

“Sharda Cropchem Limited Q4FY15 Earnings Conference Call”

# June 1, 2015

  

**Management: Mr. R. V. Bubna – Managing Director, Sharda Cropchem Ltd**

**Mr. Gautam Arora – CFO, Sharda Cropchem Ltd**

**Moderators: Mr. Vijayaraghavan G - IDFC Securities Ltd**

**Moderator:** Ladies and gentlemen good day and welcome to the Sharda Cropchem Q4 FY15 Earnings Conference Call hosted by IDFC Securities. As a reminder all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Vijayaraghavan from IFDC Securities. Thank you and over to you sir.

**Vijayaraghavan G:** Thank you Zaid. Very good evening to everyone and thanks for joining us today. I would like to welcome the management of Sharda Cropchem Limited and thank them for giving us an opportunity to host this call. Representing Sharda Cropchem management team we have with us today Mr.R. V. Bubna- Managing Director and Mr. Gautam Arora- CFO with us. I would like to handover the call to Mr. Bubna who will give initial remarks about the business which will be followed up with Mr. Gautam Arora's presentation on FY15 full year financials performance and then we will follow it up with Q&A. So over to you sir Mr. Bubna.

**R. V. Bubna:** Okay, sir. Ladies and gentlemen very good welcome and very good evening to the first annual conference call of Sharda Cropchem Limited. I would just make few remarks the business has been going well, we have achieved a good increase in the turnover of the company. The business model remains the same, we are it all is centered on the registration and adding value to the agro chemical products to help us to market this and annual balance the financial figures are with you and we will explain all the details in the course of time. Welcome and please join us. I handover the mike to Mr. Gautam Arora our Chief Financial Officer to take you through the financials.

**Gautam Arora:** Thank you sir. Good evening to all present on this call we are here to discuss our fourth quarter and 12 months period ended 31st March 2015 financial results of the company. I will quickly take you through the numbers with some details which can then be followed up by question and answer session. We will talk about revenues, the revenue from sale for the fourth quarter ended 31st March 2015 increased by 18% to Rs.3405 million as against Rs.2894 million in the same quarter last year. And revenue from sales in the 12th month period ended 31st March 2015 increased by 34% to Rs.10,611 million from Rs.7904 million in the corresponding 12 months of the previous year. The gross profit for the fourth quarter ended 31st March 2015 increased by 4.53% to Rs.1,188 million as against Rs.1147 million in the same quarter last year and gross profit in the 12 months period ended 31st March 2015 increased by 27.17% to Rs.3,524 million from Rs.2,771 million in the corresponding 12 months period of the previous financial year.

Gross margins as a percentage of total income from operation in the fourth quarter ended March 2015 was at 34.84% and the same was lower as compared to 39.60% in the fourth quarter of the previous finical year, decline of 476 basis points. Primarily due to depreciation of the Euro against the dollar during this period. And gross margin as a percentage of total income from the operation for the 12 months period ended 31st March 2015 at 33.17% is lower as compared to 35.03% for the 12 months period of the previous financial year a decline of 186 basis points against largely contributed by the depreciation of the Euro against the dollar.

Operating EBITDA of the company after adjusting for foreign exchange gains and losses for the fourth quarter ended 31st March 2015 decreased by 13.22% to Rs.725 million from Rs.836 million in the same quarter of the last financial year. And the operating EBITDA after adjusting for foreign exchange gains and losses for the 12 month period ended March 2015 increased by 23% to Rs.1909 million from Rs.1,550 million in the corresponding 12 months period of the previous year. Operating EBITDA margin adjusted for foreign exchange gains and losses in the fourth quarter ended 31st March 2015 at 21.29% was lower as compared to 28.86% in the fourth quarter of the previous financial year, primarily due to foreign exchange differences increase in selling, marketing and distribution expenses higher employee benefit expenses, higher bank charges, etc in the current quarter of 31st March 2015. And the operating EBITDA margins adjusted for foreign exchange gains and losses for the 12 months period ended 31st March 2015 at 17.96% was also lower as compared to 19.60% for the 12 month period of the previous financial year primarily due to higher employee benefit expenses, selling marketing and distribution expenses professional charges increase, impairment of capital, work in progress, etc. In this 12 months period ended 31st March 2015.

The companies PAT for the four quarter ended 31st March 2015 decreased by 10% to Rs.481 million as against Rs.534 million in the same quarter last year. And PAT in the 12 month period ended 31st March 2015 increased by 11% to Rs.1230 million from Rs.1111 million in the corresponding 12 months period of the previous year. PAT margins as a percentage of total income from operations in the fourth quarter ended 31st March 2015 at 14.11% was lower as compared to 18.45% in the fourth quarter of the previous financial year. And PAT margins as a percentage of total income from operations for the 12 month period ended 31st March 2015 at 11.57% was lower as compared to 14.04% for the 12 months period of the previous financial year a decline of 247 basis points.

The segment wise breakup of sales revenues between agro chemicals and non-agro chemicals is as follows. In the fourth quarter ended 31st March 2015 agro chemical sale contributed 85% and non-agro chemical sales contributed 15% respectively to the total sales revenue, the corresponding figures for the four quarter in the previous financial year were 88% and 12% respectively. Correspondingly in the 12 months period ended 31st March 2015 Agro chemical sales contributed 81% and non-agro chemical sales contributed 19% respectively to the total sales revenue. The corresponding figures for the 12 months period as the previous financial year were 83% and 17% respectively.

The region wise breakup of sales revenue of agro chemicals business is as follows. In the fourth quarter ended 31st March 2015, Europe contributed 68%, NAFTA 15%,LATAM 6% and rest of the world 11% respectively to the total sales revenue. The corresponding figures in the fourth quarter of the previous financial year were, Europe 68%, NAFTA 10%, LATAM 13% and rest of the world 9% respectively. Correspondingly in the 12 months period ended 31st March 2015 contributed 51%, NAFTA 20%, LATAM 17% and rest of the world 12% respectively to the total sales revenue. The corresponding figures for the 12 months period of the previous financial year were Europe 50%, NAFTA 16%, LATAM 21% and rest of the world 13% respectively. In terms of seasonality it is imperative to note that the business of the company is seasonal in nature. The fourth quarter of the financial year usually has been highest contribution to sales revenues, Europe which contributes approximately 50% to the annual agro chemicals sales revenue has the highest sales during this quarter due to seasonality as is reflected in the fourth quarter region wise sales breakup. I am done from my side in terms of providing you with the brief breakup of the results of the company, I leave the discussion open for any question thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will begin the question and answer session. Our first question is from the line of Ravi Naredi who is an Individual Investor. Please go ahead.

**Ravi Naredi:** Sir what is our hedging policy?

**Gautam Arora:** The company has an natural hedge to a large extent in terms of its dollar exposure and there is a positive exposure in the sense that the company’s revenues in dollars are higher than its expenses since the entire business of the company is export oriented and most of the procurement takes place from outside of India so we usually tend to hedge the amounts to the extent of gross margins involved and to cover all the expenses that are required to be incurred in Indian rupees here. As far as the crosses are concerned we typically tend to hedge at recurring intervals we usually take views from various foreign exchange professionals and from our bankers and we keep hedging the currency from time to time.

**Ravi Naredi:** Okay. Can you tell us how much currency our hedging is outstanding as 31st March 15?

**Gautam Arora:** We don’t have those figures handy at this point in time, maybe you call us and we can calculate these numbers and give you the data offline.

**R. V. Bubna:** It’s in the order of $5 to $6 million, around 31st March.

**Ravi Naredi:** Okay, and what is the CAPEX plan for our next two year?

**Gautam Arora:** So there are couple of molecules in the pipeline which we are working on which is largely in the European continent if you have a copy of the presentation I think we have clearly stated the number of registrations in the pipeline are (+700). So these are the registrations that we are working on.

**Ravi Naredi:** Okay, can you quantify in the money terms CAPEX plan?

**Gautam Arora:** Each, the total CAPEX spend that we have planned for the next two years is roughly around 70 to 75 crores.

**Ravi Naredi:** For the next year?

**Gautam Arora:** For the next two years, it could be close to about 130 crores or so, 130 to 140 crores.

**Ravi Naredi:** Okay, thank you sir. Thank you.

**Moderator:** Thank you very much. Our next question is from the line of Chetan Thacker from Emkay Global. Please go ahead.

**Chetan Thacker:** If you could share the volume data for the fourth quarter and FY15 preferably by regions if possible.

**Gautam Arora:** I don’t have the volume data readily available with me.

**Chetan Thacker:** And even for FY15 for the whole year.

**Gautam Arora:** No, but then challenge is that we are dealing in a portfolio products and each of the units of measurement are different in terms of kilograms, liters, pounds, etc. So usually don’t track it in terms of volume of each unit of measurement but yes there has been a volume growth in business during the year which is reflected in the slide 6 whereas in the quarter four we have seen a 31.5% increase in volumes within the given sales and 32.3% positive increase in volumes for the entire year.

**Chetan Thacker:** Sure and sir on the impact of the gross margins so what would be the extent of Euro impact on the gross margin what would be extent of Euro impact on the gross margin in this quarter end and for the whole year?

**Gautam Arora:** For the quarter the impact was significantly high because the Euro has depreciated against the rupee almost to the extent of 17% or so and the volume of impact would be as high as around 40 to 45 crores. For the quarter alone it should be around 41 crores and for the entire year it should be around 45 crores.

**Chetan Thacker:** 31 crores, so 31 crores would mean an impact of around 10% on the gross margin?

**Gautam Arora:** I said 45 crores, that is for the entire year.

**Chetan Thacker:** So for the quarter you said 31 that would be closer to 7-8%, 7 to 800 bps.

**Gautam Arora:** Sorry I said 41 corers for the quarter and 45 crores for the entire year.

**Chetan Thacker:** Okay, and sir how has the pricing moved there, have the players who were typically exporters in the European market responded by increasing prices or the MNC is still are holding on to the prices there?

**R. V. Bubna:** The MNCs are holding on to the prices and it is very difficult to get an increase in the prices in Euro. So the competitors are comfortable with the prices.

**Chetan Thacker:** So sir in this scenario what would be our estimate for growth from the European region next year going forward because earlier we were hoping for a growth of around 30-35% odd but since this depreciation is there a scale down in that expectation of growth from European region?

**R. V. Bubna:** Growth in terms of quantity will remain about 20 to 25% and in terms of value it all depend upon how the Euro behaves against the dollar.

**Chetan Thacker:** And if it the way it stands currently how much of a negative Y-o-Y impact would you see?

**R. V. Bubna:** As the current price of $1.1 to a Euro it remains the same then we will have a growth about 20 to 25% in this quarter, or in this coming year.

**Chetan Thacker:** 20 to 25%.

**R. V. Bubna:** Yes, please.

**Chetan Thacker:** That would be the revenue growth.

**R. V. Bubna:** Yes.

**Chetan Thacker:** And so that you mentioned volume growth would be 20-25% and if I adjust for the currency which would remain lower around by 14-15% odd so won’t we see a typical nominal growth of around 10 to 15% odd?

**Gautam Arora:** Yes, it would be 10 to 15%.

**Chetan Thacker:** From the European region.

**Gautam Arora:** Yes.

**Chetan Thacker:** And sir what are the products that are in the pipeline which can get approval in the next year or two if you could quantify the opportunity there.

**Gautam Arora:** We can tell you the number of molecules which are there in the pipelines but we can’t disclose the name.

**Chetan Thacker:** Okay, so in Europe’s how many are in the pipeline in terms of the molecule and not the formulations.

**Gautam Arora:** I think there are in all about approximately 35 products in the pipeline and of all them close to about 12 are completely new molecules and the remaining are the existing molecules which we are getting registered for additional crops or in new region for Europe.

**Chetan Thacker:** Sure sir, and how is the inventory situation sir in Europe at this point in time even in the LATAM geography.

**Gautam Arora:** So there is hardly any inventory in LATAM most of the business that is done in Latin America is done on a back to back order basis and it’s largely Europe and US are the two regions where we carry inventory. So the inventory which is there in Europe as on 31st March 2005 was in terms of our expected lines and the most of these products were kept on the shelf so that there could be orders to the distributors and we could just push off the products to them.

**Chetan Thacker:** Sure and sir in terms of crop if you can help us which crop has done well in Europe for you this season?

**Gautam Arora:** It’s very difficult to state which crop has done well or not because ours is more of a product based a portfolio based business and is very difficult to state that this particular crop has done well for us and this particular crop has not done well for us because the top ten molecules basically contribute close to about 62-62% of the total revenue if you see that way then it’s very difficult to quantify or to state which crop has done well for us.

**Chetan Thacker:** And in terms of segment if that is possible whether fungicides, insecticides, or herbicides would have done well this year.

**Gautam Arora:** No, it really doesn’t matter to us because our entire business is based on the element of registration being the key value creator and portfolio products therefore it really doesn’t matter whether it’s the herbicide segment which is done there or a fungicide segment or an insecticide segment that is done well or a biocide segment.

**Chetan Thacker:** Sure and sir most of our new registrations that are there in the pipeline are largely in the European region that is fair assessment?

**Gautam Arora:** Broadly less.

**Chetan Thacker:** So we would have lower number of new registrations coming into LATAM compared to the European region.

**Gautam Arora:** There is a slide which talks of the total number of registrations in the pipeline and the regions where these registrations are supposed to be so one second, yes the slide number 8 which talks of 729 registrations in the pipeline of which 42 are in Europe, NAFTA has about 92, LATAM has about 164 and rest of the world has about 131 registrations of the pipeline.

**Chetan Thacker:** Sure and sir in terms of the amount that we put in for each year for new registration is it fair to assume that the stand is around 60-70 odd crores each year?

**Gautam Arora:** Yes, sir.

**Chetan Thacker:** Thank you so much.

**Moderator:** Thank you very much. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** Mr. Bubna I just wanted to understand on your hedging policy you said, I think it was Gautam probably who said you also hedge the grosses from time to time is that correct.

**R. V. Bubna:** Not time to time, we usually hedge it fairly regularly.

**Hiren Dasani:** So in that Euro dollar depreciation should not have impacted us the way it has impacted us the way it has impacted us.

**Gautam Arora:** Sir as I told you we hedge a part of the exposure not the whole and it is very difficult to judge, this is the best level. The levels keep on changing we take the advice from our consultants and then take a calculated call.

**Hiren Dasani:** So in a way is it fair to say that the sharp depreciation in let say period of three, four months impacted probably it was not expected in terms of the hedging calculations which we would have made.

**Gautam Arora:** When it was a Euro dollar was at 1.20 all the experts were saying that the bottom will be at 1.17 then he started going below 1.15 this year it will be 1.12 is the bottom. Nobody could guess at that time that it will go down to as low as 1.05.

**Hiren Dasani:** Sure. So I mean now that what has happened what we have seen in the currency moves can pretty sharp do you think that there will be any change in our thought process as far as the cross currency hedging is also concerned.

**Gautam Arora:** Sir it’s very difficult to get to the best levels, when the Euro dollar recently a week back when it was around 1.14 all the expert were saying that it may touch 1.15 and 1.16 and it came down to 1.08-09.

**Hiren Dasani:** No, my question is sir experts can go wrong one way or the other but, we can probably have policy whereby let say let’s not take a call at all and let’s completely hedge ourselves on the cross currency as well, something which you will.

**Gautam Arora:** This is the way of our hedging we hedge it at every level when it was 1.08 we sold something when it went to 1.10 we sold something every level we were selling.

**Hiren Dasani:** Okay, so assuming that let say all of us don’t know where the currency is going if it stays around year you made a comment that the pricing is difficult so is then the Q4 gross margin becomes the new base in that case?

**Gautam Arora:** It could be.

**Hiren Dasani:** Okay. And your ability to because you will be still at a descent discount to the MNC pricing in the Europe right?

**Gautam Arora:** Correct.

**Hiren Dasani:** So even in that case the ability to increase the price narrow price deferential is not there?

**Gautam Arora:** I could be a marginal increase case to case basis. But normally it is difficulty.

**Hiren Dasani:** Okay, and in terms of our ability to increase the volumes at a 20-25% you remain pretty confident for few more years now.

**Gautam Arora:** In the current situation in Europe I would say 20% and better situation for more 25% and the worst situation it can go to 15%.

**Hiren Dasani:** The volume growth you are saying.

**Gautam Arora:** Yes.

**Hiren Dasani:** Okay, and this is essentially market share gain which you are doing right?

**Gautam Arora:** Right.

**Hiren Dasani:** Because even today at the current size of the business you are very small in the overall scheme things for the Europe.

**Gautam Arora:** Correct.

**Hiren Dasani:** So your ability to increase market share should be there for quite many number of years.

**Gautam Arora:** Yes, it is there, it would be there.

**Hiren Dasani:** Okay, great sir thank you.

**Moderator:** Thank you very much. Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** On the balance sheet with the investment in new registration now it has been increasing every year when does this comes into the net block is there a lumpiness that next one or two years we will see.

**Gautam Arora:** Sir we cannot hear you, can you speak a little loud.

**Dheeresh Pathak:** Sir I was talking about the investments and registrations that we do which sits in capital working progress and that has increased progressively through the years. Now is there a lumpy year in which most of your registrations will mature and start contributing revenues and move into net block, or this is going to increase from here?

**Gautam Arora:** It will increase from here but it is very difficult to predict that in one particular year or lumpy year lot of work in progress will go into the net block, because we are talking about many registrations in many countries. So this gets averaged out,

**Dheeresh Pathak:** Okay, typically in a year what percentage of the last years CWIP would move into net block because we have a peculiar where CWIP is 50% higher than net block. So for example last year we had 140 crores in CWIP how much of that would have moved into net block in FY15?

**R. V. Bubna:** Just one second Mr. Gautam is looking into it.

**Gautam Arora:** I don’t have the summarized balance sheet with me right now can I just discuss this with you offline?

**Dheeresh Pathak:** Yes, that will be great and to the earlier question on margins, gross margins now 50% of the European business happens in the fourth quarter, so almost 50% we did in 1H of the European business, 50% in the second half the currency depreciated, Euro depreciated more in the second half, so and obviously your margins sort of vary quarterly so when we think about gross margins for FY16 assuming it is to be the new base for currency we should think about 5 percentage point decline in gross margin as the new base or because if you look at the full year gross margin decline is about 2 percentage point but in that 2 percentage point decline you benefited in the first half from a Euro dollar conversion point of view in which you did 50% of the European business. So when we think about the new base of gross margins at this currency can you just help us understand at what gross margins would you have for the full year provided the current exchange rates hold.

**Gautam Arora:** One minute. Sir the gross margin has reduced by almost as much as 9% in the fourth quarter that has been very steep and severe. Overall the gross margin has reduced from 35% to 33.4% in the whole year. I have a feeling that we should not consider that gross margin can go down to as much as 5% from this present level, I would place it maximum about 2 to 3% drop in the gross margin in the next year.

**Dheeresh Pathak:** From 33 another 2% drop is possible if current exchange rate hold.

**Gautam Arora:** It could 32 or it could remain the same.

**R. V. Bubna:** Dheeresh I have one more comment to add that by virtue of decline in the crude prices the gross margins of our conveyer belt business has improved significantly during this period and therefore there has been comparatively better gross margin contribution by that business to the entire year and to the quarter four, so if the Euro remains here I don’t see very significant decline more than may be 200 basis points for the agro chemical business for that particular quarter during the year because for the rest of the nine months of the year the European business does not contribute as high as what it contributes in the last quarter.

**Dheeresh Pathak:** Right and what are the gross margins in the belt business for the full year?

**Gautam Arora:** For the full year we are around 20%.

**Dheeresh Pathak:** Okay, and they are higher by what were they last year FY14?

**Gautam Arora:** I think they were around 17.5% last year.

**Moderator:** Thank you very much. Our next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

**Rohan Gupta:** Sir one question once again sorry I am interrupting and asking the same question again and again, on this currency depreciation and hedging policy which we follow is there any opportunity or any mechanism by that we can reduce our dependency on the global currency volatility is there any such plan can be worked out?

**Gautam Arora:** I think it is difficult to work out such kind of a plan, where there is a change or depreciation or appreciation of the currency we have to be part of it and we cannot remain isolated.

**Rohan Gupta:** So there is absolutely no plan where we can take our exposure or currency hedging mechanism up to 100%?

**R. V. Bubna:** Sir as I explained you, it is very difficult to predict the moment of the currency, you can hedge against something only when you are very sure that it is going to go down in this direction or that direction. So hedging is possible only to some limited extent and like say when it was 1.3 nobody had every predicted that the Euro will go down to below 1.2. So when it was coming to 1.25 we will hedge something, 1.22 we will hedge something and then we will wait for it to go up. Nobody has predicted that it will continue to go down. So in that kind of scenario it is very difficult to hedge 100% or to hedge a substantial person when there is a one way drop and it changes every step, every week or every fortnight when the views of the experts change.

**Rohan Gupta:** Sir most of our purchases which is almost 90% from China that is a link with the USD am I right sir?

**R. V. Bubna:** Yes it’s linked with USD.

**Rohan Gupta:** And only 50% of our sales is in Europe.

**R. V. Bubna:** Pardon me, yes.

**Rohan Gupta:** 50% of our revenues are dependent in European market?

**R. V. Bubna:** Correct.

**Rohan Gupta:** The currency which is there is Europe is Euro all the transactions are happening in Euro right?

**R. V. Bubna:** Yes, sir

**Rohan Gupta:** So balance 50% that is all once again in dollar terms?

**R. V. Bubna:** Right.

**Rohan Gupta:** I mean both NAFTA, LATAM, and RoW markets denominated in dollar terms right?

**R. V. Bubna:** Yes.

**Rohan Gupta:** So it’s only that because 90% of our raw material is coming from China which is a dollar denominated and 50% of the business is in Euro term and that portion we need to hedge I think if whatever the volatility which we see in the numbers and margins is because of that right.

**R. V. Bubna:** Yes. And you please remember that we also get benefited when the Euro becomes stronger and that the benefit is also many times better than expectations, we also do not hedge heavily when it goes up.

**Rohan Gupta:** So in your view there is absolutely no further possibly to reduce the dependency or to strengthen our hedging policies further.

**R. V. Bubna:** We can reduce the dependency but we cannot completely eliminate it.

**Rohan Gupta:** Okay. And sir you mentioned that almost 41 crores in the quarter and Rs.45 crores impact on it’s because of the currency exchange volatility right?

**R. V. Bubna:** Right. That had an impact on the top line of the company. And matching significant effect on the margins as well, because our purchasing has been at a fairly constant price in US dollars.

**Rohan Gupta:** Okay.And your balance sheet there has been significant increase in inventories as of March almost as much as 70-75% so this is a just sudden jump in inventory is because of the weak pickup in demand or it’s intentional because you are seeing a market to pick up in Q1?

**R. V. Bubna:** The inventory also consist of some goods in transit, so there is a good demand in American continent both Latin and North America so that is why there has been an increase in the inventory, our total turnover has also increased considerably, it is about 35% in terms of value, in terms of quantity it could be as 50% I guess. So inventories will also increase accordingly.

**Rohan Gupta:** So you also mentioned that almost volume growth for the year was as high as almost 33% and you mentioned that if currency or Euro remains at 1.1 the current level then you are looking at top line or volume growth of almost 20 to 25% right?

**R. V. Bubna:** Yes, sir.

**Rohan Gupta:** So 20 to 25% volume growth versus volume growth of 33% last year so do you see that there is a tapping in growth or volume why the volume growth which was 33% almost last year should come down so drastically to almost 20% this year.

**Gautam Arora:** That it cannot continue because last year’s growth has been also fairly higher than our prediction of previous year.

**Rohan Gupta:** Okay, so last year has been extraordinary good for you?

**Gautam Arora:** It has been better than our expectations.

**Rohan Gupta:** Okay, so now because there is a high base so you are looking as a lower volume growth.

**R. V. Bubna:** We want to be very moderate in our estimations.

**Rohan Gupta:** So sir if once again reiteration but if you are looking 20% volume growth and if we say that the currency is going to remain here then probably by the averaging of the whole year will be the currency impact will be (-5%) to (-8%) and I don’t know how the prices are behaving because we have seen the crude prices declining across, has declined and that would have some impact on all your product prices so we may see 3 to 4% pricing drop also across the product category. So 20% of volume growth with (-10%) price and exchange impact that, so do you see that in net sales or top line growth of mere 10% for FY16?

**R. V. Bubna:** No, sir I don’t think it will be solo.

**Gautam Arora:** Rohan you are also missing out on one point that there is dollar string that is happening across the board and most of the currencies other than the rupee have depreciated against the dollar considerably and it is now that the rupee has been depreciating against the dollar of lately which is why you will see a better top line so as part of the Euro depreciation which has already happened we will get compensated for by the deprecation in the rupee and a better realization of INR.

**Rohan Gupta:** Okay, so that gives us confidence probably that we will be able to maintain almost 20% net sales growth also.

**R. V. Bubna:** Yes sir.

**Rohan Gupta:** But we should not forget that on gross margin front you are looking at almost 150 to 300 basis points reduction right?

**Gautam Arora:** Yes, it’s a guess that we are making right now and it’s a well-informed guess that we are talking about but my sense is that the gross margin percentage could be 50 basis points plus or minus to this 150 basis points drop in gross margins that we are talking about. So if the rupee depreciates faster than what we expect the gross margin drop could be 100 basis points or if the rupee does not depreciate as much and if the Euro depreciates more then the gross margin declined could be may be 200 basis points.

**Rohan Gupta:** Yes, because we have already almost in EBITDA margin we were already down to almost 16% and further 100-150 basis point drop will lead to our margins below 15% so that will probably lead to a muted pad growth despite a 15 to 20% top line growth.

**Gautam Arora:** Yes, so I don’t expect much of foreign exchange losses to come in books this time on account of realization because I think most of it has got capture in the financial year ‘14-15 if you see the total loss that we have recognized during the year is 18.2 crores and I don’t think this is the number that is going to repeat itself. So if the rupee depreciates against the dollar I am sure there will be a foreign exchange gain in the books this time in the year ‘15-16 so the EBITDA margins could may be before the impact for foreign exchange gain/loss may not increase substantially but if you take impact of the foreign exchange gain/loss when it’s a gain it gets impacted in other income so if you include the element of other income to the EBITDA I am sure the EBITDA margins will be better.

**R. V. Bubna:** And Mr. Gupta there is a brighter side of the story also, even though we are not able to increase the prices in European union but there is a tendency of softening the prices in the China when the Chinese find that the off take is decreasing because of drop in the margins in European Union, and in the way of the competitions the sourcing prices are also getting soften month after month so that also helps us to maintain the margin and EBITDA.

**Rohan Gupta:** Sir right now you are almost 90% sourcing is from China right?

**R. V. Bubna:** Yes, sir.

**Rohan Gupta:** Are you looking to increase your sourcing from India over next two years?

**R. V. Bubna:** It is not as much profitable.The margins are still low, the Indian prices are not as competitive as Chinese in terms of dollars.

**Rohan Gupta:** So it is going to remain the same almost 90% sourcing.

**R. V. Bubna:** It is going to remain the same. And in some cases we are able to persuade our suppliers to sell us in Euros the Chinese suppliers and some of the Chinese suppliers do oblige, but when there is a drastic fall then they get discouraged and they resist to do it.

**Rohan Gupta:** And sir how you see that the European market panning out in terms of demand growth and has there been any pressure in European market because of the softening global agri commodity prices?

**R. V. Bubna:** No, sir on the contrary, we are finding fairly good demand in European continent in the first half of the second quarter.

**Rohan Gupta:** So the demand has been extremely.

**R. V. Bubna:** Yes, demand has been very bullish.

**Gautam Arora:** So one more thing to consider here Rohan is that, when the prices of agro commodity has come down typically the farmers margins tend to come under pressure and that is the time when they would prefer to switch over to a generic which is usually priced 10 to 15% lower than the MNC companies’ product and that typically helps the generics revenues pick upbetter.

**Moderator:** Thank you very much. Our next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

**Amit Murarka:** Just a couple of things our development in the Euro region, which is basically on the endocrine disrupter. So I believe they have identified certain chemicals and they are planning to phase it out in a medium-to longer-term, so how do you assess the risk there on your product portfolio and the market in general as to how will it evolve in the scenario?

**Gautam Arora:** Have you heard of any specific product that they are talking off to be phased out because we have a huge portfolio of product so we would like to know if you are reference to any specific product as such Amit?

**Amit Murarka:** No, generally I am talking about in a more general sense rather than specific products.

**Gautam Arora:** So none of the products get phased out overnight so they usually tend to give time close to about a year or two so that whatever are the inventories available those could be taken care of and secondly there is also the farmers lobby in Brussels which typically tends to resist phasing out of any products because some of these molecules could be block buster molecules and these are the ones which could really be the most economical for the farmers to use, therefore there is a tendency of lobbyist from the farmer side to protest phasing out of any molecules so it’s easier said than done to phase out molecules in today’s time and view up the declining prices of agro commodity, I don’t know if you have specific molecule in the reference to which you would like to ask and probably we can answer you with reference to those specific molecule.

**Amit Murarka:** Okay, so basically things like they are saying all the Triazoles are at risks and Mancozeb and all that, so those kind of products.

**R. V. Bubna:** See Mancozeb is not our product it’s not at all our product and Triazoles right now we don’t see any threat. If it comes in future we will make preparations for it, for the time being there is no threat to the product portfolio that we have. Except one molecule Imidacloprid which was having some pressure from the lobby of bees but even that is being resisted by the farmers and it has not had such a significant impact up to now.

**Amit Murarka:** Okay and secondly on all this basically China is also clamping down a lot on the pollution levels and trying to control companies which coal based production and all those sorts of things are you seeing any impact of that on the cost of sourcing from China?

**R. V. Bubna:** No, not at all as I mentioned sometime back, the cost of sourcing from China is softening so that is the brighter side of our business and these trends we are seeing at least for the last one and half years.

**Amit Murarka:** Okay, so is that because of the lower commodity prices in general or as in crude has come off and everything else has come off?

**R. V. Bubna:** It could have an in but crude has a very small fraction of the impact on our products. It is generally a question of demand and supply, and Chinese production is in fact going up and that is helping us to bring the prices down.

**Moderator:** Thank you very much. Our next question is from the line of Jigar Valia from OHM Group. Please go ahead.

**Jigar Valia:** Couple of questions, sir if you can help explain in terms of the gross margin profile across regions typically, the differential gross margins across different region.

**R. V. Bubna:** Just one minute. Okay, so the gross margins in the European business are typically in the range of around 50% in Latin America they are in the range of around 25%, in NAFTA they are in the range of about 28% and rest of the world they are in the range of about 30%.

**Jigar Valia:** Okay, now the difference between Europe and Latin and the other regions is pretty sharp so from an EBITDA perspective, is it because Europe will have a lot of formulation manufacturing within Europe itself and would EBITDA across regions be a relatively more comparable then?

**R. V. Bubna:** No, I think the comparison will typically have to be in the gross margin level itself.

**Jigar Valia:** Gross margin level itself. Great, now can you split the number of registrations also region wise?

**Gautam Arora:** The number of registrations region wise it’s there in the slide in the presentation.

**Jigar Valia:** Okay, I will probably take it up I don’t have the copy but I will probably and is there any change in the top five products for usin the top five products for us between full year and this full year?

**Gautam Arora:** There is a change in the top ten products I think 7 out of 10 products had remained the same three products has kind of shifted out and new products have come in.

**Jigar Valia:** Perfect and no change in top five?

**Gautam Arora:** There could be change in one out of the top five.

**Moderator:** Thank you very much. Our next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

**Ritesh Gupta:** Just two bit of questions, on other expenses I see this jump from 25 crores to 40 crores, what is it on account of because FOREX that sits in other expense is I think not material so what could be that on account of the jump in other expenses.

**Gautam Arora:** Broadly I think as a part of other expense foreign exchange difference has gone up by18.2 crores.

**Ritesh Gupta:** Because if I see the adjustment for FOREX impact in your slide the difference I see is close to 13 million which means 1.3 crores or so, so then.

**Gautam Arora:** Which slide are you referring to Ritesh?

**Ritesh Gupta:** Sir Slide #10 if you see. So EBITDA and operation EBITDA difference which excludes FOREX impact so I can see 13 million of difference in this quarter and 4Q FY14 was largely flat there was not much of FOREX impact there, so 13 million here and there it’s not making that much of a difference than it’s like nearly 150 million increase in other expenses basically.

**Gautam Arora:** So the increase in other expenses are you referring to quarter four in particular?

**Ritesh Gupta:** Yes, quarter four in particular yes.

**Gautam Arora:** So the increase in other expenses is primarily on account of selling marketing and distribution expenses so the level of advertising and sales promotion expenses have gone up considerably, the traveling and convenience expenses has gone up considerably, the professional charges have been flat and then there has been an increase in bank charges and there is one more head I will tell you, so there has been advertising sales promotion expenses and sales commission expenses that have gone up significantly during the quarter that is the reason why there has been a considerable increase. The other elements that have contributed to the increase in the quarter are also the bank charges that have increased on account of increase in volume of activity, so the price has increased.

**Ritesh Gupta:** But Gautam even if I see it on a full year basis it’s like 500 million increase and even then if I see for FOREX it wouldn’t be more than 200 million so then also 30 crores of expenses have increased on a Y-o-Y basis. That means other expenses have increased even for FOREX as a percentage of sales. Now FOREX is one thing but even apart from that operational expenses also seem to have increased because of employee cost has also increased by about 36% versus say 34% full year growth, so is it something which is base which is going to stay there we might see that.Is there something to read into it, that the cost of your operating in, your current wage with your rising scale or probably you need to employ more people to give that kind of growth, is there something to read in that from that perspective?

**Gautam Arora:** No, so most of the expenses that have gone up if you see when I mentioned selling marketing and distribution expenses which have got instead of sales commission, traveling and conveyance and advertising and sales promotion, now these are kind of I would classify them as variable expenses so, to see the increase in expenses there is a percentage of sales and you compare it year on year I am sure the increase has not been as significant as you think, so volume of activity is going to go up I am sure these expenses are going to track the volume of activity.

**Ritesh Gupta:** Okay, so you are saying basically as percentage of sales probably these expenses will remain where it is.

**Gautam Arora:** Yes, because you need to spend on advertising and sales promotion in order to achieve good top line, you need to give commission on sales to the sales guys who help you get this business and traveling and conveyance is obviously a part of sales marketing, selling marketing and distribution expense. So with every top line increase these will be a certain percentage of the top line that will keep going up as a variable cost.

**Ritesh Gupta:** Correct. So no operating leverage as such that way.

**Gautam Arora:** The rest of the expenses are broadly under control. I don’t think there is any significant increase otherwise so if you compare the some of the other expenses they are very standard and I don’t think there has been large increase in other expense heads like legal and professional charges has just gone up by about 19% as compared with last year whereas the sales have gone up by about 34% so the increase has been under control. The repairs and maintenance cost has been fairly low in terms of contributing to the total expense so even though they have gone up by close to about 40% but they really don’t contribute significantly to the overall cost. Same is the case with rates and taxes this has gone up by about less than 15%.Rent is gone up by about 15% approximately, freight and forwarding charges have gone up by around 7% or so.

**Ritesh Gupta:** So, and the next question is that the cash and cash equivalence if I see on a Y-o-Y basis have gone down from 190 crores to 156 crores now working capital remains the same. In terms of days it remains the same and there is CAPEX of about 58 crores this is what I can see in the and if I just take the EBITDA as proxy for operating cash flow it comes at about 194 crores of EBITDA that you have made this year operational EBITDA. Now why this drop in cash and cash equivalents about 30-35 crores of cash has gone down, despite CAPEX has been largely controlled, so what was it on account of?

**Gautam Arora:** How you are considering cash and cash equivalents are you also taking into account current investments and non-current investments?

**Ritesh Gupta:** No, what is given in your presentation, if I see the presentation on Slide #9 you have moved from 191 crores of cash at FY14 end to 156 crores of cash at FY15 end. So from that perspective I am asking.

**Gautam Arora:** So I think this includes the investment bit also, so while the cash and cash equivalents have come down I think most of this, so this has got largely involved in working capital so if you analyse the balance sheet I don’t know if you have the balance sheet with you, if you analyze the balance sheet on a consolidated basis the inventory has shot up significantly from 81 crores to 140 crores that is about a 59 crores increase, then the trade receivables have shot up some 400 to 454 crores so that is another 54 crores increase, so let’s add 59 plus 54 and the increase at trade payable is 205 to 228 that is about 23 crores increase so the working capital involvement out of this cash decline has been 90 crores utilization into working capital. And there is the increase in the additional investments that are going into registration so there is going to be some amount of capital increase there and what else. So broadly these are the things that I can think of how the cash decline has been compensated for.

**Ritesh Gupta:** So you said 90 crores of working capital and 58 crores of CAPEX so that comes to about 148 crores of kind of working capital as well as capital expenditure.

**Gautam Arora:** Yes, and plus there is also a provision for dividend that we made in the books so the dividend plus dividend distribution tax would entail an outflow, an outflow of close to about 26 crores or so.

**Moderator:** Thank you very much. Our next question is from the line of Nikhil Jain who is an Individual Investor. Please go ahead.

**Nikhil Jain:** Sir I have couple of questions related to your new product. So how many new products were added let say in the formulation side last year and what is the plan for this year on the formulation side?

**Gautam Arora:** I think we are talking of an increase of 12 molecules in as far as the pipeline, in the entire portfolio of around 35 molecules which we are working on.

**Nikhil Jain:** And sir for the next year you are planning another 12 molecules or is it like?

**Gautam Arora:** No, as of now there are 12 molecules which we are working on so we keep looking out for opportunities by way of organic growth as an when we find good molecules that is worth pitching in for we would start work on it.

**Nikhil Jain:** Okay. And one more question on the competitive intensity let say in the European market so for the top 10 products or let say the top 5 products what do you think is the competitive intensity so let say across the different markets in Europe how many people are there who are competing with you for the same products I know they are generic product but are they 5, 10, 15, 20 so is it like multiple of those or less than five kind of thing is there anything some color on that?

**Gautam Arora:** Yes, so our experience has been that there are not more than five players for any one particular molecule in any one country within Europe or elsewhere who vie for market share.

**Nikhil Jain:** Okay, and the competitive intensity is broadly, roughly similar as compared to let’s say last one, two years so it has not changed drastically either up or down.

**Gautam Arora:** Well in some products there could have been an increase in competitive intensity because some new player would have come in and got a new registration in a molecule, so in that case there could be an increase in intensity but otherwise I think the correct level of margins clearly justify that the limited number of players remain because the moment the new player comes into the fray he is only going to crash down the prices to penetrate into the market which is adversely going to impact the others so if, the new player is going to earn margins which is lower than the current level it would no longer be exiting for any player to be in this business. And also the competitive intensity is also governed by the registration policy in the European region. So the European region is only becoming more and more stringent in terms of branding registrations to serious players and the process that has been followed by each of the rapporteur countries in Europe is only getting more stringent.

**Nikhil Jain:** So that is the, we believe that it would be helpful for us so let say the regulation requirements are becoming more stringent so the registration requirements we would be able to meet all of those and it would be helpful to us as compared to let say some of the other competitors who may or may not have all the capabilities would it be helpful or would it be detrimental.

**Gautam Arora:** It will be helpful. And plus we must also remember that most of the other serious player in the market are also manufacturers of these products so they would largely want to focus on those products which they have a manufacturing capability for because they would like to recover the plant overheads by way of getting registrations for these products. Now, players like us who don’t have any manufacturing capabilities of our own have a strong operating leverage here because we are not tied down to any one particular product nor are we under any kind of a compulsion to sell any kind of a product if its’ a loss making product we can always pick and choose those products which we want to deal in.

**Nikhil Jain:** So what I was saying was that, when we are actually registering a product in let’s say any of the geography the registration is in our name and we have a particular dossier that we are filling and in that the API or the formulation wherever we are getting it from is the registered source right?

**R. V. Bubna:** Yes, sir.

**Nikhil Jain:** So generally I understand that there would be two or three companies who are giving the same formulation and they would be part of the dossier and hence they would be registered so is it like when we talk about competition and negotiation on an order by order basis we are negotiating between those two or three suppliers who actually get the leverage on the pricing or on the cost?

**Gautam Arora:** So the usual tendency is that we tend to add more than one player as a source of supply for anyone particular molecule and when we discuss the prices in China we typically tend to discuss the FOB prices first so that the Chinese supplier does not know as to which country are we looking this particular product to be sourced for, so it’s not that easy for a Chinese supplier to make out and to twist our arms or try to play any kind of monopolistic truants with us.

**Nikhil Jain:** Right but are there no let say audit requirement from European authority to the company who is actually manufacturing the formulations or the API?

**R.V. Bubna:** There is no audit as such but we follow the rules, we add at least two to four manufacturers as our approved source, so this is how we mitigate the possibility of the supplier or the manufacturer trying to exploit our situation.

**Nikhil Jain:** Right because that may be one danger actually and sir one last question do you enter into supply agreements with your approved suppliers for API and formulations?

**R.V. Bubna:** No, we don’t enter into any supply agreement, we negotiate them with them from order to order basis because this is to our advantage. As I told you first of all there is a tendency of prices going down, secondly we don’t want to tie down our sales into a particular manufacturer even for four orders, we would like to get the best prices by taking quotation from the three approved suppliers and get the lowest price.

**Nikhil Jain:** Right. Sir my only reason why I raised this point was that in the pharma world what we are seeing actually is that there is an increasing tendency of company having two or three suppliers to actually enter into a supplier agreement because the regulatory requirements are becoming very. So it helps them as well as the other company because that is somehow sometimes become a bottle neck especially run audit and other things happen.

**R.V. Bubna:** See there is one significant and subtle difference between the pharma world and the agrochemical world. In pharma, the manufacturing sight is the most important part of the registration, in agrochemical that is not the case, the product is more important and as I have told you we can have three or four approved sources in our registrations that gives us a freedom in pharma may be that freedom is not there because registration of the additional site is as cumbersome as making a new registration.

**Gautam Arora:** Also I would be put at a disadvantage if I enter into long term supply arrangements with supplier because the products that we deal in are very sensitive to weather conditions across the globe so in case I have any kind of a tie up for specific volumes to be picked up from my supplier and the weather turns bad in a particular region then I will be tied down with this inventory and with nowhere to go. So it works in our favor in our kind of business model not to have any kind of long term supply agreements.

**Moderator:** Thank you very much. Ladies and gentlemen that was our last question. I now hand the conference over to Mr. Vijayaraghavan for closing comments. Over to you sir.

**Vijayaraghavan G:** Thanks Zaid. Sir would you like to make any closing remarks, Mr. Bubna?

**R. V. Bubna:** No, sir. It has been a very nice discussion and good chat. Very pleasant.

**Vijayaraghavan G:** Thanks a lot for giving us this opportunity to host the call. Thanks.

**Moderator:** Thank you. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.