a graduate in agriculture to get that license and you need 15 days training etc., is that too much of a speed bump or you think that there is a lot of people are graduates in agriculture and...

**Suresh Ramachandran:** No, they need not be graduate in agriculture. Currently it is saying they have to be graduate in chemistry. But definitely there would be discussions, probably there would be relaxations of this even chemistry graduate requirement for PCO license. As per the notice it says graduate in chemistry.

- Chetan Shah:** When you take a license as a company, you need to have a graduate in chemistry on your payroll, but say a sprayer or the person who goes to the house to spray, he is not a graduate. So, the company needs a graduate but not the sprayer. That is what that the understanding of the act is.
- Suresh Ramachandran:** That is one. Second is not agriculture which is more prevalent.
- Amit Thavani:** Understood thank you for clearing all my doubts. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.
- Bhavya Gandhi:** Thank you for taking my question. Sir I just wanted to understand that glyphosate is banned in few countries outside India and few states also in India. So over there what is the product which is being used by farmers on ground level to remove weeds or maybe herbicides.
- Chetan Shah:** No, see the thing is that wherever it is banned in our country, in some states where let us go to Punjab - now they say that we have no use of glyphosate. Now the same state has come to us - because we are also in a rodenticide business. So, Punjab government has approached us, saying that the rat population in our state has gone up so drastically up, can you help us? Now the reason for rat population going up is because they are not spraying the herbicide glyphosate in the periphery of the field, where the weeds do germinate. It is not a crop area but around a field itself there are so many weeds and that is a home to rats. So the population is bound to go up. So they say that we do not have any field usage of glyphosate - that could be correct, but what about the peripheries, what about the other areas where the crops is not grown (on non-crop areas). You cannot have weeds lying around right. So, there are problems like this and other countries you know that Sri Lanka story very well. Sri Lanka banned glyphosate. The whole economy collapsed, the tea industry collapsed, the rubber industry collapsed and they have to get back again to say that okay you can spray glyphosate in rubber and tea with the government license. So, these type of knee jerk reactions always results in to some terrible situation and then when the government has to come back and think again that this is what is required to be done.
- Bhavya Gandhi:** If glufosinate substitute by any means, because that is what being flagged everywhere.
- Chetan Shah:** No it cannot substitute glyphosate in all the big spectrum that glyphosate is used for. So it is not a direct replacement. We have many herbicides available in the market including glufosinate, then your 24-D. These 24-D is also old herbicide, but they cannot match the effectiveness and the pricing of glyphosate. It cannot control the entire spectrum of which glyphosate can control.

**Bhavya Gandhi:** Also wanted to know like this glyphosate is sprayed on tea, rubber plantation - so can you provide some mix like what would be the mix for tea plantation, and rubber plantation and so on.

**Chetan Shah:** Sorry offhand, I do not have this figure.

**Bhavya Gandhi:** Do we see this as a very big hiccup going forward because now government stance about having PCO maybe restricting older molecules or sort of older compounds. Do you think that this will affect other products in our portfolio basket, maybe early assessment at your end?

**Chetan Shah:** No, the entire industry on this notification is together only because of the fear that if this can happen to glyphosate it can happen to any other product and nobody wants that - because that will be too cumbersome if they bring in more and more products then it will be even more cumbersome. Now this is a single product - we are trying to find a way out. We are trying to see how it can be done. It is one molecule, probably we will be able to handle. Not probably, and we will surely will be able to handle. But I think it is more and more such things if that comes up it is going to disturb the industry.

**Bhavya Gandhi:** Talking about the PCO license, what would be the average cost for it? Can our dealers become PCO sort of if they can take the license and maybe go and sprinkle it on behalf of farmers is it possible or is it like...

**Chetan Shah:** Yes, that is possible. It is not an expensive proposition.

**Bhavya Gandhi:** I mean if they are taking this stance for one product – maybe they want to increase it for other products as well maybe going forward that is just a speculation that you can maybe sort of. And also talking about the new product turnover going forward - is it possible to mention in the investor presentation like what is the turnover from the newer product that we have introduced - so that we can get a gist of how the new products are moving in the market.

**Kunal Mittal:** So see the reason why we are not mentioning this quarter to quarter is generally in the investor calls and whenever we have this that time we can provide this information.

**Bhavya Gandhi:** For this quarter, is it possible so like what is the new product contribution to the overall sales.

**Kunal Mittal:** So we do not have this information right now handy, so whenever I think the next time onwards we will see if we can provide this information.

**Bhavya Gandhi:** Sure, that is really helpful thank you so much I will get back in the queue.

- Moderator:** Thank you. We have the next question from the line of Himanshu Binani from Prabhudas Lilladher. Please go ahead.
- Himanshu Binani:** Hi! Sir, thank you for taking my questions. My first question was pertaining to the gross margin side. So, what we are seeing is that there has been a gross margin contraction despite we have been like fully able to pass on the inflated cost, while there has been an absolute decrease into the Opex - so that is down on a year-on-year as well as on a sequential basis. So just wanted to have a sense on how this has moved and outlook going forward. Thank you.
- Anil Nawal:** See gross margin from H1 last year it was 32.8% became about 31.8% of sales. So it is more or less in line with previous year. But if you are talking about other operating expenses, H1 versus current H1 it has gone up mainly because of sales and marketing cost so it would be traveling, sales promotion, field development expenditure etc. as well increase in power and fuel cost. So those are the results of increase in other operating expenses from H1 versus current H1.
- Suresh Ramachandran:** On a period last quarter which was not this quarter so our activities were...
- Anil Nawal:** The business activity had gone up. And therefore mainly because of marketing efforts and another is because of increase in energy cost.
- Himanshu Binani:** Okay Sir thank you.
- Moderator:** Thank you. We have the next question from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.
- Manish Mahawar:** Good evening everyone. Just in terms of glyphosate again, wanted to know you said a market size of around Rs.1,100 to 1,200 odd Crores right in India. So what is our market share in domestic.
- Kunal Mittal:** Around 35% to 40%.
- Suresh Ramachandran:** A little bit over 30%, our share in terms of that. (please read this as 30-40% instead of 30% as mentioned in this line which is depended on price and volumes in various years)
- Manish Mahawar:** Again you said a 40% decline in terms of our volume in 1H for a glyphosate. Can it possible to share the revenue maybe growth or decline at H1?
- Suresh Ramachandran:** Almost at flat level.

- Manish Mahawar:** Okay it is flat. And last, the glyphosate basically in terms of industry or being we are one of the large player in the Glyphosate - do we basically have a thought process internally or maybe the discussion with the industry like to take some more time from the government to implement this notification on effective basis going forward.
- Suresh Ramachandran:** Yes, I think as discussed earlier yes industry is together in this to come up with a way forward for this notification. These are all too early to comment - very early days of the notification – just about a week. All the related stake holders are in discussion to see how to resolve this and way forward.
- Manish Mahawar:** So anyways, the industry definitely will take it forward with the government right. That is the approach going forward.
- Kunal Mittal:** Yes, sure.
- Manish Mahawar:** Second question in terms of the Capex perspective. I think at the initial remarks that Kunal has highlighted there is two molecule - one molecule we are commercializing in the second half of this year, so we are starting commercial production and one project with a multiple products we are starting a first quarter of the next year. So this is over and above the five products what we are doing a Capex of Rs.120 Crores or this is a same product.
- Kunal Mittal:** Same five products.
- Manish Mahawar:** Okay this is included in 200 to 250 Crores of a turnover what you said right this product can make this is included in that.
- Kunal Mittal:** Yes.
- Manish Mahawar:** Okay sure that is it from my side thank you and all the best.
- Moderator:** Thank you. We have the next question from the line of Prashant Biyani from Elara Capital. Please go ahead.
- Prashant Biyani:** Thanks for the opportunity. Sir, one question on glyphosate. How much will be your total capacity and on the export side to which geographies do we have registrations for glyphosate.
- Chetan Shah:** We have registrations in Europe, but we are not selling in Europe. We have registrations in African countries which is our main export market. A lot of countries in Africa like Sudan, Ethiopia and Nigeria - there are lot of countries over there where our brand is very popular and we are selling. Our export in these countries is of our brands and not the technical, so we make the brand and sell it over there.

- Prashant Biyani:** What would be our glyphosate capacity?
- Kunal Mittal:** That is the confidential information which we generally prefer not to disclose.
- Prashant Biyani:** On this in the opening remarks Mr. Suresh had just highlighted on the long-term foothold that we are taking in LATAM. So if you can elaborate on that - within the affiliate company and outside of that for the larger market as a whole what are the steps that we are taking to grow that market?
- Suresh Ramachandran:** See this is mainly our foothold in LATAM. Growth is on account of our subsidiary companies where we have received couple of registrations last year and as Mr. Shah san mentioned earlier the Brazil team is launching a new combination product - just this year they are launching and it is expected to grow further in the coming years for which the active would likely to be sourced from India and also couple of other external players we are waiting for some of the approvals to move ahead. So all these things would help us to grow the LATAM market.
- Chetan Shah:** I may also add over here that we have just recently received two registrations of formulation, formulated products in Brazil which Sumitomo Chemical India is the supplier or endorse as the supplier. So we are likely even to start these two brands in the next financial year. So that will again be a substantial boost to our exports to Brazil.
- Prashant Biyani:** The point that you had alluded to on the Dahej Capex, that Capex will be for the parent business or ex of parent business.
- Chetan Shah:** It can be both. Basically it will be for the molecules which are off patent and which our R&D has been working on. It would be those products which has both the domestic market as well as export market. So those products, that pipeline will be basically for domestic as well as exports, but not necessarily a replacement of our product from Japan to India.
- Prashant Biyani:** And for Q2 in particular we have seen our glyphosate volumes being down and despite that we have seen a very good gross margin expansion also - even though we are sitting on a very high base. So what is driving this and how sustainable this is in your view.
- Chetan Shah:** I have been saying this that, if we are looking for sustainability, you can definitely bank on us. I think we will there for any sustainable growth forever. The only thing I cannot expect to do is just jump to some very high numbers and come down. But as well as sustainability is there we are very confident that we are in a position or we have tuned ourselves in such a way that sustainable growth will remain sustainable for sure.
- Prashant Biyani:** Any indication of Capex plans for FY2024? How much it can be?

- Chetan Shah:** As I said, we are still on the drawing board stage and this expansion if I look at the entire site at whatever number of products - there my personal guess - this is not discussed with anybody or with the board or with Sumitomo Japan, my personal guess would be around Rs.250 to 300 Crores.
- Kunal Mittal:** In addition to the normal Capex which we do every year for the maintenance, for debottlenecking so what Shah san mentioning is additional Capex for development of the new sites and the new products.
- Prashant Biyani:** Additional Capex of Rs.250 to 300 Crores.
- Kunal Mittal:** Yes, this could also be over a period and...
- Prashant Biyani:** Sir again while this was...
- Chetan Shah:** That is why I have said that this is my personal guess since you asked the question.
- Prashant Biyani:** Sir I would request your personal guess also on how much could be the asset turn on this sort of a Capex.
- Chetan Shah:** No, I mean, it is not a personal guess but it is our thumb rule and if I do not Rs.2 revenue for Re.1 investment, I would rather not invest.
- Prashant Biyani:** Just lastly on this sales to LATAM - do you see any hiccup because of any change in currency or interest rate there or the sales are largely in rupee and we are insulated from all those things.
- Chetan Shah:** No, it is not in rupee, it is in dollar terms. But I mean you may be aware that in this entire turmoil post Ukraine, Brazil is one of the two or three countries where the currency has appreciated and not depreciated at all. So we do not see any risk and even that is a local risk and nothing to do with that our sales to LATAM.
- Kunal Mittal:** Also fundamentally, Brazil as a country is importing large part of the technicals. Their domestic capacities for manufacturing technicals is very low - so for them the choice is more between different international markets and in most of the markets it will be the similar risk from currency point of view in US dollar terms.
- Prashant Biyani:** On this domestic side this glyphosate sales will be more tilted towards Kharif or Rabi.
- Chetan Shah:** Obviously it will be Kharif.

- Prashant Biyani:** So maybe in the next six months, if we have plans - then we can set up our own or ask our team to have own PCOs and largely the glyphosate sales for next year maybe more or less not so materially impacted. Is that view correct.
- Chetan Shah:** Yes, that is what our intension is and that what we are aiming at.
- Suresh Ramachandran:** And we have some time three to six months to find the way forward to protect our sales.
- Prashant Biyani:** Is the declining price of glyphosate in the international market hurting our profitability?
- Suresh Ramachandran:** No, there is a marginal decline but that is not materially steep decline in terms of hitting the profitability.
- Prashant Biyani:** Thank you Sir, thank you so much for your time.
- Moderator:** Thank you. We have the next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.
- Gagan Thareja:** Good evening. Sir first question is a clarification - you have indicated that Sumitomo has recently received two registrations in Brazil and for which Sumitomo India will be the supplier of the products. Are these two products in addition to the five contract manufacturing products that you have or are these part of those five.
- Chetan Shah:** No these are two new products.
- Kunal Mittal:** These are off-patent segments and the five manufacturing products are more in the proprietary segments of SCC innovative products. These products we are talking more about the off patent businesses which we have.
- Gagan Thareja:** Is it possible to understand the sales of Sumitomo for the five products - I am talking about the parent company Sumitomo for the five products for which you will be doing contract manufacturing. What is the scale of sales for the parent company in those five products?
- Kunal Mittal:** Sales will be much, much larger because we have not manufacturing 100% of the capacities for all the products. For some maybe, but for some of the products we are manufacturing only small part of the, I mean or some part of the total global capacity.
- Gagan Thareja:** But is there scope for you to enhance the scale of supply and basis your cost competence going ahead in these five products.
- Kunal Mittal:** Yes, for some of the products for sure over a period we have this potential and also some of these products are growing at a very fast pace.

**Gagan Thareja:** The GEAC has recommended HTBt and the other one was mustard. Has HTBt been approved or it has just been recommended yet.

**Suresh Ramachandran:** No, mustard is approved for environmental release - I mean recommended to Ministry of Agriculture for environmental release. HTBt cotton is expected for recommendation to Ministry of Agriculture in the near future - it could be as soon as next month also. In the next GEAC meeting that is what all the reports indicate.

**Gagan Thareja:** And if this goes through which is very likely - what is your assessment of the requirement of glyphosate going up because obviously this will be taken up in a big way. Cotton will be taken up in a big way from the pink bollworm related product - what could be the scale of growth in glyphosate volumes in India because of that?

**Suresh Ramachandran:** It is difficult to estimate. Let us say India has got about 12 million hectares of cotton, Even if 70% adopts HT cotton which will take time, because the seed needs to be produced and supply to 70%. It may take two to three years. It depends on a government approval also - are they are going to approve one variety or two hybrids or five hybrids. We do not know the mechanism how it is going to change. Assuming 70% of the area is going to be HTBt cotton, so we can imagine about 1.5 liters per acre approximately. So 70% let us say 8 million hectares into 1.5 liters so that would be about 12 million liters - after maturity peak sale maturity. But it is all be over a period of time. Gradually the seed needs to be made available to the farmers, technology needs to be proved on the ground, the pricing has to be affordable. So there are many factors. Theoretically, the potentially is about 12 million liters.

**Gagan Thareja:** And what is the current volume- metric consumption of glyphosate in the Indian market.

**Suresh Ramachandran:** Current would be about if you are having about 30,000k like 3 million liters.

**Gagan Thareja:** So the market can go up by a third because...

**Suresh Ramachandran:** That is a theoretical calculation. So we will have to see how the adoption, pricing and etc., etc.

**Gagan Thareja:** Also you are talking about the regulatory developments apart from glyphosate. I think there will be another regulatory development where CIBRC has decided that registration of pesticide technicals will be mandatory wherever formulations are being registered under either import or indigenous manufacturing route which basically means that company like Sumitomo or Bayer whenever they introduce a new product under 9(3) - will they have to also submit field trial data for the technicals and therefore this becomes a sort of makes competition in generic competition in these products relatively simpler than what it was in the past.

**Suresh Ramachandran:** Not exactly you are right the government recently recommended that any formulation import needs to be accompanied by the registration of the technical - that is the recommendation that needs to be given to the court. This is one of the earlier cases where the CIBRC has recommended it. But if you look at their latest there is no field trial for technical registration, it is more of a toxicology data, chemistry data, packaging data, those kind of things shelf life data which anyway the companies are submitting it and they would have to seek the registration. Till now the registration was not sought and most of these products, the new products are patented - so there is no risk even if the technical is registered since it is all going to be patented.

**Gagan Thareja:** So you do not have to submit field trial data.

**Suresh Ramachandran:** There is no field trial data for technical. For formulation yes field trial data needs to be submitted. For technical there is no field trial data - it is more of chemistry studies and toxicology studies and shelf life.

**Chetan Shah:** But in any case, even as of today even if we are not seeking the registration, for the import of formulation we have to submit the entire dossier on technicals to the department. We are already doing that. The only difference is that you are giving the dossier, but you are not taking the registration. So there is no difference between the new and the old route. Even if it comes into practice now we will submit the data and ask for the registration - that is all.

**Gagan Thareja:** The two products that Sumitomo has gotten approval for recently - what is the market size there for the formulations and just trying to understand potentially what could be the contribution of these two products for you? I presume this could be a material opportunity for you just trying to understand to whatever degree possible the scale of opportunity here.

**Chetan Shah:** Well, since I cannot give figures but both the registrations which we have obtained - the potential is very, very large, it is a very good size business and we would be very much interested in taking part on these two products expansion in to Latin America. Both are formulation exports. So we have already given whatever is required - from the formulation capability point of view that work is already going on. And I think we should be ready by last quarter of 2022-23 with the facility and then in the first quarter of 2023-2024 we are planning to commercially export these two items.

**Gagan Thareja:** Finally your exports in 1H have grown at north of 50%, to second quarter I presume was more like 33%, 34%. What could be sustainable? Is the 1H number sustainable for the full year going ahead given you are coming of a small base and you have got the sizable opportunities going ahead? Would it be reasonable to assume that the exports growth rate that we have seen can be sustained?

**Kunal Mittal:** So far as a matter of practice we generally do not give any forward looking statements or estimate on the future growth, but our internal targets are that both in domestic market and exports market the kind of a premium growth which we have been generating and yes for a period of say quarter, six months it could be up and down. But over last three to four years whatever growth we have shown in domestic market and exports, to replicate that kind of growth in future.

**Chetan Shah:** Also one thing which I would add over here is that see you cannot compare quarter-to-quarter growth - because see these are all seasonal products. So say suppose if my season is in the third quarter or second quarter - that will not be the season everywhere around the world. Around the world maybe they would require that product in the third quarter or the fourth quarter for them to be ready with the finished product or a formulation to cater to their markets. So, I do not think that the quarter-to-quarter comparison is a very scientific way to compare. Yes overall for the year if you compare then last year for the full financial year our export was this and how much we have grown - that is fine.

**Gagan Thareja:** So that is what I am asking. Would the annual growth rate that you have shown in exports be sustainable going ahead and if that is the case then the mix obviously will keep shifting towards export sales and what could be the consequences of that for your margins?

**Chetan Shah:** Our endeavor will be to sustain this growth because export is a very important market. we are doing lot of things to increase our market share of exports, not only in developed countries and not only in countries like Latin America - but we have plans to even double our sales in countries like Africa for many of our African countries where we are registering new products and things like that. So yes our focus is definitely there to sustain this growth and we are confident.

**Kunal Mittal:** So in African market we have grown this year by about 50% plus. So it is not that this only the Latin America which is growing. In many of these strategic areas as Shah san mentioned we are trying to grow.

**Gagan Thareja:** So my related question was that as you are going to grow higher in exports clearly the salience of exports will keep moving up - last year was 15% this year, 1H is 19%. Obviously it keeps on going up - would it have any material impact on your margin profile as the salience of exports moves up?

**Kunal Mittal:** We do not believe so because see in the past also we have repeatedly clarified that even in domestic market we feel that the growth potential is much higher, we do not restrict ourselves that okay if industry is growing in single digits we will not grow. And even in domestic market like in the current year we have seen the number in the situation where the monsoon situation and everything was not in a very good favorable situation. So even in

domestic market the product launches which we have done in this year, the kind of a pipeline which we have for the future, the bio rationales and PGR which we spoke about - so domestic market also have a lot of potential to grow and exports might be easier and slightly more higher but it does not significantly change the profile like say if we have 70/30 exports domestic - it will not significantly change our breakup of the revenue and also our margin profile.

**Gagan Thareja:**

Thanks a lot Sir I will get back in the queue. Thanks for taking my questions.

**Moderator:**

Thank you. We have the next question from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.

**S Ramesh:**

Good evening and thank you very much and thank you Chetan bhai for giving us the explanation of the glyphosates notification. So just to take the discussion forward, you mentioned about the strategy to increase market share from the unorganized sector. So can we get some sense in terms of what is the potential increase in market share you can gain if you were to take away market shares from the unorganized sector. And the second thought is we are looking at the two registrations in Brazil and the new products you have launched in the first half. What is the kind of potential peak market size you can hope to achieve and over what timeframe?

**Chetan Shah:**

We do not have to fix the market, the market is in place for all these products. So in a lighter way if I say, do not worry on glyphosate kind of going down. We have enough products to cover up the glyphosate turnover in coming months. No it was just on a lighter note, but as I said we are not going to let the glyphosate turnover also go. So overall we will have all this new things which are happening, will be additional turnovers.

**Kunal Mittal:**

For the manufacturing products - the new five products which will be manufacturing that revenue I think we have already given and the potential is more in the range of Rs.2 to Rs.2.5 billion and for various other products we are not in a position to give a particular numbers right now, but again this is not be about gaining the market share in this export because this market is already there as Shah san mentioned, it is being replaced from other suppliers or other countries to India.

**S Ramesh:**

So in terms of your reading of the market, the general consensus is the crop prices are likely to sustain, but in case there is a correction in commodity prices and your topline falls in line which you are passing on the cost in terms of their asset turn it will come down - so we are going to maintain absolute margin per unit volume. Is there a risk that in coming some quarters in future you may have to take some reduction in margins, as the topline decline for the industry? so just to get a sense in terms of how the industry performance will move if

there is a reduction in the overall input cost and the price realization for the products, what is your reading on that and how are you going to offset that to maintain your margins?

**Chetan Shah:** See the demand for food in the world is not going to come down and the farmers are not going to stop growing crops. I do not think we in India we are at such a low consumption of pesticides per acre that - I mean it is a least quantity that the farmer needs to spray to safeguard his field. So I do not think that the price increase or anything of that sort is going to bring down the overall demand. And even if the prices are lower, the idea is that at a lower prices you have to maintain your margins and if the prices go down you have to increase your volumes. So you cannot have a drop in the overall topline and you cannot have a drop in overall bottom line. You cannot just have that situation, so if the prices are going down, your overall turnover is coming down, you need to increase revenues by introduction of new products or increasing the volume of those products at a cheaper price.

**S Ramesh:** So if you are looking at the prospects for Rabi, compared to the base of last year Rabi how do you see the prospects of volume growth for the industry and your company.

**Chetan Shah:** Well see last year Rabi was also exceedingly good - so we are comparing a high standard of last year's Rabi to the growth of this year's Rabi. Now situation on the ground is favorable as of today. There is lot of moisture the water is amply available, there will be no cut down on water supply to the fields etc., etc. So the platform is very good. Now we have to see how the price movement, how the pest condition etc., etc., and I think we should have a very good Rabi season as compared to what we experienced in the Kharif. So I think, whatever plans of growth in Rabi season that we have drawn up internally, I think we are pretty much confident of achieving that.

**S Ramesh:** So if you are looking at the channel inventory and the working capital and the collections, there is some concerns that the high cost inventory can be a challenge if the prices come down and secondly the collections are proving to be a bit difficult because of the reduction in liquidity. So while I understand your company you have been able to manage that well but how do you see that impacting the industry in the second half and how are you preparing yourself in terms of your own inventory and your own working capital requirements.

**Chetan Shah:** So we are pretty much okay with our inventory levels and even our consumptions etc. We are not carrying large inventory in the market, but what I have heard is that there is some inventory level in the market which will impact the sales for the first two months of the Rabi season that is October and November. And once these inventories are gone, yes then the fresh supplies will start at new price levels.

**S Ramesh:** So one last in terms of the cropping pattern and your own product profile across the category like insecticides, herbicides, PGR - so do you see any structural shift in terms of India cropping pattern in term of the share of acreage across crops and do you see your overall share of insecticides coming down and herbicides going up say in the next two three years and what is going to be the impact on your margins if at all that happens?

**Suresh Ramachandran:** See there may not be a significant materialistic change in terms of crop shift. Now paddy, cotton, fruits and vegetables these are the top three crops or four crops for the agrochemical industry. It would continue to remain that way. Like this season, this Kharif season there was a significant deficit rainfall in eastern states, north eastern states and there is a paddy acreages gone down by about 2 million hectares. In a 40 million, 43 million hectares - 2 million hectares is just a small portion. So overall it is not going to shift materialistically in terms of cropping pattern. Year-on-year season-on-season there will be plus or minus 5% - 10% variation - that is about it. In terms of insecticides, since the base is large and India being a country of a lot of insect population attacking the crop, the insecticides would continue to be having a major share in terms of agrochemical industry, herbicides because of labor shortage and convenience yes herbicide market is growing and that would continue to grow - that is a macro level and I think that trend would continue to be there in the future also.

**S Ramesh:** Thank you very much and wish you all the best and the best of seasons. Thank you.

**Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Sushil Marfatia for closing comments.

**Sushil Marfatia:** Namaste everyone, thank you all for you asking some very interesting questions and our colleagues replying the same. I am sure we have addressed your all questions. The domestic crop prices have raisin bringing them closer to the global counterparts. Having this positive outlook going into the Rabi season is a great for the agricultural economy as a whole. The soil is more moist than usual because of the September and October rains. This in addition to the water storage levels augurs well for the upcoming Rabi season. Therefore in FY2023 demand for agriculture input would remain high thanks to favorable weather conditions and rising farmer incomes.

Today India's agriculture sector uses a relatively small fraction of the world's total agrochemical output. As a result, the general outlook for the Indian agrochemical is expected to improve as farmers becomes more aware that using high quality agrochemical products helps them achieving higher yields of higher quality crops, increasing their chances of making more profit. Everybody stands to benefit in the long run from the governments' and authorities' various reforms and initiatives and boosting the agricultural productivity.

We have been able to sustain our recent growth thanks to the diversified business model we have developed over the past few years and we expect to continue seeing success as we expand into new product categories. Thank you for your time and participating in our conference call and I lastly wish you all a very successful, prosperous and healthy New Year. Thanks.

**Moderator:**

Thank you. On behalf of Strategic Growth Advisors Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.