"Sharda Cropchem Limited
Q1 FY2023 Earnings Conference Call"

July 25, 2022

Analyst: Mr. Manish Mahawar – Antique Stock Broking

Management:

1. Mr. Ramprakash V. Bubna – Chairman & Managing Director
2. Mr. Ashok Vashisht – Chief Financial Officer
3. Mr. Dinesh Nahar – General Manager (Finance)

Moderator: Ladies and gentlemen, good day and welcome to Sharda Cropchem Limited Q1 FY2023 Conference Call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an 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. Manish Mahawar from Antique Stock Broking Limited. Thank you and over to you Sir!

Manish Mahawar: Thank you. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Sharda Cropchem. From the management, we have Mr. R.V. Bubna – Chairman & Managing Director; Mr. Ashok Vashisht – CFO; and Mr. Dinesh Nahar – GM (Finance) on the call. Without further ado, I would like to hand over the call to Mr. Bubna for opening remarks. Post which, we will open the floor for Q&A. Thank you and over to you Mr. Bubna!

Ramprakash V. Bubna: Thank you Manish. Good evening and very warm welcome to everyone present on the call. I hope all are keeping safe and healthy during these times. Along with me I have Mr. Ashok Vashisht – Chief Financial Officer; and Mr. Dinesh Nahar – General Manager - Finance and SGA Our Investment Relations Advisors. Hope you all have received our investor deck by now. For those who have not you can view them on the stock exchanges and company website.

We are a fast-growing global agrochemical company with a peer position in generic crop protection chemical industry. Our vast and growing library of dossiers and IPRs provide us solid foundation for the growth in the global marketplace especially in advanced markets such as Europe, North America, and Latin America. It equips us with the ability to operate in a diversified range of formulations and generic active ingredients space globally. The company continues to identify opportunities in the generic molecules and corresponding formulations and generic active ingredients, preparing dossiers and seeking registrations in the relevant jurisdictions. Sharda Cropchem's total product registration stood at 2719 as on June 30, 2022. Additionally, 1153 applications for the product registrations globally are at different stages of approval.

The capex of Q1 FY2023 stood at Rs. 102 Crores. We are placing focus on expanding our biocide registrations whilst scaling up its marketing and distribution capabilities across geographies. We have relationships with multiple manufacturers in the agrochemical industry mainly in China and India. Sourcing from multiple manufacturers help us in getting quality products at optimal price thereby derisking its sourcing capabilities.

Over the years we have built a strong brand franchise within our global markets. We are benefiting through the economies of scale in our portfolio and leveraging value of our supply chain to deliver value to our customers across geographies. For Q1 FY2023 revenues grew by 32% at Rs. 825 Crores, Revenue growth was led by better price realizations and product mix.

Gross margins have been impacted by weakening of euro versus dollar leading to an increased input cost and impact on higher freight costs.

Major currencies have depreciated against US dollar in the last quarter due to ongoing war between Russia and Ukraine. Nearly 50% of our Q1 FY2023 sales from agrochemical business have been to the European region whereas majority of the company's raw material is imported from China and payments are made in US dollar. This has impacted the company's gross margin and overall profitability as the Euro had considerably depreciated against Dollar during the quarter.

PAT was impacted by higher depreciation and forex losses of Rs. 43.2 Crores in Q1FY2023 versus a gain of Rs. 11.5 Crores in Q1 FY2022 impacting to the tune of Rs. 54.7 Crores.

We are evaluating various measures to mitigate the adverse impact of forex going forward. We have accelerated focus on revenue generating investments and are continuously looking to improve the operational efficiencies which will help us improve the margins.

With this brief overview I would now like to hand over the call to our CFO, Mr. Ashok Vashisht for discussing our financial performance. Thank you very much.

Ashok Vashisht: Thank you Sir. Good evening, everyone. Coming to the Q1 FY2023 performance: Revenue stood at Rs. 825 Crores against Rs. 623 Crores in Q1 last year registering a growth of 32% year-on-year. Our revenue growth was led by better price realization and product mix. We had a favorable price and product mix impact of nearly 38% coupled with exchange loss of 3.3% during the quarter. During the quarter there was a marginal degrowth in volume to the tune of 2.5% mainly in LATAM and NAFTA.

Gross margin stood at 25.4% marginally lower comparatively essentially due to weakening of Euro versus Dollar and also due to slight increase in the freight cost.

EBITDA has grown by 4% in absolute terms to Rs. 111 Crores; however, percentage EBITDA margins are lower due to lower gross margins and slight increase in the freight cost.

PAT stood at Rs. 22.64 Crores in Q1 FY2023 versus Rs. 38 Crores in Q1 FY2022. As you might have seen in our presentation PAT was mainly impacted by forex losses to the tune of Rs. 43.2 Crores in Q1 FY2023 driven by weakening of the Euro currency in this quarter versus gain of Rs. 11.5 Crores in Q1FY2022, impacting to the tune of Rs. 54.7 Crores. The Euro has weakened against Dollar by nearly 7% in the three months from April to June 2022.

Coming to the split: Agrochemicals business grew by 15% year-on-year to Rs. 615 Crores whereas there is a growth of 137% in non-agro business and we achieved the turnover of Rs. 210 Crores in non-agro business. In the agrochemical space Europe grew by impressive 24%, NAFTA region grew by 10% in value sales, Latin America degrew by 2% in terms of value sales, and sales in the rest of the world grew by 18%. Europe continues to contribute at 51%, NAFTA region 31%, Latin America 13%, and the rest of the world 5% of the agrochemical business for Q1 FY2023.

In the non-agrochemical space Europe grew by 143%, the NAFTA region grew by 196%, LATAM grew by 165%, and rest of the world grew by 13%. In non-agro space Europe contributes nearly 28%, NAFTA 55%, LATAM 6%, and the rest of the world is 11%.

With this, we now open the floor for questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: Good evening, Sir. You point out the pressures on profitability if you could help us understand what is the company doing to mitigate that and where do you see sustainable profitability both gross margin and EBITDA margin in the near-term?

Ramprakash V. Bubna: You see this slide in Euro versus Dollar was not predictable in advance for us to plan a strategy. Even today the experts say that the Euro is going to strengthen up, so we are a little bit handicapped in making a solid strategy towards this end. We are thinking of buying our supplies in euro from China, but we are also afraid that if we buy them in euro and if the euro goes up then we will lose the opportunity to make up for the loss that we have already incurred. We are keeping a close watch on the situation, and we will slowly act.

Chirag Setalvad: Where do you see near-term profitability settling now at a gross margin level because you would have taken some price increases as well to take care of the freight cost changes so where do you see sort of second half of this year profitability at a gross margin and at an operating margin level?

Ramprakash V. Bubna: We feel we should be getting nearer to our last year's gross margins in the course of time.

Chirag Setalvad: Sure. That is it from my side. Thank you.

Moderator: Thank you Mr. Setalvad. We have our next question from the line of Harsh Beria, professional investor. Please go ahead.

Harsh Beria: Hi! Thanks for the opportunity. My question is about the high growth in the non-agro business what is contributing to such high growth in the non-agro business, it cannot be that the end market is going at these rates so can you expand a bit about it?

Ramprakash V. Bubna: The end market is not going at the same rate, but we are able to get a better share in the existing market mainly because of our strategies and providing service to the customers by delivering our products on time and with good quality. We will continue to see, but agro will also grow so the proportion may not be so much different than what it is in this quarter, but both the businesses are expected to grow.

Harsh Beria: Can you elaborate on your marketing strategies was there a change that happened recently that has contributed to such high growth?

Ramprakash V. Bubna: Mainly concentrating on our sourcings to get the goods manufactured because they are tailor-made products to get them manufactured in right time and probably Chinese suppliers were also a little bit free to help us in this matter and also pushing on the shipments in spite of increased costs or not waiting for the cost to come down or not negotiating much on this. Main thing was to deliver the goods on time to the customers.

Harsh Beria: I think last quarter you had highlighted that the margins have been hit in this division can you tell us like what were the margins this quarter in the non-agro business?

Ramprakash V. Bubna: Margins region wise I will tell you. The margins were about 22% in this quarter compared to the same about 14% in the last year.

Harsh Beria: That is it from my side. Thank you for taking my question.

Moderator: Thank you. We have our next question from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Hi! Sir, thanks for taking my question. What I wanted to understand was that what are the reasons because of which the penetration of generics is very low in the agrochemical space compared to something like a pharma industry where the generic compound has a very high market share compared to the innovators?

Ramprakash V. Bubna: Sir your question is not very clear. You are comparing the share of generics in the agrochemical business compared to the share of generics in the pharma is that right?

Ankush Agrawal: Yes.

Ramprakash V. Bubna: Sir I am not able to comment on what is happening in the pharma.

Ankush Agrawal: No, what are the reasons why generics have not been able to penetrate more in the agrochemicals?

Ramprakash V. Bubna: Yes, I will tell you. I have been answering this question repeatedly in various calls and I will repeat it once again. The cost of registration in agrochemicals is very high and the time period is also much longer. Both these factors and at the end it may take two years, four years, even seven years, so these are the two factors which prevent normal investors or normal people in this line to plunge themselves into the registrations of agrochemical business. In pharma the cost of registration is much lower.

Ankush Agrawal: No, I am trying to understand over here is the point that you are making is nice, but since Sharda as a company we have the registration, but why are we not able to penetrate because since we have the registration right?

Ramprakash V. Bubna: We are not able to penetrate?

Ankush Agrawal: Yes, the argument that you are making there are not a lot of players is fine but obviously they are not a lot of players, but even with one, two players that are there in the generic why are they not able to penetrate?

Ramprakash V. Bubna: The multinational companies have a name and reputation and people have much better trust on them than a generic company. It takes a lot of time for the generic company to establish itself and win the confidence of the customers that we are competent to provide them the quality and deliveries on time and it is a very slow process.

Moderator: Thank you Sir. We have our next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Good evening BubnaJi. Sir first question is on our gross margin though in the first question you tried to answer that we are still not sure that how we will be able to make sure that our margins are not impacted given the currency volatility, you mentioned that you also have one option to buy in euro from China and then sell it in euro as well, so given the volatile scenario in which we are do not, you think that it will be prudent for us to act fast and make sure that the business margins are not being impacted with the current volatility and take the decision accordingly rather than keeping it open and depending on how the currency's movement will be happening going forward rather than focusing more on the business margin?

Ramprakash V. Bubna: We were not very sure when the euro dollar ratio went up to 1.05 to 1. Everybody was advising that is the bottom from here all the experts on the foreign exchange markets. If we had known that it will come down to 1 to 1 you would immediately act it, and this has been going on all this time week-after-week and month-after-month. The scene was never clear to anybody, and we do not want to speculate, we would like to be very careful that we do not lose the opportunity when the euro starts taking the about turn.

Rohan Gupta: Absolutely right and that is what you just mentioned that we are not in the business of currency trading, we could have option of hedging it with the currency hedge or rather than waiting and watching when the rupee dollar or euro dollar will come back to the level what you are looking for, would not be prudent to have the sufficient hedge so that we can protect our margins in a current scenario, that is what my limited question was, nobody is expert of making the prediction on the currency so I understand we do not know how and when it will come back, but at least we can take a sufficient hedge to protect ourselves from the currency volatility?

Ramprakash V. Bubna: The only hedge we do right now is to move forward contracts where we also get some premium on this and protect it, but nobody was sure that it will go to the level of one as to one. Every time we were advised that now it will start moving up, this is right time, there is going to be this committee meeting in Europe or that committee meeting and all that and even today nobody is able to say that it will go to below 1 as to 1, but if it starts doing that then that is where we prove that we lost the opportunity. We are keeping a watch and very careful watch we are doing, and we will take care as much as we can, but we do not want to speculate.

Rohan Gupta: Second question on this definitely our business model is more dependent on China and which is based in dollarized purchases while we will sell in Europe so I think the problem which we have faced not many other innovators will be facing the same issue because they may be less dependent on China or more dependent on their local markets because we are completely dependent on China for the imports of raw material and selling in the European market so other innovator may not be facing the same issue and that is what you see that it is difficult for us to increase the pricing or to pass it on to the end customers in European markets?

Ramprakash V. Bubna: I want to give you general information. China is exporting huge quantity of agrochemicals and all the exports is in dollars and the buying, purchasing in Europe is mainly in euros or European currencies, so all those operations are impacted adversely in this situation. In fact I had mentioned last time that now I am told that even the European manufacturers, multinational manufacturers are shifting their manufacturing into China because of various issues of fuel and energy in Europe. All these businesses will be adversely impacted with this euro dollar uncomfortable exchange rate. Only those people who are exporting from other regions like in India where the dollar has become stronger than the Indian rupee these people are getting benefited, but the rest of the world most of the people are sourcing in dollars and selling in the currencies in the countries where they are selling.

Rohan Gupta: With this other European players also facing the same issue what we have so are we seeing that we also have pricing power, and we are able to pass it on to the end customers. When you are selling the materials now in the market do you see that you are able to pass it on completely to the end customers including the currency depreciation?

Ramprakash V. Bubna: We are making efforts and in a fairly good proportion we have also successful, but it will take time because we do not want to lose our market share for some percentage of margins. We also want to keep repo with our customers and keep on increasing the share. Both the things are contradictory, but we are trying to control both of them.

Rohan Gupta: Okay Sir thanks I will come back in the queue.

Moderator: Thank you. We have our next question from Sonal from Prescient. Please go ahead.

Sonal Minhas: First question is more around the numbers so for the agrochemical business we have seen 15% revenue growth can you split this into value and volume that is just the first bookkeeping question?

Ramprakash V. Bubna: You want to know the volumes?

Sonal Minhas: The volume and the value split of the 15% topline growth for the agrochemical business.

Ramprakash V. Bubna: Volume growth has been negative 2.5%, forex impact is negative by 3.3%, and the product and price mix have been positive by almost 38%, and overall, it is 32.4% total.

Sonal Minhas: That is for the whole company if I am not wrong right?

Ramprakash V. Bubna: Yes please.

Sonal Minhas: I was specifically asking for the agrochem business if you have this that will be helpful?

Ramprakash V. Bubna: In Europe agrochemicals have grown by 24%, NAFTA region 10%, LATAM is degrowth of 2% and rest of the world is 18%, overall, 15%.

Sonal Minhas: How much price rise would we have taken in agrochem roughly in this quarter?

Ramprakash V. Bubna: I have total basis, that chart is not yet ready with me.

Sonal Minhas: Sure, I will take on that later. I have a second question also which I wanted to get an understanding of, wanted to understand the demand scenario in Europe and NAFTA as we speak right now and you have seen any kind of softening or inventory being built up too much because of which the demand is tapering, I just wanted to understand a subjective commentary from your side on this basically and if you have numbers on the market?

Ramprakash V. Bubna: Demands in the European region are fairly good and there is no cause of worry at all, but in NAFTA region there has been a pressure on the demand mainly because of the weather and somewhere there the weather has been very arbitrary in NAFTA region, somewhere very heavy snow, and storms and somewhere totally dry, so that has put up an adverse pressure on the demand in NAFTA region.

Sonal Minhas: Thank you.

Moderator: Thank you. We have our next question from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Good evening, Sir. Just wanted to get agrochemical volumes, regional agrochemical volumes, and regional gross margins?

Ramprakash V. Bubna: Regional agrochemicals volume in Europe it is almost 4 million units versus 3.5 million in the same period last year, NAFTA region it is 2 million versus 2.4 million a degrowth of about 17%, Latin America it is 1.1 million versus 1.5 million about -28% and rest of the world ~2,80,000 versus 340000.

Tarang Agrawal: Gross margins?

Ramprakash V. Bubna: Gross margins in agro business in Europe it is 31% versus 42%, NAFTA 24% versus 25%, Latin America 17% versus 17% is almost flat, rest of the world 23% versus 31%, overall 26.3% versus 31.9%.

Tarang Agrawal: That is it from me. Thank you.

Moderator: Thank you. We move on to the next question from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Hi! Sir, good evening. Thank you for taking my question. I wanted to understand with respect to gross margins the sharp decline that we have seen is this only because of the forex impact?

Ramprakash V. Bubna: Mainly yes.

Alisha Mahawla: Considering the kind of weak volume growth that we have seen in Q1 do we want to continue with our guidance of 15%, 20% topline growth for the full year?

Ramprakash V. Bubna: Hopefully yes.

Alisha Mahawla: Just lastly the kind of capex spend which is largely R&D or registration related of 100 Crores can we expect that to continue for the remaining quarters or are we expecting any spike in that?

Ramprakash V. Bubna: We expect to be continuing the same range, maybe a slight increase.

Alisha Mahawla: Sure, thank you.

Moderator: Thank you. We have our next question from the line of Bhavya Gandhi from Dalal & Broacha. Please go ahead.

Bhavya Gandhi: Thank you so much for taking my question. Last quarter did we have any one-off benefit because our competitors were not functional, and we had good relations in China, and we were able to supply to the customers?

Ramprakash V. Bubna: See the first part was not true; the second part is true we have good relations with the suppliers in China and we were able to get good support from them.

Bhavya Gandhi: So, there was no one-off impact in last quarter right?

Ramprakash V. Bubna: No, not at all.

Bhavya Gandhi: Can you just provide revenue EBITDA and PAT guidance for FY2023 and 2024?

Ramprakash V. Bubna: FY2023 and 2024?

Bhavya Gandhi: Yes.

Ramprakash V. Bubna: I can provide for 2023. We hope to maintain our growth of about 15% to 20% and EBITDA in the range of 18% to 20%.

Bhavya Gandhi: Fair enough and you mentioned about European companies shifting their manufacturing to China will that lead to some sort of demand softening?

Ramprakash V. Bubna: Demand softening for our company?

Bhavya Gandhi: Because then procurement from China would become easier.

Ramprakash V. Bubna: It will become easier?

Bhavya Gandhi: Directly procuring from China would become easier and will it be some revenue loss to us?

Ramprakash V. Bubna: No such thing.

Bhavya Gandhi: Thank you.

Moderator: Thank you. We have our next question from the line of Anubhav from Prescient Capital. Please go ahead.

Anubhav: I just have one question. Sir have you seen any pressure or fall in product realization from last quarter to this quarter?

Ramprakash V. Bubna: Have we seen what pressure?

Anubhav: Any pressure or fall in your average realization from last quarter to this quarter like sequentially?

Ramprakash V. Bubna: No such things, we have increased the volume.

Anubhav: No Sir I am not talking about volume.

Ramprakash V. Bubna: The same quarter I am not talking about the last calendar quarter, compared to April, June last year and April, June this year.

Anubhav: Yes Sir, my question was like from Q4 FY2022 to this quarter like sequentially have we seen any fall in product realizations or realization has held?

Ramprakash V. Bubna: Mr. Anubhav we are not comparing with Q4 last year with this quarter. Ours is a seasonal business and every quarter has a specific role to play. Our Q4 of every financial year is the best quarter, you cannot compare Q4 of last year with Q1 of this year, what we can compare is Q1 of last year and Q1 of this year.

Anubhav: Sir I get that and I am not talking about product volume I am talking about the pricing, product pricing. Realization. Like is there any pressure on the final realization that you are getting?

Ramprakash V. Bubna: No there is no such thing. The prices are more or less at the same level.

Anubhav: Okay that is all from my side thanks.

Moderator: Thank you. We have our next question from the line of Harsh Beria, professional investor. Please go ahead.

Harsh Beria: Thanks for the opportunity again. You had previously shared volume numbers across markets was this overall volume that Sharda ship or was this agrochem volume?

Ramprakash V. Bubna: I think the question was for agrochem and what we have shared was for agrochem.

Harsh Beria: My final question is about the price increase of 38% on the entire sales for this quarter was this mostly attributed to increasing raw material prices of your non-agrochemical division?

Ramprakash V. Bubna: The question is related to non-agrochemicals am I right?

Harsh Beria: Yes.

Ramprakash V. Bubna: Yes, there has been an increase in the prices with efforts that we were putting in. Here we had not realized the impact of freight, now we are taking the freight into very serious component and we are putting pressures on our customers to give us a better price and they are yielding.

Harsh Beria: Okay perfect thanks for the clarification that is it from my side.

Moderator: Thank you. We have our next question from the line of Harsh Shah from L&T Mutual Fund. Please go ahead.

Harsh Shah: Thank you. Mr BubnaJi I hope everything is all good at your end.

Ramprakash V. Bubna: Yes Sir.

Harsh Shah: So there are two questions, you have answered all of the questions very, very thoroughly, but just two questions from my end. First is apart from forex management, is there any other way where we can increase our gross margin or is it purely we have to try to manage our forex only?

Ramprakash V. Bubna: Forex is one thing, second is being in constant touch with our customers if they can somehow realize our situation and give us better prices, but then they also have limited freedom on that account because they are also facing competition with their customers, forex is main thing.

Harsh Shah: Understood. So, assuming let us say from now to next quarter there is no major movement in forex. Our gross margin should remain similar to what we have reported in Q1 or how should we look at it?

Ramprakash V. Bubna: No, it should be better because we are thinking of other means as I just mentioned in the beginning of this concall we are trying to source our products from China and they also knows what is the status of euro but then they may be having some ways of hedging their losses so they are in some of the cases when you try it they will agree to give us a price in euros and we will increase that share of buying in euros.

Harsh Shah: I understood Sir and with so much of issues that we are currently hearing in overall macroeconomy of euro, earlier you had already mentioned that licensing has already got very complex and is taking a bit more time so it is taking a bit more money has that timeline and that expenditure further increased now or has it remained similar so what it was last quarter and the last year?

Ramprakash V. Bubna: It is constantly increasing, but since all those expenses are in euros if you compare it with dollar then it may not be increasing in terms of euros it is increasing.

Harsh Shah: Okay Sir understood that is it; those are the two questions from my side. Thank you and all the very best.

Moderator: Thank you. We have our next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Good evening. Sir my first question is around your depreciation the depreciation amount is down from Q4 to Q1 and the depreciation varies across quarters in any given year could you explain the reason for that?

Ramprakash V. Bubna: Because constantly we are getting registrations throughout the year and as we receive the registration all the investment made on that registration which was earlier bracketed under a capital work in progress is getting capitalized so that is why there is a variation from quarter-to-quarter and it is a continuous process for us.

Gagan Thareja: Right, I understand that, but from Q4 of last year to Q1 of this year why should the depreciation fall?

Ramprakash V. Bubna: Sir again as I explained you we get many registrations in the last quarter or end of the third quarter and they get capitalized in the fourth quarter.

Gagan Thareja: Second question in Europe what is your exposure to Eastern Europe in sales?

Ramprakash V. Bubna: It is much lesser compared to Western Europe.

Gagan Thareja: Any number you could give us ballpark number approximate?

Ramprakash V. Bubna: We have not segregated this because the agriculture in the Eastern Europe is much lesser, the population in Eastern Europe is much lesser and the demand in Eastern Europe is much lesser.

Gagan Thareja: Okay thank you I will get back in the queue.

Moderator: Thank you. We have our next question from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: Thank you for the followup. What I am trying to understand is that say Sharda launches a product so how does it perform over the years like so in year one do you start small and then over the years the next three, four, five years does it gradually inch up or you start with a decent share and then over the years stay kind of similar or some small growth for individual products?

Ramprakash V. Bubna: It starts with a moderate level and gradually we increase it because the customers have to get used to our product, they must get convinced that our product will perform and they should also have the trust on the quality. So even a customer if he needs 100 liters of product he will start with maybe 10, 15 or 20 liters from us. Only if he is convinced, he will order 40 or50 or 60 L of products from us.

Ankush Agrawal: So the whole product for us is growing right?

Ramprakash V. Bubna: Yes, and at the same time some of the older products if they become commodity then they start going down in the proportion.

Ankush Agrawal: When does that happen so if a product goes generous in say this year so over next three, four, five how long does it take for the product to become such that it will start falling like the overall market?

Ramprakash V. Bubna: Sir again I will have to request you to please your questions are not very well comprehendible can you repeat the question once again little slowly?

Ankush Agrawal: I will take that offline I think that will need some explanation. Thank you.

Moderator: Thank you. We have our next question from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.

Sameer Deshpande: Good evening Sir and we have been performing very well throughout the last year or almost two years after COVID also we have done very well and so this quarter seems to be an aberration and mainly due to the things beyond control no one really could predict that type of currency movement so it is understanding that this will be an aberration I hope and from Q2 onwards as you mentioned if the euro, dollar parity continues at the same level you mentioned that the gross margins are expected to improve so will they be at the same levels around 29, 30 levels which we normally used to attend?

Ramprakash V. Bubna: So, this last sentence is not very clear. I understood most of the question last sentence you have to repeat.

Sameer Deshpande: I will repeat. I think you mentioned if the euro to dollar parity current which was there if it remains the same do we hope to return to the gross margin levels of 29, 30 which we were achieving over the last year?

Ramprakash V. Bubna: This is a very hypothetical thing, but if the euro, dollar exchange rate improves then our profitability and gross margins will improve that is the only thing I can say in general. To what extent and other things are a pure guess which is very easy to guess for anybody.

Sameer Deshpande: Okay now the second question is regarding you mentioned about the guidance which was around 15% to 20% for the year and operating margins that is EBITDA of around 18% to 20% is it correct which I heard?

Ramprakash V. Bubna: Yes please.

Sameer Deshpande: Thank you.

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

S. Ramesh: Good evening BubnaJi, thank you very much. My first thought is in terms of your strategy on new products can you share how many products you are launching this year; how many you plan to launch next year and how do you see your ability to possibly going for higher margin products as you launch these products?

Ramprakash V. Bubna: See every new product that we launch commands a higher margin compared to the products which are already being marketed mainly because of the competition factor and this process will continue.

S. Ramesh: The second thing is if you are looking at the European market the regulators are trying to discourage the use of chemical pesticides and pushing the industry to move for sustainable and biological products so what is the challenge you are facing how do you plan to overcome given that you have a large exposure to Europe?

Ramprakash V. Bubna: This is not a very serious challenge for us. I feel that the current trend will continue, there could be a marginal desire to go for bio products, but the availability and it is in practice that alternative is not very challenging.

S. Ramesh: One final thought in terms of the trend in the container freight and the availability of chemicals from China, how is the situation now do you see the container freight rate coming down and we will supply from China easing in terms of the volume of material available?

Ramprakash V. Bubna: There is an improvement, the freight rates are softening and availability of the shipping space is also improving, it is not as bad as it was about two, three months back.

S. Ramesh: How about availability of chemical raw materials?

Ramprakash V. Bubna: That is also improving.

S. Ramesh: Thank you very much Sir and wish you all the best.

Moderator: Thank you. We have our next question from the line of Anurag Dinkar Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir other income has increased significantly to 20 Crores in Q1 so can you explain what is the reason behind it?

Ashok Vashisht: On other income - This is a purely accounting presentation . There are two components- profit on sale of mutual fund 11.4 Crores has come in other income and there is a loss on investment at fair value (mutual fund), there is a loss of 12.15 Crores which is forming part of other expenses .So this classification is a purely as per the accounting standard requirements You have to net it off to see the net impact.

Anurag Patil: You have maintained the guidance of around 18% to 20% EBITDA margins for the year and current quarter they are significantly lower so in the second half are you expecting significant improvement in the margins?

Ashok Vashisht: Yes, we are expecting increase. The guidance is for the yearly basis so which we are maintaining 18% to 20%.

Anurag Patil: That is it from my side. Thank you very much.

Moderator: Thank you. We will take our last question from the line of Himanshu Binani from Prabhudas Lilladher. Please go ahead.

Himanshu Binani: Yes Sir, thank you for taking my question. Again the question is on the gross margin side I was actually trying to understand one thing, so we have taken a hit into the gross margin and that was largely towards the forex side while we have taken a forex loss of somewhere around 43 Crores so just trying to understand the impact basically despite taking a 38% increase in the price we had a 400 basis point decline into the gross margin so can you just quantify what has been the overall impact basically into the gross margin which was led by the forex?

Ashok Vashisht: There are two things basically one is the realized one, the other one is unrealised. The 43 Crores which you are seeing is basically that is a notional loss and not actual loss. The quarter end positions of accounts receivable, accounts payable and in terms of actual loss which is impacting us is in the gross margins . wherein we have already made the payment for that in dollars and our realization is in euros . This impact could be here to the tune of 4%, 4.5% , which is already forming part of the P&L.

Himanshu Binani: One more thing basically on the other expenditure so after excluding that 12 Crores number also our other expense on an absolute number is coming way higher so last year it was somewhere around 65, 66 odd Crores?

Ashok Vashisht: I just had essentially two reasons one is freight because the revenue growth is 32% and secondly there is increase in the legal and professional fees. Basically, we are building capability across the globe to support the growth. So there are the two key reasons freight and increase in the legal and professional fees.

Himanshu Binani: Any numbers to quantify on that side?

Ashok Vashisht: The freight which was increased by 31% and which was 12.6 Crores last year same quarter now it is 16.5 Crores.

Himanshu Binani: On the legal and professional front?

Ashok Vashisht: Legal and professional which you can see in the annual report also the results also 32 Crores versus 49 Crores now.

Himanshu Binani: One last question basically on the registration breakup if you can provide us with the numbers region wise?

Ashok Vashisht: Yes, sure. So total is 2719 as of June 30, 2022, so out of that 1445 Europe, 280 NAFTA, 753 Latin America and rest of the world 241.

Himanshu Binani: On the pipeline numbers also?

Ashok Vashisht: On the pipeline 761 Europe, 135 NAFTA, 162 Latin America and rest of the world 95, 1153 total.

Himanshu Binani: Thank you.

Moderator: Thank you Mr. Binani. As there are no further questions, I would now like to hand the conference over to Mr. Manish Mahawar from Antique Stock Broking Limited. Over to you Sir!

Manish Mahawar: Thank you Yashvi. On behalf of Antique Stock Broking, I would like to thank the team of Sharda Cropchem for providing us an opportunity to host the call.

Manish Mahawar: Thanks Sir. We can close the call please.

Moderator: On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.