"Sumitomo Chemical India Limited
Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sumitomo Chemical India Limited Q2 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chetan Shah, Managing Director of Sumitomo Chemical India Limited. Thank you and over to you Sir!

Chetan Shah: Thank you very much. Hello everyone, good afternoon! welcome all the participants to this call. There is an overwhelming response to this call, and I am grateful to everyone who has spent their valuable time and have joined here. Let me begin today by introducing the members from the company side who are present on this call. We have Mr. Sushil Marfatia, Executive Director, Mr. Masanori Uzawa, he is joining us from Tokyo, he is Non-Executive Director, Mr. Kunal Mittal who is Senior Vice President of Planning and Coordination Office in Mumbai, Mr. Pravin Desai our Company Secretary and Compliance Officer, Mr. Anil Nawal, Chief Financial Officer and colleagues from SGA, our Investor Relations Advisors.

Having said that let me begin by saying as to why I feel personally that we are in a great space in this business of agrochemicals and which is likely to give a continuous growth because of my belief in following three reasons. Number one is that we in India have very low pesticide consumption per hectare compared to the world. We hardly have 0.8 grams per hectare of pesticide consumption as compared to 7 kilos in Europe or 7 kilos in USA or 11 kilos in Japan and China is around 9-10 kgs. So we have a very low consumption and there is a tremendous scope to increase these volumes in our Indian agriculture.

Also, a reason that today if you see the quality of vegetables or quality of fruits for domestic consumption, the level has changed. The consumers are asking for a better quality, better taste, better finish and all this also induces a farmer to use better molecules and proper molecules to give that product in the market to withstand the competition. Also, these same vegetable and fruits are exported which also requires the same inputs of agrochemicals.

Another important point that I would like to make all of you aware of is that now I have completed my 20 years of journey with Sumitomo Chemicals, Japan and I have seen Sumitomo's style of working and their philosophy of conducting a business very, very closely and for many years and this itself has been a great learning for me and to incorporate those learnings, that thinking and philosophy into our Indian operations have helped us a great in making the company what it is today.

If I talk about the three most important aspects of this philosophy, which are matching between India and Japan are the following: number one is the safety in operations. I think this is a very fundamental philosophy and in India we have nurtured that. Even Japan has very strong point of view on safety in operations so we do not compromise safety, we do not compromise our operations in the smallest of smallest way so this has been a very good learning.

Second most important thing which indirectly helps our organization is our belief in respecting the human assets that we have and it is very common to find 15 years, 20 years, 25 years of services of many people in our organization and this philosophy also is very close to Sumitomo Japan's hearts and minds. This is a very important point of course for our sustainable positions in the industry.

The third important point is that we are not only working or running this company for making profits - of course that is an important part of it - but while we make profits we must see and ensure that the society around us by and large also benefits from our operations, be it CSR or be it upgradation of the society around in any way you can. I think that is very, very close to our heart and I think even the God is looking after us because of this aspect of running an organization and we are very clear that we will ensure that the society by and large should benefit from our operations.

So these are the few initial thoughts that I had. Of course you will get a lot of opportunity during this call to talk about the real figures or real business or whatever you might want to know. Now I will now very quickly ask Kunal to share something about the company. But before that I would request Uzawa san to come in and after that Kunal will comment. So Uzawa san can you please share some thoughts of yours from the Sumitomo Chemical point of view, how you see Indian operations, what is important for Sumitomo as a parent company and how you have decided to support Indian operations.

Masanori Uzawa: Thank you very much Shah san. Thank you for having me in on this call. This has been a great opportunity for me to connect with you all. I would like to highlight that the Sumitomo Chemical have been very positive on that growth trajectory of the Indian agrochemical industry. The idea of consolidating our presence in Indian Agrochemical space is to drive operational synergies as well as provide flexibility to address growth opportunities in Indian as well as Global Agrochemical space. With our robust product pipeline resulting from our strong R&D efforts over the years and the manufacturing base in

India will strengthen our competitive position further in the Global market. SCC Japan will continue to support Sumitomo Chemical India to achieve market leadership in Indian market through a strong portfolio of Agro-solutions products and remain confident of its growth potential on Indian business in general. With that, I will you know hand over Kunal to give more information on Sumitomo Chemical India.

Kunal Mittal: Thank you Mr. Shah and Mr. Uzawa. Before we talk specifically about Sumitomo Chemical India let us summarize little bit briefly about the industry. As you all are aware the agriculture and related activities such as agrochemicals were classified under essential category by the Government of India and accordingly, they were least impacted by the COVID-19 related disruptions.

So far, the spread of COVID-19 has been limited in rural areas and did not impact the demand of agrochemicals. Except Northwest India all regions of Indian country received higher than normal rainfall in the monsoon season which just finished. There were good rainfalls especially in the month of July and August which are very important and critical for the Kharif crop. The monsoon was very well spread both quantitatively and qualitatively and this led to higher Kharif acreages and a record increase in the sowing activities. The coverage area also increased by approximately 4.5% which is a very encouraging sign. In some regions, due to continuous rainfalls in the month of August, we saw some delays in spraying activities; however, overall, the weather trends and the good rainfall were very positive for the agriculture sector and agrochemical sector in the last few months.

According to Indian Ratings and Research, in the current financial year, the agriculture sector is expected to grow better than the overall economy for the second consecutive year in a row. It expects Indian agriculture to grow at approximately 3.5% year-on-year in the current financial year compared to the overall economic growth forecast of negative 12.2%. How the numbers actually pan out throughout the year is yet to be seen but these are the best estimates being provided by the independent agencies currently.

One more encouraging sign is that the water levels and the reserves on pan-India basis are much higher as compared to the last 10 years average levels and thereby setting up a very good base for the upcoming Rabi season. The farm exports of the agriculture produce from India also witnessed significant increase by approximately 43% in the first six months of the current financial year, which is also one of the key focus areas from Indian government side as stated by our honorable Prime Minister.

The increased government focus on the rural income as well as the recently introduced farm reform bills and the laws have created increased value in the agriculture sector, which are expected to boost the growth of the sector in medium to long-term. This is also expected to provide the farmers with access to the high-quality inputs such as seed, fertilizers, agrochemicals and overall, this reform should benefit the farmers and also expected to be advantageous to the Indian agrochemical sector.

Some of the other industries in addition to the agriculture which we operate into include Animal Nutrition, Environmental Health, Household Insecticides and Public Health. These industries faced certain demand related challenges in the initial few months of the current year however the demand situation has been reviving over the last few months and is expected to revive to a large extent in the coming few months.

On the supply side, there were some constraints in the initial few months due to closure of our plants and then production levels have revived to a large extent over the last few months. We also face certain challenges and constraints in terms of availability of the input materials and our suppliers also face certain challenges - especially related to the packing material side.

So, with this I think we can summarize the industry part and we can provide you little bit more specific information about our company Sumitomo Chemical India. Sumitomo Chemical India as you all are aware is part of a century old Japan-based Sumitomo Chemical Group and as you might be aware that Sumitomo Chemical group is a very well diversified R&D focus chemical company and is among the leading global innovators in the agrochemical space.

Our esteemed parentage provides us exclusive advantages like access to high-end R&D infrastructure, proprietary specialty product portfolio, global distribution reach, technical expertise and various other benefits. Being part of the Sumitomo Chemical Group as Shah san also explained I think innovation and sustainable growth are one of the fundamental objectives our company and also, we have a very well-stated objective of benefiting the Indian farmer and we continue to achieve that.

We are primarily engaged in the manufacturing and sale of specialty and generic agrochemical products and we also undertake distribution of animal nutrition and environmental health products.

Overview of last 20 years of our evaluation in India of Sumitomo Chemical India and last 10 years of the extraordinary growth journey which we witnessed has been summarized on page 17 of the Investor Presentation which you can refer. As you are also aware in 2019, we completed the merger of our two Indian companies which were Excel Crop Care and Sumitomo Chemical India. The combined entity Sumitomo Chemical India is one of the most diversified agrochemical players in India. Within the agro solutions business we are very well diversified with multiple segments which we operate into.

In the specialty segment we distribute SCC's global propriety products in Indian market and have one of the deepest distribution reach, direct farmer connects and skills to generate demand for innovative high value-added product at farm level. In the generic segment, we have a very robust product portfolio of several premium generic products with technical manufacturing capabilities well-known brands and a reasonable pan-India distribution reach.

In exports market, we have higher proportion of branded exports of products manufactured in India, especially to African markets and we also undertake exports of the bulk technical products to various global markets.

We also manufacture proprietary specialty products and export to our group companies within Sumitomo Chemical group. Currently we have one such product, which we are manufacturing in India and exporting to Sumitomo Chemical and we are looking to expand this particular portfolio in the years to come.

The merger which we just spoke about in 2019 which was completed also created and integrated two successful individual platforms and they have further strengthened our market position. We are also able to leverage the diversified product portfolio which we have, and we have as I explained very robust and well covered distribution network. The revenue and the cost synergies arising out of this merger have started coming in and should boost our margins over a period of time.

The undivided focus from our parent company SCC will also enable greater focus to drive our expansion in the future. We plan to launch several unique products from our parent companies' portfolio in Indian market and it will strengthen our domestic product portfolio. We also plan to boost our exports by leveraging our parent company's global presence and distribution network which will be supported by our manufacturing expertise in the cost-effective base in India.

We have five manufacturing facilities in India ì.e. Bhavnagar, Gajod, Tarapur, Vapi and Silvasa. We have three fully equipped DSIR approved R&D facilities. Our R&D team largely focuses its efforts towards launch of off-patent products and also evolution of efficient processes. Our R&D capabilities include synthesis, technical products and also formulation development. We have approximately 75-member strong R&D team out of which 10 plus scientists have PhD qualifications and more than 15 years of experience in agrochemical R&D initiatives. Currently, we have approximately 190 brands across complete agrochemical value chain with several brands highly trusted by farmers. We have a fairly robust distribution network with over 13,000 plus direct distributors providing us a reach to large base of dealers and retailers across the country. We have a strong brand presence with market leading positions across various product categories and we also have branded products constituting to about 81% of our domestic revenue. We have also growing presence in African markets, in other countries in Asia and also Latin America and various other countries across the world.

In terms of the future product pipeline, we have a very robust product pipeline for the future. In the current year we have already launched four new products, three of these are insecticides and one product is into a plant growth regulator segment which we call as PGR segment. We have aggressively promoted these products in the current year in the domestic market using digital tools in a situation when we cannot directly connect with the farmers physically. We have leveraged the digital presence which we possess to launch some of these new products in the current year. We also have several propriety specialty products of SCC under various stages of evaluation and we expect to launch minimum one new innovative product from SCC side in Indian market every year.

Our Indian R&D team is also developing several products which are expected to be off patent in the next few years and we have a good potential and a strong pipeline of products for the future in this bucket. In addition, one more interesting theme on which we are working on is related to the combination molecules wherein we are mixing some of the SCC's proprietary molecules with some of the generic molecules being manufactured by SCIL in India and we have identified nine such combination products for further evaluation which have shown very good commercial potential to be launched in the global markets.

We also have a strong pipeline of some other technical products from SCC's global portfolio to be manufactured in India and many of these products are at various stages of evaluation. We continue to see demand across our product portfolios whether it is insecticides, herbicides, fungicides, PGR and metal phosphides.

We have great focus on the disciplined sales by monitoring the ground level liquidation and the consumption pattern, which also helps us in the better forecast and also better collections.

For the future we aim to focus more on the high growth, stable and highly profitable segments and products such as herbicides, PGR and biorational. We have some very good products in all these segments and our future pipeline also has some of the products in these segments which we expect to be able to commercialize and achieve growth.

We plan to increase contribution from PGR segments for both Kharif and Rabi crops which will also help us reduce seasonality in the business. We typically invest around 15% of our consolidated EBITDA every year for upgradation and capacity expansion to cater to the robust demand both at the domestic and export side in the agrochemical space.

In addition, depending on the additional manufacturing opportunities we may invest in expanding manufacturing capacities. With this now I think we can now cover a little bit about the financial performance of the quarter and the half of the year which we have disclosed and I request my colleague Mr. Anil Nawal, CFO of our company to please take you forward through the numbers.

Anil Nawal: We run through our quarterly performance. We recorded 9% year-on-year growth in our revenue from Rs.830 Crores in Q2 FY2020 to Rs.902 Crores in Q2 FY2021. The gross profit for Q2 FY2021 grew by 24% to Rs.360 Crores as compared to Rs.290 Crores year earlier. The gross margin for the quarter saw an increment of more than 490 basis point from 35% in Q2 FY2020 to 39.9% and Q2 FY2021 on back of better product mix and prices. EBITDA came at Rs.209 Crores in Q2 FY2021, which is up by 37% as compared to Rs.160 Crores in the same period last year. EBITDA margin in current quarter improved by 501 basis points to 24.3% from 19.3% in Q2 FY2020. The increase in EBITDA margin was primarily on account of improvement in operating leverage due to better product mix and prices, improved operational efficiencies, cost optimization and merger synergies.

Profit after tax witnessed a growth of 24% at Rs.158 Crores in Q2 FY2021 as against Rs.128 Crores in the same quarter last year. Profit after tax margin stood at 17.5% which was up by 209 basis points vis-à-vis 15.4% in Q2 FY2020.

Now let us talk of H1 FY2021 consolidated performance. Revenue from operation in H1 FY2021 stood at Rs.1,550 Crores, which is up by 7% as compared to Rs.1,455 Crores in H1 FY2020. In H1 FY2021 domestic agrochemical revenue contributed about 87% of overall revenue with export contributing the rest. In the first half of this financial year, insecticide contributed about 47% of total revenue while herbicides, plant growth regulator and fungicide contributed about 21%, 12% and 10% of total revenue respectively. EBITDA witnessed a growth of 38% from Rs.244 Crores in H1 FY2020 to Rs.338 Crores in H1 FY2021. Our EBITDA margin expanded by 498 basis points to 21.8% from 16.8% in H1 FY2020.

Profit after tax for H1 FY2021 witnessed a jump of 31% to Rs.237 Crores from Rs.181 Crores in H1 FY2020.

On working capital front during H1 FY2021, we had collected Rs.1,543 Crores as compared to Rs.1,320 Crores, which was collected in the same period last year in this period. The collection number is at similar level to our revenue. The increased focus on collections enabled us to improve working capital cycle further to 42 days in Q2 FY2021 from 54 days in Q1 FY2021. The improvement in working capital cycle led to improvement in cash flow for the period, the net cash flow from operating activities for H1 FY2021 was Rs.541 Crores compared to Rs.167 Crores for the same period last year.

Our balance sheet continues to be strong with zero debt and a cash and cash equivalent and liquid investment of Rs.680 Crores as on September 30, 2020. The robust balance sheet provides us comfort to evaluate various future growth opportunities.

Kunal Mittal: Thanks Anil. So now we can open the floor for the question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my question. Sir my question is on the cost. So if I look at the gross margin this quarter has seen a substantial improvement both on a year-on-year basis and Q-o-Q basis. If I look at the mix I mean broadly, I would say that herbicide is up by about 200 BPS and probably insecticide is down by about 100 BPS and even from a specialty generic point I mean there is a 100 BPS swing here and there the only thing that I see is the exports just sharply come down, so two things is the gross margins benefit largely on account of the exports coming down or is it also because of the cost benefit that we have been talking about. So if you can give some clarity with respect to how much is qualitatively from the cost benefits, how much can continue going forward?

Chetan Shah: This is highly sustainable. What you are observing is correct but if you also see that the margins in exports are not like that is also improved if you see the standalone export margins so it is not only that, but yes, there has been a situation whereby our cost of inputs have remained stable, we did not have too much upswings for a number of months in any of the prices - I think the market remained quite stable for our inputs. And secondly I think due to our product mix and if you see that our PGR have shown a growth and our new introduction of one of the main products was also under PGR segment so basically overall product mix and stable input prices, these two have helped to improve the margins substantially. We have been talking about this in the past as well that we will constantly try to improve our margins by changing the product mix, introduction of new products etc., that has come true. As long as we are having a good pipeline of new introductory products or new introductions, this is highly sustainable model.

Sudarshan P: Sir my second question is on the product concentration specifically around glyphosate I mean now that across the world and also in India several governments have talked about glyphosate use that needs to be restricted. From the pipeline point of view given that the parent has got such pipeline I mean currently what is the kind of revenue concentration from glyphosate and probably the next two to three years do we see this product coming down sharply and kind of addressing that risk in terms of revenue concentration?

Chetan Shah: See of course I mean I will not deny that glyphosate is one of very good branded products but however as we have also mentioned earlier - we have no product which is more than 15%, so glyphosate maybe around 12%-13% or so and it is an important product. While there has been a noise about glyphosate and everybody hears that noise, let me tell you that glyphosate is still number one product in the world and the most developed countries like USA or Latin America or Australia or Canada or any country you see including Europe, the glyphosate is still on. We feel that in the next round of its review in 2022 it will have another five years of extension. That is what we believe is likely to happen. So for five, six, seven years I do not think that glyphosate will be affected. And if we are talking about the replacement, very fortunately our parent company is working on some herbicide molecule which can replace glyphosate in years to come. That will not be immediate but yes by the time glyphosate cycle gets affected I am sure it will be there. So I think we are not as much worried about the glyphosate in this time. But if you ask this question for what happens after nine years, eight years, ten years, then yes your question is very valid and you will have to be prepared for that and as I said that we have some alternative possibilities from our parent company and we are looking forward to that.

Sudarshan P: Sure, thanks a lot Sir my final question is on the mix. If I look at product mix still seems to be skewed towards insecticides and probably herbicide would be the second largest given that we also have a lot of PGR product and bio-based product. In terms of capability how do we see this 47% of insecticides and 21% of herbicides say three to four years down the line?

Chetan Shah: In an agrochemical industry you must accept that insecticide plays a very, very prominent role and it is not a question of replacing insecticides with plant load regulators or bringing down the insecticides to that extent but if you see historically these insecticides were much more than 50%. of the industry and it has come down gradually. That has not come down by quantity but because other segments have grown from a lower base to a higher base. Automatically the percentage of insecticides have come down. But with our agro-climatic condition I think insecticides will continue to play a very important role and it is a question of how you replace your insecticides with a little newer molecules so we are working on each and every segment insecticides, herbicides, fungicides, PGRs and the growth in PGR and fungicides will seem to be more because it is at a low base. Insecticides you cannot increase from 47% to 49% or 49% to 51% because it will be a replacement of some of the older molecules, but PGR and fungicide market is evolving and there will be more and more and more such products coming in and as I said with certain dynamics of marketing of agricultural output the demand for better product is there and that is likely to continue to a great extent on a very high level so all these PGRs and fungicide will help producing these products which is required by the market and that is why you will see the growth in these two segments.

Sudarshan P: Thanks a lot Sir. I will join back the queue.

Moderator: Thank you. The next question is from the line of Dhaval Shah from ICICI Securities. Please go ahead.

Dhaval Shah: Thanks for the opportunity. Sir you mentioned that we are working for one molecule for SCC Japan and we are planning to launch around one new molecule every year for the Japan parent and apart from that you are also planning to work for the technical so I just wanted to understand about the CRAMs revenue which is currently into the overall topline numbers and how big it can be in the next three to four years based on the opportunities you are looking at right now?

Chetan Shah: Thank you for your question. Without giving the revenue numbers I can tell you that we are definitely working on both the fronts one is the molecules from Japan we get it, we formulate, we brand it and we market it so that also the trials of lot of products are coming in and I think we will have definitely one or maybe two products introduction in the next financial year and we are looking at the work in the field or data generation and whatever it is that is going on in such a way that we should be in a position to get to the registration and marketability of that product at least once every year for next three to four years. Of course there is a caveat to this because registration is always a situation beyond our hands so maybe in one year there will be two products or one year the product can be delayed that thing can happen but we have planned in such a way that we will be able to introduce some product whether it is a PGR whether it is an insecticide, fungicide whatever it may be but one product every year. Parallelly we are talking about at least four to five molecules which we will manufacture in India to be exported back to Sumitomo Global all over the world and this will not be a typical CRAMs model. This will be a buy and sell arrangement at arm's length, it will not be a typical CRAMs model.

Dhaval Shah: Under the CRAMs you mentioned one or two products per year so any ballpark number, what could be the path molecule?

Chetan Shah: We are talking about around four to five such products, which will start one of them start in the end of next financial year or the beginning of FY2023 and there are other four products which will start putting up the manufacturing facility during the next year so within one year that plant also should be there.

Dhaval Shah: Secondly Sir about the expansion in gross margins for this quarter so you mentioned that because of the changes in the product mix and the benign input cost, there has been expansion so apart from that is there any increase in the finished product prices, if you can share, which lead improvement in the gross margins?

Chetan Shah: The prices had gone up prior to the stabilization of the input cost and I think in the beginning of the year when the input cost was a bit higher from that time onward the prices had started moving up a little bit and yes there has been some products or some areas where the prices have gone up slightly but that is I think it is not an extraordinary profit you see. Suppose you talk about some products like chlorpyrifos or a very, very generic product I think the prices went up of all these products, which was very well deserved and which was selling at very, very desperate prices previously so it has just improve to normalcy. It is not that the normal prices has gone much higher or it is not that the product was not available, or it was in short supply so we got an opportunity to increase the price. The prices, which has gone from a sub level of pricing to a normal price that definitely will happen.

Dhaval Shah: Right and Sir lastly about the cash and investment which is roughly around Rs.700 Crores right now in the balance sheet so apart from looking at any big capex or any inorganic opportunities which can improve our return ratios going forward because I think over the period of time I think will based on the innovative product launches and maybe a visibility of expansion in the margins we will be generating decent free cash flows over the period of time so any future capex plans if you can share?

Chetan Shah: We have not yet got these capex plans approved by our Board but as I said that if we are going to manufacture this four or five molecules for exports then obviously that substantial capex will be required and that will be over and above our 15% of EBITDA capex, which we normally have to improve the capacities and efficiencies. Apart from that there will be a substantial investment required, which will all come from within our own resources without incurring any debt and to answer your second question, yes the cash that we have can be used for the inorganic growth as well. We are wide open for that and we are having our eyes, ears, everything to the ground and looking for such opportunity and if there is any fit opportunity that we can get so we can surely, we are very eager to capture that opportunity.

Moderator: Thank you. The next question is from the line of Alok Ranjan from L&T Mutual Fund. Please go ahead.

Alok Ranjan: Good afternoon Sir, Sir my question is related to the acquisition of Nufarm business, the Latin America business that was done by the Sumitomo Japan so just wanted to understand what can be the opportunity size for Sumitomo Chemical India given there will be some registration that needs to be done and also the fact that right now a lot of sourcing might be happening from China. Further the fact that Sumitomo has only manufacturing facilities in Japan and one in India so how big this opportunity can be for Sumitomo Chemical India and how our export mix will change over the next three years, right now which is around 20% currently?

Chetan Shah: I think we are not looking at percentage of exports I think we want both the segments exports as well as domestic to grow. I mean maybe one or two percentage here or there but say you can grow both in terms of percentage then you may not see the percentage shift between export and domestic but you will see growth in both. Coming back to this Latin America opportunity yes it is a great opportunity for Sumitomo Chemical India. I think it has been a great acquisition by Sumitomo Japan. It has put them in a very, very strong position in that geography. We have low hanging fruits to encash the opportunity as well as a little bit of a long term situation. So for example we already have the registration in Brazil and Latin America for four of our molecules so I am very happy to inform that one of the molecules which we are not manufacturing at all that is being consumed by Sumitomo Latin America and we have just received our first order of that molecule, which will start in December this year. This is just the beginning. It is a small quantity of around 40 tonnes sort of a trial order but this can be a big opportunity in the coming years to take it to maybe 150 or 200 tonnes, so that type of opportunities are there. Second type of opportunity is our existing exports of say chlorpyrifos that can have a very big jump because Sumitomo Latin America is consuming large quantities of this particular product and which we can now encash, of course it has to be at arm's length. It goes without saying that we will have to compete with China to export out those products. So we have products like that which we can increase the volume, there are products which we can restart also, Yes it is a great opportunity and we are looking forward to a very, very strong tie-ups with Sumitomo Brazil going forward.

Alok Ranjan: Got it Sir. Thank you. Sir my second question is related to CRAMs where you said that one product, we will be trying every year and the other opportunity that you mentioned is four to five molecule manufacturing for Sumitomo and it's a buy and sell model?

Chetan Shah: Let me clear the misunderstanding. I said we will introduce one products every year, which we will bring in, that is Sumitomo molecules or Valent Bioscience USA molecules, we will bring in those products, formulate it over here, brand it and market it so that is at least one product every year. But this type of a situation of manufacturing technical in India to export it out to Sumitomo global that is not one in every year. There will be one definitely next year. But other three to four products will all come at one time maybe 2022 or 2023 it will come at all at one time, not one every year.

Alok Ranjan: Sir coming to CRAMS. I have seen that Sumitomo Chemical Japan is having tie-up with other CRAMS technical manufacturing companies in India, is it like finally where Sumitomo Japan is sourcing from other companies this opportunity will fall into Sumitomo

Chemical India because we are having our manufacturing base so rather than sourcing from other companies like it will be a natural opportunity for Sumitomo Chemical India to manufacture that product overtime?.

Chetan Shah: We have not discussed this frankly. But I think there is only one product that Sumitomo sources from India and that is a fungicide has a very critical technology which they have worked out with this one company and it is one fungicide I think and not a very large volumes and we have really not talked about disturbing that. But going forward if Sumitomo wants to make any product in India that will definitely come to us first. So I do not think that there is a talk about and rightly so why we should disturb any ongoing arrangement we have a lot of products and we have got a lot of things to do, which we can do without that product so we are bringing these four to five new products, they are all coming to us, they will not go anywhere else.

Moderator: Thank you. The next question is from the line of Swati Hiroo from Ratnabali Investment. Please go ahead.

Swati Hiroo: In our global presentations we have given a target that we want to become the number one player in India so how do we plan on achieving that how do we want to go about it very clearly.

Kunal Mittal: Thank you for your question. This is kind of a stated objective which we have mentioned that in the domestic Indian B2C branded domestic marketing business yes our ambition is to take leadership position in India. In last 10 years since we seriously started B2C branded focus business in Indian domestic market we have shown significant growth and we are very confident and comfortable that with the kind of a strategy which we have which is across different segments, different products, backed up by SCC Japan global molecules to be introduced in India as Mr. Shah explained. And also due to the good R&D teams which we have in India which focuses on off-patent segments, we are very confident that we are inching towards our stated targets on everyday basis and in years to come we will aim to achieve that position.

Swati Hiroo: I also wanted to understand so we talked about focusing on this PGR and biorational space and my understanding tells me that globally Sumitomo is largest player in that. In India what kind of a market share do we have and who are the other players?

Chetan Shah: In the global market yes your understanding is right we have a company in our group which is called Valent Biosciences based out of USA which is one of the leading companies in this space. Your understanding is right and in Indian market we are exclusively distributing their global products which are more focused towards the PGRs and biorational segments. This is a kind of a newer segment in Indian agriculture industry because to educate a farmer in the specific segments where these products have applications is not a very easy task and it requires a very, very large amount of investments and efforts in terms of showcasing the products explaining the benefits and then converting the consumption of these products to a farmer. We have shown good success in several of the products in the PGR segment which we have launched over the last few years and we will continue to expand that particular portfolio in the future. In terms of the portfolio we already have I think about 12% of the total revenue, coming from this segment which is a fairly good success and a reasonable level in our view. In the future we will look to expand that further.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Thanks for the opportunity. Mr. Shah you did mention that for some bit of underpricing earlier coming back to normalized pricing which is also driving this gross margin expansion, but if I look across the other companies as well, the gross margin what we are reporting are still relatively lower than the other companies so will it be right to say that the full potential is yet to play out and it is still a work in progress or a large part of the benefit is already there in the numbers?

Chetan Shah: I am looking at this market and wherever we are, we have established ourselves in the market to be quite sustainable and I am not too sure whether your observation that the margins in other companies in brands in B2C market has expanded as much I think. There may be companies who have shown because of the CRAMS or because of some other models but in the domestic market B2C we have not seen that.

Ankur Periwal: Sir my question was more in terms of absolute gross margin so 37%, 38% gross margins that we are earning versus the gross margins earned by other companies not in absolute terms in percentage growth but more from an absolute point of view wherein is there further scope for expansion or from here on it will be more like gradual growth?

Chetan Shah: Again, it depends on how many products we are able to introduce, how many new products we are able to get in our registrations through etc., etc., and if that continues, I think there will be a scope to not only sustain this but even improve that.

Kunal Mittal: Just to add here Mr. Ankur from our side as we have mentioned in the past also our continuous endeavor is to expand the portfolio and the sales of the products and the segments where the margins are higher and over the years we have achieved that strategy successfully and that is a strategy which we continue to work on a continuous basis and in the future also within our existing portfolio if we are able to expand the high margin products slightly more than the margins can expand and as Mr. Shah very rightly mentioned that with the introduction of new products typically the margins can be further expanded.

Chetan Shah: Yes that is true so our efforts is to have these combination products if we make a unique product by mixing it or by having a combination it will have a much better margin possibilities. Towards that the continuous effort is to improve the product mix in such a way that it can sustain the growth of margins year-on-year.

Ankur Periwal: Sure, Sir fair enough and on the working capital side while in the first half we have seen a decent improvement your comments here in terms of the path going ahead?

Chetan Shah: Yes, so that also is highly sustainable. I think we have worked out internally a model for the credits or for the recoveries or for the inventory planning or all these things put together has shown that we can achieve this kind of figure. Of course to improve on this in Indian market is a bit difficult but even if we maintain this level, I think it would be great.

Ankur Periwal: Great Sir. Thanks a lot, and all the best. Thank you.

Moderator: Thank you. The next question is from Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: Sir thanks a lot for the opportunity. Sir my first question is on the capex front as you indicated that four to five molecules for the manufacturing in India will be done so what kind of the typical capex will be having for that and what kind of asset turnover ratio we can see into that kind of model?

Chetan Shah: I will ask your understanding in this that since we have not yet even gone to the board for this particular thing, I would not be in a position to answer that but whatever we have worked out the plan that is all very, very within our limits, within our capabilities, very quick implementation will be done and as I said we need not borrow any money for putting up this plant and I think the investment ratios will not be worse off than a typical chemical investment plant but it will be much better than that. We will have a much better ratio than the chemical industry ratio.

Amar Maurya: Secondly Sir in terms of the South America contribution to the current revenue which is around 4% to 5% given the kind of opportunity which we see into the South America I mean how do we see this contribution in next two to three years?

Chetan Shah: See as I said that contribution I cannot comment on because it will have to be at arm's length and with China competition. We have to keep both things in mind and of course what I will reiterate that both in terms of existing products which we export already to some companies in Brazil, we will have a great opportunity to increase the volumes of that so say that is for example I said chlorpyrifos, you know that chlorpyrifos we are exporting around 35%-40% of our production but that can go much higher because there is a huge consumption of this molecule by Sumitomo Brazil and we can put our foot into supplying this molecule to them and if you already have the registration so there is no issue on that. It has to be only endorsed in Sumitomo that is all.

Amar Maurya: So, what I can understand Sir with this is that then there will be lot of immediate capex requirement, which will be coming because given the capacity constraint and all so at least if you can guide us for the next two years capex that would be easy for us to?

Chetan Shah: We are not contemplating to increase the capacity of say chlorpyrifos but there can be a capacity increase to a great extent for Tebuconazole as well. As for example there is another product which can go to Brazil in a much more bigger way so if that opportunity comes then we will have to put up Tebuconazole plant. As of today we have only increased the capacity of Tebuconazole in our existing plant because now we have already almost doubled the capacity of Tebuconazole production from 2022-2023 - I mean 2022 April onwards we have already put in the capacities in place so that will help but the overall demand of this Tebuconazole keeps on increasing. There may be a need for putting up a new plant which can be done very quickly because we are already manufacturing this product.

Amar Maurya: So, you are saying that the capex requirement would not be that high that you can quantify?

Chetan Shah: No.

Amar Maurya: Okay but then Sir then in that case you will be generating a huge free cash flow because if I see your first half cash flow, which is around Rs.500 Crores kind of operating cash flow and probably that much of the free cash flow which you will be generating?

Chetan Shah: That gives us flexibility for inorganic growth.

Amar Maurya: Thank you Sir.

Moderator: Thank you. The next question is from Prashant Biyani from Prabhudas Lilladher. Please go ahead.

Prashant Biyani: Thanks for the opportunity. Has there been any discussion on checking Sumitomo LATAM portfolio which we can manufacture here and while we have registration for four molecules in LATAM or Brazil, how much have we applied for in terms of registration?

Chetan Shah: Well there are some registration which are on, but they are not because of Sumitomo Brazil. That is in a regular course of business ; but let me tell you since you asked this question. I think on a generic portfolio we are not that keen on registering those molecules even if

Sumitomo Brazil may be using those products, say as for example, I can give a name of Imidacloprid. This product we are manufacturing in India. As you know Sumitomo Brazil is consuming it, but we do not want to put our time and efforts in registering that product because of commercial reasons and the registration process in Brazil is one of the toughest and one of the longest in the world. So if you are talking about any product to be registered in Brazil, it takes six to seven years and this type of molecules with smaller volume or which are very generic in nature it may not be a sustainable efforts to register those products and still find a market for them. So what we are doing is that suppose we are looking at four molecules, which are going to get off-patent in 2022 and work on which have already started in our R&D and currently in quite advanced stage so those say two or three molecules out of this four will definitely register in Brazil because that will have a more sustainable life in terms of number of years. That product will continue to have a demand so we will be definitely registering those products so say even after five, six, seven years we will have those products available to export to Brazil as and when the registration comes.

Prashant Biyani: Out of four registrations that we have, are there any registration that we are awaiting approval or we had applied for more?

Chetan Shah: Tebuconazole we already have, Chlorpyrifos we already have, Fluroxypyr, we already have Aluminum phosphide we already have. These are the four products which we have already got the registration.

Prashant Biyani: Any other awaiting in the pipeline?

Chetan Shah: No as I say there are some which are in the pipeline but these products are not basically for Sumitomo Brazil. That we have done it even before Sumitomo acquired this company so that process is on even much before that.

Prashant Biyani: Sir with regard to this LATAM portfolio how much is the commonality of products between both of us for the kind of products that you might be willing to export to a Sumitmo Latin America?

Chetan Shah: Now we are looking at Chlorpyrifos, Tebuconazole, Fluroxypyr these are the three main products which we are looking.

Prashant Biyani: And going forward are we having any plan to start working specifically for Sumitomo Latin America with respect to some products which we are not having in our portfolio currently?

Chetan Shah: We will look at it if there is something interesting and they want it for sure and we can manufacture it in a very economical way or something we can always look at it. But so far these are the three largest products which they have and which we are manufacturing. So there are one or two more molecules which we are manufacturing already but we have not looked at registering.

Prashant Biyani: Okay and so that capex plan that we will be presenting to the board that is all relating to the molecules that we will sell to the parent and any discussion with parent with regard to new capacities if we can set up for catering to new farms requirements?

Chetan Shah: Not as of today. But for this one product which I mentioned Tebuconazole.

Prashant Biyani: Lastly how much of the volume growth in this quarter?

Chetan Shah: Around 4%.

Prashant Biyani: That is, it. Thanks.

Moderator: Thank you very much. Due to time constraints we will have to take that as the last question. I would now like to hand the conference over to Mr. Marfatia for closing comments.

Sushil Marfatia: Thank you everyone. We thank all the participants for joining us on the call today. I am sure that we were able to answer all your queries. For further queries if any you may contact SGA that is our Investor Relations Advisor or feel free to get in touch with us at our company. We at Sumitomo Group take this opportunity to convey and wish you and your family very happy and safe Diwali and prosperous New Year. Thank you.

Moderator: Thank you very much. On behalf of Sumitomo Chemical India Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.