"Sharda Cropchem Limited Q1FY16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Q1FY16 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Gupta from Ambit Capital. Thank you and over to you sir.

Ritesh Gupta: Good evening everybody and welcome to the conference call of Sharda Cropchem. We have with us Mr. R. V. Bubna – Chairman and Managing Director of Sharda Cropchem and Mr. Gautam Arora – CFO, Sharda Cropchem to discuss 1QFY16 results. Thank you sir for giving us the opportunity and taking out the time to discuss the results. I would like to hand over the call now to Mr. R. V. Bubna.

R.V. Bubna: Good day,ladies and gentlemen. Greetings and a very warm welcome to everyone present here for the earnings call for Sharda Cropchem for the first quarter of the financial year 2015-2016. The Sharda Cropchem management is represented by myself, Ramprakash Bubna – Chairman & Managing Director and Mr. Gautam Arora – Chief Financial Officer.

Let me give you a quick overview about our company and then Mr. Gautam shall discuss the key financial highlights. We are a global agrochemical company engaged in marketing and distribution of wide range of agrochemical products. We also deal in conveyor belts, general chemicals, dyes, and dye intermediates. We operate on the asset-light business model. Our core competency is in registrations and we have created an extensive library of dossiers and registrations. We own around 1,490 registrations as on 30thof June 2015 across Europe, NAFTA, Latin America, and rest of the world. We also continued to remain focused on identification and registration of more molecules that are strong in demand.

Our key advantage is our wide geographical presence in more than 76 countries with an established global marketing and distribution network. We have 600 plus distributors and 100 plus direct sales force. We have competent sourcing capabilities with an established access to cost competitive manufacturers in China and India. Our strategy includes strengthening our distribution presence, continuously investing in, and obtaining registrations on inorganic growth and on forward integration through our own sales force. In line with our long-term strategy of increasing our geographical spread, we are leveraging our existing portfolio in growing untapped markets. In addition to the geographies, we are also well diversified in terms of our product portfolio which reduces the risk of adverse market conditions. So with this, I will now hand over the call to Mr. Gautam Arora for providing the financial highlights.

Gautam Arora: Thank you sir. Greetings for the day to all of you present on this call. We are here to discuss our Q1 financial year 2015-2016 consolidated financial results of the company. Let me quickly take you through the numbers with some details and then we can take your questions.

Revenues: The revenue from sales for the first quarter ended 30th June 2015 increased by 3% to Rs. 2,790 million as against Rs. 2,705 million in the same quarter last year. During the quarter, volumes grew by 14% and the growth was largely offset due to unfavorable currency movement primarily euro-dollar depreciation leading to a decline of 6% growth and partially due to lower realisations, leading to a decline in growth of around 5%.

Gross margins: The gross profit for the first quarter ended 30th June 2015 decreased by 7% to Rs. 908 million as against 979 million in the same quarter last year. Gross margins as a percentage of total income from operations for the first quarter ended 30th June 2015 at 32.48% was lower as compared to 36.12% in the first quarter of the previous financial year. Now this is primarily due to foreign exchange variations, again largely contributed by the depreciation of the euro against the US dollar on the revenue sides and depreciation of the rupee against the US dollar on the cost of goods sold side. The unfavorable product mix was also partially responsible for lower gross margins during the quarter.

We will take up the operating EBITDA adjusted for the foreign exchange gains and losses. The operating EBITDA of the company after elimination of foreign exchange gains and losses for the first quarter ended 30th June 2015 decreased by 17% to Rs. 511 million from Rs. 614 million in the same quarter last year. It is worthwhile to note that there is a foreign exchange gain in the company during the current quarter amounting to Rs. 74 million. So after inclusion of this foreign exchange gains and losses, the operating EBITDA of the company for the first quarter ended 30th June 2015 decreased by just 3% to Rs. 584 million from Rs. 604 million in the same quarter last year. Operating EBITDA margins after elimination of foreign exchange gains and losses in the first quarter ended 30th June 2015 at 18.28% was significant lower as compared to 22.66% in the first quarter of the previous financial year again primarily due to foreign exchange volatility particularly in the euro-dollar and operating EBITDA margins after inclusion of foreign exchange gains and losses in the first quarter ended 30th June 2015 at 20.37% was lower as compared to 22.30% in the first quarter of the previous financial year.

Depreciation and amortisation: After due negotiation, the company has finalised data compensation cost in the current quarter for certain product registrations which were capitalised in the past on an estimated basis and were fully amortised in the books of the company as on 31stMarch 2015. The resultant net increase in data compensation cost over those estimated amounting to Rs. 25 million has been recognised as an amortisation expense in the current quarter. Also there is an associated element of foreign exchange gain of Rs. 12 million which is included in other income.

PAT margins: The Company's PAT for the first quarter ended 30th June 2015 decreased by 16% to Rs. 360 million as against Rs. 431 million in the same quarter last year. PAT margin as a percentage of total incomes from operations in the first quarter ended 30th June 2015 at 12.90% was lower as compared to 15.91% in the first quarter of the previous financial year.

Let us look at the segment wise breakup of sales revenue. The segment wise breakup of sales revenue between agrochemicals and non-agrochemicals is as follows: In the first quarter ended 30th June 2015, agrochemical sales contributed 84% and non-agrochemical sales contributed 16% respectively to the sales revenue. The corresponding figures in the first quarter of the previous financial year were 83% and 17% respectively.

Let us look at the region wise breakup of sales revenue. The region-wise breakup of sales revenue of agrochemicals is as follows: In the first quarter ended 30th June 2015, Europe contributed 47%, NAFTA 30%, LATAM 14%, and rest of the world 9% respectively to the total agrochemicals sales revenue. The corresponding figures in the first quarter of the previous financial year were Europe 50%, NAFTA 22%, LATAM 17%, and rest of the world 11% respectively. You all must be well aware by now that the business of the company is seasonal in nature. The first quarter of a financial year usually contributes the second best to the sales revenue of the company amongst the four quarters. That is all from my side. I leave the discussion open for questions and answers.

Moderator: Thank you sir. Ladies and gentleman, we will now begin with the question and answer session. We have our first question from the line of Mr. Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: The currency impact was expected, can you please talk a little bit more about the volume deceleration because last full year we had grown at some 30% volume growth. This quarter volume growth is only 14% and can you also talk a little bit about the price and mix impact?

R.V. Bubna: The volume has grown by about 14.1% and the price impact has been a degrowth of 5.3%. Currency impact has been degrowth of 5.6%. So the net impact is growth of 3.2%.

Dheeresh Pathak: No sir, that I understand from the presentation but what is causing the sharp deceleration in the volume growth, almost half versus what we did last?

R.V. Bubna: See actually in the first quarter of 2000, June 14, we had had very exceptionally good volumes. We had got some good business for the first time in Canada and that is why the base period of the first quarter last year was pretty high. So this achievement of 14% over first quarter of last year, it should be considered as a fairly good performance.

Dheeresh Pathak: For the full year we expect to do similar volume growth or do we feel we can do what we did last year which was some 30% volume growth?

R.V. Bubna: Our biggest impact on this volume has been because of the currency exchange rate. So it is difficult to predict in this atmosphere of uncertainty on the currency but with the flat currency exchange rate between euro and dollar, we should be able to do above 15% in the whole year.

Dheeresh Pathak: Is it because we have a small base and we have a lot of products which we would have introduced or at least the expectation is that we will introduce? So there is a sharp step down in the volume growth from last year. Now is this year a slow year and we expect to catch up in the subsequent years or you know what is happening?

R.V. Bubna: The voice is not very clear. It is getting flattened. Can you please repeat this question once again?

Dheeresh Pathak: Sir you are saying currency impacted volume growth but the expectation was that we will introduce new molecules and new products and increase the label for existing products and we will grow at a much faster pace than 14% or 15% that you are talking about. So is this year a slow year and you expect to make up for it in the subsequent years or you are seeing some slow down in the business?

R.V. Bubna: No, we should be able to make up in the subsequent years because as you all know the business growth is also centered on the registrations for which we are making very serious efforts and investments and the registration bank is growing slowly. So this will drive our growth as well.

Dheeresh Pathak: Can you talk about the mix impact because you said mix also impacted the value growth. So what products and which region had an impact in the mix, just talk about that?

R.V. Bubna: Sir I am not able to understand what you said mix?

Dheeresh Pathak: You said in the presentation, price and mix also had a negative impact on the total value growth. Can you talk about which regions, which products had contributed to the serial mix?

R.V. Bubna: If you look at the usual mix which is there you have Europe that has been a marginal growth, NAFTA there has been a significant growth of about 41% and within NAFTA, I think we have grown significantly in the US regions, LATAM there has been degrowth, and rest of the world there has been a smaller degrowth compared to the LATAM. Secondly, the breakup of sales between formulation sales and active ingredient sales, that is the product mix that we are referring to. In the current quarter, we have had a minor degrowth in the formulation sales by about 1% but there has been a significant growth in active ingredient sales during this quarter by about 43%. Active ingredients typically yield lower margins as compared with formulations. I think that is the product mix that we are referring to.

Moderator: Thank you sir. We have the next question from the line of Chetan Thakkar from ASK Investments. Please go ahead.

Chetan Thakkar: Just wanted to understand what is the volume growth in Europe that we have seen in this particular quarter?

R.V. Bubna: I do not have that here open just now. Chetan, we will come back to you offline and I will call you up and I will tell you what is the volume growth.

Chetan Thakkar: Sure sir and broadly we were earlier guiding for volume growth for the year at around 18-20 odd percent. So is it fair to assume that environment has changed a little and we are pulling back to 14-15%?

Gautam Arora: No, not really Chetan as Bubnaji just mentioned to Dheeresh's question the base for the current year was significantly high because we had introduced product in Canada in the first quarter of last year which had led to a significant amount of growth in sales last year with a higher base. This quarter having done 14% I think it is pretty good. I think we will continue to maintain our stand that we should be able to achieve around 15-20% volume growth on a full-year basis.

Chetan Thakkar: How is the demand environment being in Europe and Latin America if you can share that?

Gautam Arora: Demand in the European Union is more or less constant it is growing but in Latin America again because of the currency factor, all the local currencies of various countries have got depreciated considerably as compared to US dollars and most of the business are transacted in US dollar. So the exports in those countries is proving to be very expensive in terms of their own currencies. So this is having a little bit of dampening effect on the quantity's growth.

Chetan Thakkar: Is it fair to assume that the local supply from LATAM would be largely meeting the demand there and people would have set a plan, they are better able to now meet the demand because of the currency depreciation.

R.V. Bubna: In most of these countries, majority of the requirements are met by imports. They do not have their own local supplier or active ingredients almost none. There are some formulation plants who are importing active ingredients and formulating but they are also not playing a very important or a big part. So most of their requirements are met from imports.

Chetan Thakkar: In terms of the working capital if you can share that number, how is the net working capital would have changed?

R.V. Bubna: The receivables are around 150 days, the inventories are around 40 days, and the creditors are around 110 days.

Chetan Thakkar: How is the inventory in the system for you to prepare for the next season as well because I guess by the end of July now you would have a sense on what the market has been and what the inventory situation is to be able to gauge what can be the outlook for next year particularly in Europe and LATAM? Sir just to get a sense on the inventory situation on the ground?

R.V. Bubna: No sir. It is a bit too early for the whole year because as we have mentioned earlier the October-December quarter is the leanest and January to March is the best quarter for us. So we get the sense of the volume for the whole year around the end of second quarter for us or end of the quarter July-September.

Moderator: Thank you Mr. Thakkar. We have a next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: Just a couple of questions, first the product is one side of it but how are you also growing a distribution network? Can you please share some numbers on that?

R.V. Bubna: Distribution network is slowly growing. There is no adverse impact on the distribution network. We are adding distribution slowly every quarter and every year.

Amit Murarka: But can you just share some numbers on either a percentage increase or something like that or how are you at least to plan that you have on distribution?

R.V. Bubna: It is difficult to say percentage but as we said we have about 600 plus distributors as of now.

Amit Murarka: Secondly on the crop front, so I think there is some crop shift happening on the soya from the hybrid to GM or something like that and also because of such volatile pricing and exchange I am guessing farmers would also be looking at different crops. So how you are trying to adapt with that?

R.V. Bubna: Well we are not experiencing any adverse impact on account of this in our demands.

Moderator: Thank you sir. We have the next question from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: I just missed in your opening remarks the FOREX loss which you have mentioned and also other asset income if it is any there?

Gautam Arora: So should I just tell you once again, your question is you missed out on the foreign exchange gains and losses?

Rohan Gupta: Gains and losses right sir.

Gautam Arora: The foreign exchange gain for the current quarter is about 7.35 crores which is included in other income and the loss for the quarter ended March 2015 which is the preceding quarter is 1.31 crores which is included in other expenses and is in results and the loss for the first quarter ended June 2014 is about Rs. 99 lakhs which is included in other expenses and the loss for the full year is 18.21 crores once again included in the other expenses for March 2015.

Rohan Gupta: Second question on this volume growth which you are talking about roughly 15%? So except that European market do you see pressure in other markets also because in the current quarter, you have done pretty well in NAFTA market and so do you see that other market will also remain weak for rest of the year and that is why you are guiding for 14%-15% volume growth?

R.V. Bubna: As I have just explained to the previous question most of the countries are facing a very serious issue of devaluation of their currencies against US dollars. The devaluation is very steep for the Latin American countries including Argentina, Brazil, Columbia, and Mexico. All these countries have seen about 30-40% depreciation in some cases over last one year. With this depreciation of the local currency, the local consumers are finding these agrochemicals more expensive. So this will have a little adverse impact on the demands.

Gautam Arora: So broadly I think is Bubnaji's highlight was that Latin American continent will be under pressure during this year. Amongst the NAFTA countries we will face challenges in Mexico because even the Mexican peso have depreciated considerably against the US dollar but we have done very well in the US this year. I think we have done almost about 90% growth over the same quarter last year in terms of value and in Canada I think we have performed better than last year. Canada was the first year for us last year. So the concerned areas will largely be the Latin American continent.

Rohan Gupta: Given your company's business model which is just based on outsourcing and distribution model, do you see that you need to review the company's business in the current scenario of the currency devaluation which is happening across the globe and do you see that you need to change your sourcing partners which is right now from China almost 90% and you will be sourcing it from other countries or even the local market to maintain your margins and the growth?

R.V. Bubna: See China is a factory to the world today. China is the major source irrespective of the currency or any such things. No other country or continent is able to provide these products. Most of them have gone out of the production and everybody is sourcing from China. So I do not think there is any option available today to swift the source from any other countries. All we can do is to negotiate better with the Chinese manufacturers and try to get better and more competent prices.

Rohan Gupta: Have you been able to reduce the prices from China? Are you able to negotiate your term with them?

R.V. Bubna: Yes we are. We are trying our best and quarter-by-quarter we are getting a slight improvement in the prices from the China. So I would like to add one more thing. I do not think we need to relook at our business model at all just because of the currency depreciation across the globe. I do not know if you are tracking the results of the MNC originator company. I think most of them considering Syngenta, Bayer, Dupont, Monsanto, all of them have reported lower sales numbers as compared to the same quarter last year. So I think if we have achieved the volume growth of around 14% compared with last year I think we have performed much better than many other players in the market and I think our business model is fairly robust. The currency movements are going to happen. So this particular part of the time they happen on the adverse side but I am sure there will be a time when these currencies will also appreciate against the US dollars and once that happens, the profitability of the company will be much stronger.

Rohan Gupta: Surely, till the time we have this uncertainties and volatility in the currency market our near-term growth is likely to remain under pressure and probably volume growth may remain at 14-15% or even maybe lower than that if I am not very wrong about it.

Gautam Arora: So we said that if I were not to consider the Canada introduction, the introduction of the Canadian market in our business last year, then I am sure our volume growth would have been higher than 14%, maybe close to about 25-30%. So you must appreciate the fact that it was the first year for us in Canada last year and it was a blockbuster business for us in Canada in the first quarter of last year. So on a higher base, if we have achieved 14% volume growth, I think we have done fairly well. I think that point needs to be appreciated.

Rohan Gupta: What would have been the reason that NAFTA market has done so well over the growth of almost 40%?

R.V. Bubna: NAFTA, we have been able to crack upon some big customers which are multinationals like FMC, Arysta, they are the big multinational customers who have liked our products and they would have done some fairly big deals with us.

Rohan Gupta: So that is going to remain there. Now we have entered into those markets and so our sales from these markets will remain robust or it is just only one time we have benefited from some of the products?

R.V. Bubna: It will continue.

Rohan Gupta: Compared to European markets NAFTA market would be a lower margin market right? So what will be the margin difference between Europe and NAFTA?

R.V. Bubna: Pardon.

Rohan Gupta: Compared to Europe, NAFTA market will be lower margins market so what would be the difference in margins?

R.V. Bubna: The difference should be in the range of about 20 odd percent in terms of margins. So if for example Europe is 50%, then NAFTA will be around 30%.

Moderator: Thank you Mr. Gupta. We have the next question from the line of Mr. Ritesh Gupta from Ambit Capital. Please go ahead.

Rithesh Gupta: Gautam, this question is for you actually. For gross margins, you would have benefited also from the moderation in China APIs, I mean China active ingredient pricing seems to have kind of collected a bit. So currency lag is one clearly, but on the absolute raw material prices which is procured from China in dollars should have gone down, that is the correct assumption, right?

Gautam Arora: Somewhat but not in all the products, Ritesh.

Ritesh Gupta: Yes but on a blended basis would it be fair to assume that the raw material cost in dollar terms has come down?

R.V. Bubna: No, see the downside slide is hardly about 2-4%.

Ritesh Gupta: Thesecond question is that when you say that your revenues are in euro-dollars and your cost are in dollars right? The biggest delta comes in from the euro-dollar depreciation. If you say that the cost you have suffered because of rupee-dollar depreciation you would have also benefited in the same way on the sales front as well right?

R.V. Bubna: Yes.

Ritesh Gupta: So this fall in gross margins is primarily due to euro-dollar depreciation. That is the correct assumption but that would also be negated by some 2%-3%-4% what you are saying in terms of cost of raw material deflation?

R.V. Bubna: Yes.

Ritesh Gupta: So what could be the trajectory for the gross margins for the full year, any guidance there?

R.V. Bubna: It is difficult to predict because it all depends upon this euro-dollar exchange rate and it is very difficult to predict this.

Ritesh Gupta: But say on a full-year basis should we maintain flattish margins or should we expect kind of some pressure there because this quarter despite FOREX loss is not being there you have seen a 400bps kind of decline, should we assume that this kind of question will be there for the full year as well?

Gautam Arora: Ritesh it is very difficult to answer this question because any movement in the currency has a direct impact on both the topline as well as on the cost of goods sold. So let us say if the euro depreciates again against the US dollar and the rupee depreciates against the US dollar, there is a double-whammy for us where as if the US dollar depreciates against the rupee and even if the euro depreciates against the US dollar, we are kind of neutralised to an extent because the dollar-rupee appreciation will partially offset the depreciation of the euro but if the euro appreciates and the rupee also appreciates, then I think it is a bonanza for us that then we will be able to maintain these margins and definitely improve up on these margins. It is all interrelated to foreign exchange because the entire business is in foreign currency. So I can say that virtually we have US dollars as a functional currency but since we are in India and we are converting everything into INR and therefore we have to face the brunt of the volatility in both the currencies which is the cross lag between euro-dollar and dollar-rupee lag.

Ritesh Gupta: So your exposure to European sales is roughly about 50% which is euro-dollar lag and if dollar-INR, you have nearly 60% in your raw material cost.

Gautam Arora: Correct.

Ritesh Gupta: So that way it should neutralise right?

Gautam Arora: It should. So that is what I am saying even if it neutralizes to the extent of the margin I am exposed and we try and hedge ourselves to the best possible extent at the right time to cover these margins, okay? So even if the rupee depreciates, it will help me but if the rupee appreciates against the dollar, it is not going to be so great for me. For the simple reason on a net margin basis since I am a net exporter, any appreciation of the rupee against the dollar will just bring down my margins partially.

Ritesh Gupta: Secondly on this volume growth front, when you say 15%, what would be the volume growth in terms of base products. For example on a full-year basis, you would have launched certain products over the year. So on an organic basis, would we assume that the overall volume has compressed in these countries even as a market are you trying to say that the volumes are compressed for the industry as such.

R.V. Bubna: No, I will not say that the volumes are compressed for the industry as such. Globally, I feel that there is a growth of about 4-5% year-on-year on the quantity side.

Ritesh Gupta: What say if I had to calculate the organic growth excluding the impact of new molecules introduced over last 1 year or new labels introduced over last one year, what could be the organic volume growth in that sense?

Gautam Arora: I think it should be in the range of about 15% or so and as far as new molecules are concerned, the real impact of the new molecules is not felt in the first year itself because timing is very critical as to when do we get the registration for these new molecules. Also it is imperative to note that getting a registration in one country in Europe in any one zone just does not help by itself because the country which is granting the registration may not have a big market for that particular molecule. So unless and until we get the registration by way of mutual recognition in the neighbouring country which has the larger share for use of that particular molecule, then we will be able to benefit out of that particular molecule. So I think the real benefit of anyone molecule takes close to about 1 year or 2 years to actually get a full benefit out of it.

Moderator: Thank you sir. We have the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Gautam you include Canada and rest of the world or you included some other?

Gautam Arora: So Canada is a part of NAFTA region.

Dheeresh Pathak: But despite of that NAFTA would have shown very large growth. So base you are saying volume growth for the full company is impacted because of Canada but NAFTA had shown good growth and Europe actually which has not grown that well. So what happened in Europe?

R.V. Bubna: Europe we have had a loss of about 20% in Europe.

Dheeresh Pathak: No, but in constant currency, Bubnaji, growth is not that good; it is I think some single-digit growth is there.

Gautam Arora: We have not stated this anywhere. What has happened is that if I compare in value terms there has been a degrowth primarily on account of depreciation of the euro against the dollar on constant currency basis. I do not have the volume number region wise to substantiate that which region has grown how much?

Dheeresh Pathak: Leaving alone the volume numbers if you just do what the currency impact was, the value growth in euro terms has been some mid-single digit. So why is it that euro in value terms, in euro currency has grown at only mid single digit this year-over-year?

Gautam Arora: Sorry where did you get this number from? I am not clear.

Dheeresh Pathak: I do not have the presentation in front of me right now but if you convert your euro sales from rupee into using the exchange rate for the quarter and look at euro revenues year-over-year, the growth is only if I remember is like 5% or 6%.

Gautam Arora: No, the number that I have euro has degrown by (-0.55%). I will tell you what is the number for Europe is, that is available with me. As on 30thJune 2015, the Europe number was about 110 crores and the Europe numbers for the first quarter of 2014-2015 which is June 2014 was 111 crores, so that is a degrowth of just about 1 crores.

Dheeresh Pathak: So if you take out the currency in fact it will be some growth of some 6% or so. Instead of degrowth it will be a growth.

Gautam Arora: It should have been a growth and been on a constant currency basis also we have done that exercise, had we used the constant currency where in the euro/rupee rate in the first quarter of last year was Rs. 81 and in the current quarter the rate has been Rs. 70. The degrowth is about 70 crores for that matter in terms of topline. It is not a single-digit growth. But it is 17 crores.

Dheeresh Pathak: Okay, 17 crores on 111 crores.

Gautam Arora: 111 would have been 128 crores of revenues. So actually the rate is 81.95 in the first quarter of last financial year and this year it is 70.26.

Dheeresh Pathak: But still compared to what we did last year, for full year in euro, a growth of some 15 odd percent is still lower but Canada is not impacting this segment right, because Canada is reported separately.

Gautam Arora: Canada is a part of NAFTA.

Dheeresh Pathak: Yes, so why has euro grown at only 15 odd percent or so you know on a constant currency basis?

Gautam Arora: I genuinely do not know whether it is 14% or what, please allow me sometime and I can take this particular question of yours offline and give you the details region-wise how much we have grown in terms of volume, then we can take that point but I know for sure that as a part of NAFTA region the good growth, the 41.5% growth that has come in the NAFTA region is primarily due to serious growth in the US continent in the current quarter. So on Europe I will come back to you specifically giving you the volume break up or rather what have we grown particularly in Europe in terms of volume.

Dheeresh Pathak: Are there any meaningful registrations that we are expecting in any of the geographies that will drive strong growth maybe not this year but next year, is there anything meaningful in your pipeline that you can highlight to us?

Gautam Arora: I think we are working on about 10-11 new molecules in the European continent to begin with and I am not going to say that all of them are going to be blockbuster. But I am sure all of this molecules will be decent molecules for us to generate significant amount of revenue every year and these molecules will crystallize over the period of let us say 3-4 years.

Moderator: Thank you Mr. Pathak. We have the next question from the line of Afshan Syed from Dolat Capital. Please go ahead.

Afshan Syed: Currently we have around 726 registration on the pipeline, so I just wanted to know how many registrations are from the new molecules?

Gautam Arora: There has been 11-12 molecules that we are talking about in the European continent, I think we are referring to those. I have the data for this 12 molecules in Europe. We are working on about 3 new molecules in LATAM, we are working on about I think 8-10 odd molecules in the NAFTA region and about 5-7 molecules in the rest of the world region.

Afshan Syed: So these are all new molecules right?

Gautam Arora: These are new molecules.

Afshan Syed: Just wanted to confirm, we have around 45 existing molecules right?

Gautam Arora: We have around 68 total molecules which we deal in of which around 50 molecules are the ones which we had GLP accredited dossiers.

Afshan Syed: What would be the CAPEX for FY16?

Gautam Arora: It should be in the range of about 75-80 crores.

Afshan Syed: This will be for the registrations right? Completely?

Gautam Arora: It will be for the mix of both new registrations as well as renewal of old registrations.

Afshan Syed: How about FY17?

Gautam Arora: I think it should be in the same range of about 75-80 crores broadly about US$10-12 million. Broadly over a period of 3 years we are talking about a spent of around 200-220 crores.

Afshan Syed: This 726 registrations how we do we see, when are we expected to receive the provisions, just 2-3 years will we becoming a part of portfolio?

Gautam Arora: Yes, every year we do have approximately worth 150 registrations, they are in the range of 150-200 registration and so over a period of 3 years I think we should be adding maybe about 400 odd registration.

Afshan Syed: You mentioned earlier that we have around 600 distributors, so is it inclusive of the third party distributors or just the own sales, just our own sales personnel?

Gautam Arora: No, these are purely third-party distributors.

Afshan Syed: And what about our own sales personnel?

Gautam Arora: We have close to about 100-odd people at a global level, so outside of India we should be having close to about 75-80 people.

Afshan Syed: So you have mentioned earlier that you will be expanding our own sales force, how is it panning out?

R.V. Bubna: We are expanding at a slow pace.

Afshan Syed: So any number you can specify?

R.V. Bubna: No, it is difficult to specify the number.

Gautam Arora: It is just a matter of good talent and when you get good talent you just grab it, that is it.

Moderator: Thank you. We have the next question from the line of Mr. Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: I just wanted to check in NAFTA and LATAM market and RoW also, what are the major currencies in which we use the transactions?

R.V. Bubna: See most of the transactions are done in US dollars. Except in Canada we do it in Canadian dollars and other wise if we are doing any local sales then it is in the currency of the country, otherwise it is in US dollars.

Rohan Gupta: So Europe will be all Euro and NAFTA, LATAM and RoW partly, mostly all these are in USD? When we mention the currency impact which is roughly 5% which we have mentioned in the first quarter, this is with respect to euro INR and USD INR mix or it is other way round of currency, I mean calculating the currency impact?

R.V. Bubna: Mainly euro INR and USD INR.

Rohan Gupta: So pardon me if I am wrong, if I look at the Euro-INR almost on a YoY basis is down by 15% and USD-INR will be somewhere I think 4% appreciation, so impact should have been close to 10% of the exchange if I am doing some wrong maths here.

R.V. Bubna: It is not that simple, as we have explained euro to dollar the change has been almost about 20% or more.

Rohan Gupta: But sir dollar to INR a month again we convert it, right, so that is a cross currency if I cancel it So euro to INR is roughly 15% down because you yourself mentioned 82 was last year and 70 is now, so that itself is roughly 15% and our 50% of our operations or revenues come from Europe and then USD to INR is from 61.6 last year versus 64 right now, so that is 4% appreciation. So if I add it back, so then it comes to 10%-11%, I do not know, I must be doing something wrong but I just wanted to get a better clarification on that.

Gautam Arora: No, I think your numbers are more or less right, but it is all a matter of booking the sales on a particular day and if on that particular day if the euro is treated badly by significant amount of sales have taken place during that particular day, then it gets recorded at a much lower rate. So it is not easy to do a simple maths or an arithmetic out here to state that, euro dollar depreciation has been 19% and the dollar rupee appreciation has been 6%, so the net difference should be somewhere between 13% and 14%, that is not practical to state in real circumstances.

Rohan Gupta: So there comes elements of debtors in the picture, that is why.

Gautam Arora: Debtors will eventually get reflected in the foreign exchange gains and losses, any realization of debtors or any payment made to vendors which are done on a credit basis, the impact of that will be felt in the FX gains and losses figures in the part of the P&L, that does not get impacted on my sales revenue.

Rohan Gupta: In earlier question asked by some participant, do you have now a break up of volume growth registered in Europe market?

Gautam Arora: Rohan, as I have told Dheeresh and Chetan also that we will be doing this exercise, unfortunately we do not have it readily available with us right now, we should be able to tabulate it. Once we do it, then we will communicate to each one of you, Rohan, Dheeresh and Chetan as to what has been the growth in European region in terms of volumes.

Rohan Gupta: But sir this would have been upward of 10% of growth in volume or it would have been lower than that, what is your sense?

Gautam Arora: It should be upwards, but let us have the numbers, why are we guessing it right now.

Moderator: Thank you Mr. Gupta. We have the next question from the line of Balvinder Singh from B&K Securities. Please go ahead.

Balvinder Singh: I understand that this year volume growth can come under pressure because of the adverse effect of importing and adverse effect impact to importing countries but assuming that currency stays here, so what is your expectations for say FY17, how do you look at the inherent volume growth in your business over the next 2 years?

R.V. Bubna: Well if the currency stays at a constant rate then we should be able to achieve about 15%-20% growth.

Balvinder Singh: Pricing change does not happen in case of generic, so kind of we will do more or less 15%-20% topline growth, does you mean constant currency next year?

Gautam Arora: Yes.

Balvinder Singh: If you can throw a bit more on the pipeline? What is the timeline for is it seeking the approvals for that and what kind of benefits or what kind of market size it caters to?

Gautam Arora: Balvinder, I think the pipeline will crystallize over a period of 3-4 years, some registration will flow in the current year may be for couple of molecules but I think over all these 40 odd, 50 odd molecules that we are working globally some of them will flow in this year, some of them next year, it is very difficult to give a number to it as to when will the registrations crystallize but it will happen a span of 3-4 years that is all we can say.

Balvinder Singh: What is the market size that you are catering to for this new registration or what is the opportunity to put it the other way?

Gautam Arora: In Europe alone for the 12 odd molecules that we are working on, I think the overall market size pan Europe should be in the range of about I think $400-500 million.

Balvinder Singh: And in other geographies if you have it, or otherwise it is fine?

Gautam Arora: I do not have it readily available for other geographies.

Balvinder Singh: Lastly if you can also help me with the volume growth offline for Europe may be other geographies whatever you can share?

Gautam Arora: Sure I will do that.

Moderator: Thank you Mr. Singh. We have our next question from the line ofBhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Sir we entered in new market in this particular quarter?

R.V. Bubna: No, new market as such.

Bhavesh Jain: Any plans for the next 9 months or FY17, which all new markets we are targeting?

R.V. Bubna: It is difficult to say because this is all based on the registrations and registrations are something which are absolutely unpredictable.

Moderator: Thank you. We have our next question from the line of Amit Kadam from LIC Nomura. Please go ahead.

Amit Kadam: My question is regarding, we operate basically in three regions NAFTA, Europe, and LATAM. I just want a general sense on how we classify these three sectors based on what kind of portfolio we have in these regions and the gross margin profiles and what is the networking days in all these three regions? So when I say product portfolio, how is my product portfolio of Europe and different from NAFTA and NAFTA different from LATAM?

R.V. Bubna: The product portfolio is the biggest in Europe and then LATAM and then in USA.

Amit Kadam: I just wanted a classification because when we say a molecule for example 7-8 molecules we plan to register, it would not be entirely common for this three regions?

R.V. Bubna: No, it will not be common.

Amit Kadam: So when I say I am targeting Europe it will be broadly herbicide portfolio, so that kind of classification so when I am actually entering LATAM then it is a kind of what kind of, is it insecticide or herbicide, how do we plan accordingly?

Gautam Arora: We do not have, our choice of launching a particular molecule does not depend on whether it is a fungicide, herbicide or an insecticide, we basically go by the market demand for that particular molecule and to what extent does that molecule complement with some of the existing molecules that we have which goes into some kind of a mixture for using specific crops. So the choice of molecules will be different for Europe, will be different for LATAM and will be different for North America. So there is no such, I mean our business does not function on the basis of herbicide, insecticide, fungicide, etc.

Amit Kadam: So like of the 7-8 products, so neither any of this will be common for all the regions?

Gautam Arora: True.

Amit Kadam: So all molecules are unique for one particular region?

Gautam Arora: That is right.

Amit Kadam: So on the gross per margin profile, what is the gross margin for all 3 regions as such?

Gautam Arora: I cannot give you the exact numbers, I can tell you Europe is typically the highest and the second highest the NAFTA region, the third highest is the LATAM region and rest of the world is again close to again the LATAM region margin.

Amit Kadam: So when you said that Europe is having 30%, NAFTA is 30%, so LATAM will be more or less somewhere around 25?

Gautam Arora: You can assume that.

Amit Kadam: On this net working capital, when I am actually targeting LATAM because if I see a growth out there so what is the net working capital days in all these three regions?

Gautam Arora: I do not have the region-wise breakup, overall working capital break up debtor is around 150 days.

Amit Kadam: For which sir?

Gautam Arora: The debtors, number of days overall is around 150 days, inventories is around 40-odd days, creditors is about 110 days, so the net working capital works out to close about 80-odd days for the quarter.

Amit Kadam: But in across the three different regions because working in LATAM or net working days for LATAM will be certainly different than Europe right? So I assume that may be it will be greater than Europe. So that is what I wanted a differentiation between Europe and LATAM, working capital days?

Gautam Arora: So I will tell you, so largely you have to focus on the debtors' number of working days between these regions. So Europe will be in the range of about 135 odd days. I am talking of a year as on 31st March 2015, not as of this quarter because that is broadly a full year correct representation. So Europe is roughly about 135 days, US is close to about 90-100 days, NAFTA and LATAM is close to about 240-odd days, the rest of the world is around 118.

Amit Kadam: So which means that if my growth comes from may be NAFTA and LATAM, then I actually creates a working capital on my balance sheet, that will be correct?

R.V. Bubna: Only LATAM, not NAFTA, NAFTA is around 90-100 days and LATAM is 240.

Amit Kadam: So only LATAM when my exposure or my tilt is towards LATAM then my working capital is as it is. So in this then my final question is that then as a broad sense like short term to medium term because what will be the growth prospect in this three region, how do we see this. Whether the growth will be coming from LATAM, Europe or NAFTA for Sharda Cropchem?

R.V. Bubna: More from Europe and to some extent NAFTA.

Amit Kadam: So picking out will be Europe, NAFTA and then LATAM.

Moderator: Thank you Mr. Kadam. Ladies and gentlemen that was the last question. I would now like to handover the floor back to Mr. Ritesh Gupta of Ambit Capital for closing remarks. Over to you sir.

Ritesh Gupta: Thanks Mr. Bubna, thanks Mr. Arora for patiently resolving our queries. Thanks a lot. Over to Mr. Bubna for closing remarks.

R.V. Bubna: I want to thank all of you. It has been very nice conversation as you could get a little better view of the business of the company. Thank you very much.

Moderator: Ladies and gentlemen on behalf of Ambit Capital that concludes this conference. Thanks for joining us. You may now disconnect your lines. Thank you.