# “Sharda Cropchem Limited

# Q1FY’24 Earnings Conference Call”

# July 24, 2023

**MANAGEMENT:** **MR. R V BUBNA – CHAIRMAN AND MANAGING DIRECTOR – SHARDA CROPCHEM LIMITED**
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**MODERATOR:** **MS. DARSHITA SHAH – ANTIQUE STOCK BROKING**

**Moderator:** Ladies and gentlemen, good day, and welcome to Q1FY'24 Earnings Conference Call of Sharda Cropchem Limited, hosted by Antique Stock Broking. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Darshita Shah from Antique Stock Broking. Thank you and over to you.

**Darshita Shah:** Good evening, everyone. On behalf of Antique Stock Broking, I would like to welcome all the participants in Sharda Cropchem's first quarter FY '24 earnings conference call. On the call with me, we have Mr. R.V. Bubna, Chairman and Managing Director; Mr. Dinesh Nahar, General Manager Finance; and Mr. Jetkin Gudhka. Company Secretary.

Without any further ado, I would like to hand over the call to Mr. Bubna for his opening remarks, post which we can open the floor for Q&A. Thank you and over to you Bubnaji.

**R V Bubna:** Thank you, madam. Good afternoon, and very warm welcome to everyone present on this call. I hope you all are keeping safe and healthy. Along with me, I have Mr. Dinesh Nahar, our General Manager Finance; and Mr. Jetkin Gudhka, Company Secretary; and our Investment Advisors, SGA, are also on the call. Hope you all have received the investor deck by now. For those who have not, you can view them on the stock exchanges and the company website.

Through its expertise and commitment, the company has established itself as a trusted partner in the agricultural industry worldwide. With a dedicated focus on seeking registration in its own name, Sharda continues to allocate substantial resources, thus establishing a strong foothold in the market and effectively navigating the competitive landscape.

Sharda Cropchem's total product registrations stood at 2,859 as on 30th June 2023. Additionally, 1,118 applications of the product registration globally are at different stages of approval. The capex for Q1 '24 stood at INR155 crores.

We have successfully maintained strong relationship with third-party manufacturers in China and India, mitigating sourcing dependencies and ensuring quality product at optimal prices. Over the years, we have built a strong network within our global markets. Additionally, we are benefiting through the economies of scale and leveraging our -- supply chain to deliver value to the customers.

For Q1 FY '24, the revenues have degrown from INR825 crores to INR638 crores. This is due to lower sales volume in Europe and LATAM on account of high inflation, ongoing recession, and adverse weather conditions. The company has also experienced significant decrease in the product price realization especially in U.S.A.

Gross margin reduced to 8.7% in Q1 FY '24. Raw material and finished goods sales prices have reduced substantially. This has led to a stock revaluation as per accounting policy and has impacted the gross profit and profitability to the tune of INR71 crores. The company is seeking an improving trend in Q2 FY '24.

With this brief overview, I would now like to hand over the call to our General Manager Finance, Mr. Dinesh Nahar, for discussing our financial performance. Thank you.

**Dinesh Nahar:** Thank you, sir. Good afternoon, everyone. Coming to the Q1 FY '24 performance, revenue stood at INR638 crores versus INR825 crores in Q1 FY '23, a degrowth of 23% year-on-year. Agrochemical revenue reduced mainly due to low volume demand in Europe and LATAM regions on account of high inflation, ongoing recession, and adverse weather conditions. There was also low product price realization in U.S.A. during Q1 FY '24 compared to the same period last year.

Gross margins stood at 8.7% in Q1 FY '24 as against 25.4% in Q1 FY '23. Raw material and finished goods sales prices have reduced substantially. This has led to a stock revaluation as per accounting policy and has impacted the gross profit and profitability to the tune of INR71 crores. EBITDA stood at negative INR66 crores, which is mainly due to the decline in the gross margin and PAT for the quarter 1 FY '24 stood at negative INR88.6 crores.

Coming to the split, agrochemical business degrew by 23% year-on-year to INR475 crores, whereas the non-agrochemical business degrew by 23% year-on-year to INR162 crores. In the agrochemical space, Europe degrew by 21%, NAFTA region degrew by 14%, LATAM degrew by 51% and ROW region degrew by 16%. Europe contributes 52%, NAFTA 35%, LATAM 8% and ROW 5% of the agrochemical business for Q1 FY '24. In the non-agrochemical space, Europe degrew by 64%, NAFTA region degrew by 26%, LATAM region degrew by 16%, whereas sales in ROW grew by 96%. Europe contributes 13%, NAFTA 52%, LATAM 7% and ROW 28% of the non-agrochemical business for Q1 FY '24.

Thank you all. We can now open the floor for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Sameer Deshpande from Fairdeal Investments.

**Sameer Deshpande:** Actually, the Q1 results see basically a big surprise that the inventory, loss provisions, etc, have taken away the big chunk of the gross margins. So -- but in the March quarter, after the results, also there was nothing of a caution which the management expected in May that this type of a big erosion will happen in the product prices. So can you bit -- elaborate a bit on this? And going forward, you have mentioned that the product prices have started improving. So what will be the scale of the improvement because the fall has been quite precipitous?

**R V Bubna:** Yes sir. Now you'll have to break your question in two parts. Why this was not mentioned earlier during the March quarter performance. That time, the signals were not available. This drop has –started very abruptly. And initial stages, we thought that it's a very small thing, that will not go down to so deep. But it happened to have that way and it went down very deep. What's your next question, Mr. Sameer?

**Sameer Deshpande:** Actually you mentioned that the product prices – the drop was quite sudden. But – so in May also, we were not in a position to get any clue on this?

**R V Bubna:** See, in May, we were only discussing about the quarter 4 performance and not so much about the Q1 or April to June quarter. Our concentration was only in the last quarter of the last financial year.

**Sameer Deshpande:** That is true. Okay. But the –e foreign exchange rates euro and U.S. have been quite good for the company, it seems that, because the ratio has been 1.1 and something. So that normally is a thing which benefits the company. So now this fall in prices has hit us in a big way, INR71 crores. So if you add back that INR71 crores, – still we have a net loss. So — what is the exact provision? Is it INR71 crores or something more?

**R V Bubna:** INR71 crores.

**Sameer Deshpande:** And now – secondly, it is mentioned that there is some improvement in the prices in Q2. So what is the scale of the improvement? Because from INR100 you have fallen to INR40 suppose. From INR40 it is down to INR50 or it has come back to INR70, INR80? Any idea on that?

**R V Bubna:** Mr. Sameer, we have not said it is an improvement. There is likely to be an improvement. We feel it has touched the bottom, but it has not started improving. And the effect of this improvement will have a very long time lag to get reflected into the markets.

**Sameer Deshpande:** So basically, the recovery is expected to be slow, but our inventory, which was about INR1,100 crores in March, if I'm correct. So has the inventory – now we have sold about some INR650-odd crores. So what is the current inventory – now as on 30 June since we have met the entire provision.

**R V Bubna:** Let me see. Mr. Sameer, the current inventory is INR953 crores.

**Sameer Deshpande:** And for that also the provision has been made for the fall in the prices entirely?

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

**Sameer Deshpande:** And you expect the things to improve going forward in terms of the price movement?

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

**Sameer Deshpande:** But it is likely to be a bit slower?

**R V Bubna:** Correct.

**Sameer Deshpande:** And what is the effect of El Nino or all those things on our sales in any of the markets?

**R V Bubna:** El Nino. No, sir, El Nino has not yet come into the picture. It has not shown any signs or any adverse effects on the markets that we are dealing in.

**Sameer Deshpande:** And the fall in Europe and Latin America you mentioned is because of recession and all those things. But since our products are actually basic necessities, how has it affected so sharply in the volumes? Is it due to the inventory build-up there?

**R V Bubna:** Mr. Sameer, you answered my question. It is due to excess supplies. The production has increased considerably in China during the last 1 or 2 quarters and excess availability and reduction in the cost of raw materials for our manufacturers.

**Moderator:** We have our next question from the line of S. Ramesh from Nirmal Bang Equities.

**S. Ramesh:** So in terms of your own thoughts on China and the excess supplies, is it possible to share what is the percentage increase in supplies and volume or value terms in the last 2 quarters? This seems to be impacting all companies. And secondly, what is the sense you get in terms of when these excess supplies will be evened out based on the supply chain in China itself stabilizing based on growth in consumption there, because there seems to be a mismatch between China – what China is producing and what they can consume? So that's my first question.

**R V Bubna:** Can we answer your question first one-by-one?

**S. Ramesh:** Yes.

**R V Bubna:** See, Mr. Ramesh, in China, there are no authentic statistics available about the stocks and things like that. They had an exhibition in the third week of May. And we were there, we're having a stall. And all the manufacturers that visited us had only one thing. They have thousands of tonnes of the stock and finding it difficult to get offloaded, sell them.

And many companies which had 5, 6, 7 manufacturing plants, have stopped 3, 4 plants in order to take care of their working capital and to take care of the excess stock that they have. So the stock is huge and the price fall has been also unprecedented, which we have not seen in about 20, 30 years of our experience of dealing with these products.

**S. Ramesh:** Okay. So if I may have a follow-up question. So in terms of the overall volume growth in your results for the first quarter '24, what is the percentage growth in volume improved in the revenue?

**R V Bubna:** Sir, there is no growth in the volume. There is a degrowth in the volume to the tune of about 11%.

**S. Ramesh:** And finally, in the working capital cycle, when do you see that going back to your normal working capital cycle because there's an increase of 29 days, including 17 days in inventory as of June '23? So when do you see that stabilizing and getting back to normal levels?

**R V Bubna:** Sir, it will – we are hoping that it will come back. It will recover. But the timing and target date is difficult to predict. It could happen in the next 3 months or it may take a little longer.

**Moderator:** We have our next question from the line of Tarang Agrawal from Old Bridge.

**Tarang Agrawal:** Just two questions from my side. If you could give us region-wise volumes for the current quarter and the base quarter? And second, you mentioned that you have about 2,859 registrations at the end of the quarter. Could you give us a sense on what would be the unique molecules for this 2,859 registrations? And third, on working capital, there's been quite a build-up from 90 to 120 days. If you could comment on that?

**R V Bubna:** No. Mr. Tarang, you have to go one by one. The first question, if I remember, is on the volume compared to the same period last year region-wise. Am I right?

**Tarang Agrawal:** Yes.

**R V Bubna:** In Europe, the volume has gone down by 37% compared to the same period in last year. Latin America, it has gone down by 53%. NAFTA region, there is a growth of about 49%. And Rest of the World, there's also a growth of about 47%. Overall, there is a degrowth of 11%.

**Tarang Agrawal:** Okay. The second question is, out of your 2,859 registrations, if you could give us what is the unique number of molecules here?

**R V Bubna:** Now I think your question is very unclear to me. I don't understand what you call as a unique number of molecules.

**Tarang Agrawal:** What I mean to say, sir, is, for instance, for a particular technical you might have registrations across multiple countries, right? For a particular formulation, you might have registrations across multiple countries.

**R V Bubna:** Yes. Now I have understood your question. You mean to say one molecule can have multiple registrations and same registration in 2 different countries are 2 separate registrations. So to answer your question about molecules, I think this 2,800--odd registrations will constitute about 130 to 150 molecules.

**Tarang Agrawal:** And the last is, sir, on working capital, if you could comment, it's moved up from 90 days to about 120 days.

**R V Bubna:** See, one of the biggest factors is receivables. Receivables have gone up from 109 days to 120 days and inventory days have also gone up from 68 to 85. Creditor days have remained at 85 days.

**Tarang Agrawal:** Yes, sir, '–it's disclosed in the presentation. I wanted to understand on the ground what has driven the inventory days and receivable days to move up.

**R V Bubna:** I didn't understand. What is presented in the presentation is the correct fact. I cannot understand how can it be different from something...

**Tarang Agrawal:** No, no. My question is what has led to the inventory days and working capital receivable days to increase by the number that it has versus the same period in the last year. I mean, operationally...

**R V Bubna:** Mr. Agrawal, we have had to take back a lot of sales returns from our customers because they said that they are not able to sell. The demand is less and the prices are going down. So – I mean, because of that, they have returned a lot of goods back to us, which we have accepted, and that has increased to – that has led to increase in the inventories.

**Tarang Agrawal:** And last question, sir, what is the expiry period on the inventory or the life of the inventory?

**R V Bubna:** Well, the life of the inventories is normally 2 years. Sometimes it is 3 years. But the products do not get discarded after the life of this thing, they're always renewable. And they are not something which gets destroyed or rotten.

**Moderator:** We have our next question from the line of Deepak Poddar from Sapphire Capital.

**Deepak Poddar:** Sir, I just wanted to understand, I mean, in the light of the current industry scenario where you expect recovery to be slow and even the price erosion we have seen and even the returns from the customer. So how do our guidance stands now? I think in the last quarter, we were of the view 15% to 18% growth with 18%, 20% margins. So how do we change that?

**R V Bubna:** Sir, it may go down to around 10%, but this is just an estimation. It's too early to say that. It may go down to around 10%.

**Deepak Poddar:** Revenue growth?

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

**Deepak Poddar:** And what about the margins?

**R V Bubna:** Margins, it is difficult to predict because it all depends upon how much time does it take for the Chinese inventories to get absorbed and the prices going up. So it's going to be a little difficult question at this stage.

**Deepak Poddar:** Okay. Understood. And this INR71 crores, the stock revaluation impact, that is done, right? I mean, we don't expect those kind of impact going into coming quarters?

**R V Bubna:** Yes. More or less, you're right.

**Moderator:** We have our next question from the line of Rohan Gupta from Nuvama.

**Rohan Gupta:** Sir, a few questions. Firstly, on volume degrowth, you mentioned roughly 11%, while our top-line decline is roughly 22%. Can you further give the bifurcation between price decline and the currency? Because price decline, it seems only at 11%, which I think that is quite minimal probably. So what is the further break-up of currency and price?

**R V Bubna:** I'll tell you. Currency, there's a growth of 6.5%. Volume, there is a degrowth of 11%. Price and product mix, there's a downside of 18%. And total de growth is about 23%.

**Rohan Gupta:** Yes, sir. Sir, in terms of inventory write-down, definitely INR71 crores you have taken and that you mentioned that adequately covers your current inventory stocks of close to INR950 crores. Do you see that -- as you mentioned that prices in your view have almost bottomed out. We are already sitting and almost July is over. So do you see that there may not be any further chance of any kind of inventory write-down?

And how do you see that the channel is sitting right now in terms of the inventory? As you mentioned, a lot of sales returns have impacted your growth in the current quarter. So would it be too early or have you seen that the prices have bottomed out and the channel inventory is almost at the lower level or still a lot of pain has yet to be seen in coming months?

**R V Bubna:** Rohan ji, I'll answer your question in two parts. One was about the prices. The price we feel, this is our guess and hunch that the prices have gone down. And then some products, the prices have gone down to almost less than 25% of what was prevailing at during the last quarter of last year. So we feel that there is a tremendous slide in the prices and they will not go down further.

As for the second question was about the inventory taking off. This is going to be a slow process because it all depends at what stage the Chinese are able to increase their sales prices and get the sales. Today, Chinese are very desperate to get the stocks offloaded. So -- it's too early to predict on that.

**Rohan Gupta:** Sir, just trying to understand the core of the current scenario. I understand that there was an inventory build-up which was happening and also because of China reopening and initial years -- I mean, last 2 years post-pandemic, many agrochemical players, and dealers and all was in the inventory build-up mode because there was a continuous disruption in supply from China where with the increased supply from China people think that now there may be no more logistics-related challenge and disruptions in supplies are over.

That's why they want to reduce the inventory. However, do you see that the ground level, farmer level consumption has come down because it doesn't look like that agri commodity prices are softening anytime near and farmer level consumption still looks decent. So is it all a market correction, the trade correction or you see that there is a real demand disruption...

**R V Bubna:** Rohan ji, your question is too long. I think you should break it down.

**Rohan Gupta:** Sir, I will just cut it short. I will just say that -- sir, the question is saying, is it an inventory reduction which is happening in inventory destocking or do you see that there is a farmer level consumption has come down?

**R V Bubna:** So both, the farmer level consumption has also come down also because of the psychological factor, the farmers are not going to -- I mean, not buying anything for the future, fearing that the prices may still go down. So their inventory level is also going to down. Secondly, the weather factor. Weather has not been very friendly in many regions.

Many regions have seen droughts, dry weather. In other places, there's a very heavy flood. So at the farmer level, demand has also come down and their psychology to build-up the inventory for future has also led to this increase in the inventory level at the farmer level -- consumption at the farmer level. Now your next question, sir?

**Rohan Gupta:** Sir, you also mentioned the growth guidance. Earlier you were talking 15% to 20%. You just mentioned 10%. 10% what you're talking is the growth or do you see that 10% on the annual basis degrowth?

**R V Bubna:** Annual basis growth, 8% to 10%.

**Rohan Gupta:** So irrespective -- I mean, despite the price fall of at least 20%, you are still expecting a volume growth of 10%?

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

**Rohan Gupta:** And despite the current scenario being so weak, what gives us sir that confidence?

**R V Bubna:** Sir, our own sense of the market and own estimate. I don't have any statistics or any figures to sort of support it. This is our own understanding and guess, sir.

**Rohan Gupta:** But sir, you were talking roughly 30% kind of volume growth assuming 20% price drop. So I mean, that is a very encouraging statement, sir, still if we see that -- I mean, 30% volume growth, that kind of volume have not been achieved in last year. So that's what I was just curious to know that despite the current scenario, you are still confident of at least 25% to 30% volume growth.

**R V Bubna:** Yes. Rohanji, our main seasons -- main quarters are Q3 and Q4. And right now, we are in just finishing on Q1. Just like I was answering to one of your questioners some time back, by end of April or middle of May, we had some signs, but we do not have precise idea as to what is coming for us and what has come is a very big surprise for us. And these things -- these very big surprises don't last for very long. There are always some corrective factors. This is a law of nature.

**Moderator:** We have our next question from the line of Gagan Thareja from ASK Investment Managers.

**Gagan Thareja:** Sir, the first question is around the depreciation, it seems to have year-on-year grown from INR55 crores to INR70 crores. A fairly outsized increase in depreciation if you could elaborate and explain that?

**R V Bubna:** Sir, I think depreciation is mainly linked to our investment into registrations which are intangible assets. So as we are laying more stress, registrations is the basic backbone of our business model. We are investing extensively on the registrations. And these are leading to higher capital investment and higher depreciations.

**Gagan Thareja:** Okay. So this INR70 crores quarterly rate will sustain in the future quarters as well or will it increase further for the next 3 quarters of the year?

**R V Bubna:** Mr. Gagan, we cannot say with surety, because if you have understood our business model, registration process is very unpredictable. You cannot plan and follow that process. The registration process is filled up with so much of uncertainties like field trials, weather and we are dealing with government authorities who are never predictable.

I mean, sometimes they meet after three weeks, sometimes they meet after three months. So all these uncertainties, in this quarter, we have had to pay a substantial amount of data compensation for the registrations in NAFTA region, United States, but this is not going to be continuing the same pace.

**Gagan Thareja:** And going back to your commentary in 4Q, there was an indication that gross margins could be between 26% to 30% with possibility of it being closer towards 30% rather than 26%. First quarter adjusted for the inventory write-down; it would still be 20%. I'm just trying to understand, second half as you scale up and if prices remain stable as it seems to be the case now, can you go back to at least the 25%, 26% mark or at this point in time even that is a difficult sort of a guesstimate to make?

**R V Bubna:** Sir, the answer is difficult because we have to carry the load of first quarter where the gross margin has been on the lower side.

**Gagan Thareja:** No, no, I'm asking for specifically for the third and fourth quarter. I'm talking on a quarterly basis not for the full year FY '24. I understand full year will be impacted by the first quarter. But in the coming quarters, are we looking at gross margins heading towards 25% mark?

**R V Bubna:** Yes, we can.

**Moderator:** We have our next question from the line of Dhruv Muchhal from HDFC Mutual Fund.

**Dhruv Muchhal:** Sir, one question is, what was the sales return amount that you have booked in 1Q which was probably you had booked that as sales in last year and now you have reversed that?

**R V Bubna:** Sir, in the quarter 1, our sales return has been to the tune of INR135 crores.

**Dhruv Muchhal:** And sir, secondly is, sir, earlier based on our understanding, it was what we were getting feelers was that the excess inventory or oversupply was primarily at the dealer side, for example, U.S. and Europe major dealers they had an over-stocked so much because of supply uncertainty. But sir, your commentary is also suggesting that there is also excess inventory even at Chinese manufacturers. They are also sitting at excess inventory. So is that the case? I mean, they are over-produced because they were not expecting the demand to be so weak?

**R V Bubna:** Yes, you're absolutely right. They have over-produced and they've gone through the difficult period of corona where productions were limited because of many compulsions and factors. And all of them have disappeared and they're very enthusiastic to produce as much as they can. And now they are feeling very sorry for the situation that they have landed in. There's a huge inventory at the manufacturers' level. As I mentioned, some manufacturers have shut down their plants in order to tackle this over-inventory situation.

**Dhruv Muchhal:** But sir, is it possible to give some sense on the quantum, say, for example, if the excess inventory at dealer level or say retailer level is say 100, what would be the excess inventory with the manufacturers? Some sense, some quantification, if you can help.

**R V Bubna:** See, they are not published information's nor there are any statistics available for the same. And when we talk to the manufacturers, they said they are sitting with 1,000 tonnes of this product, 2,000 tons of that product. Now we believe that what they are saying is true, but I do not know whether it can be 1,500 or 1,800. And it doesn't interest us to go into that detail. They'll also find it unpleasant and it doesn't lead to a good discussion. Your idea is to just get the feeling that they have a lot of stock. What is the amount of stock, it's not a pleasant question to ask them.

**Dhruv Muchhal:** Sure, sir. And sir, last question is, this weakness that we are seeing or the over-supply that we are seeing, is it across molecules or there are very specific molecules where you're seeing this? I mean, very old molecules, like for example, glyphosate and others and some of the newer age molecules, there is not much of a pressure. So is that fair to say or it is across molecules?

**R V Bubna:** I can answer that question. The glyphosate prices have come down to 25% of what it was prevailing about 3 months back. A lot of related older molecules, 2, 4-D, Mancozeb, everything has crashed. -- The good molecules have also crashed; may not be to this extent, but quite a substantial extent.

**Dhruv Muchhal:** And sir, sorry, one last question to squeeze. Sir, first half -- first quarter, your capex is about INR150 crores. What should we assume for the full year?

**R V Bubna:** Full year, it should be around INR400 crores.

**Moderator:** We have our next question from the line of Sonal Minhas from Prescientcap Investment Advisors LLP.

**Sonal Minhas:** Sir, I was saying that for the old molecules, which you were answering to the gentleman earlier, I wanted to understand from a 2-year or 3-year perspective, because our realizations were going up. How much has the price corrected by for the old molecules if we consider a 2-year or a 3-year period basically? Are we back to our pre-COVID realizations or are we below those? If you could just give a structured answer to that, sir?

**R V Bubna:** We are below the pre-COVID prices.

**Sonal Minhas:** Okay. And by how much roughly?

**R V Bubna:** By COVID period, the prices had gone up substantially. And now they have crashed and the  the speed of crash has been much faster than the speed of going up.

**Sonal Minhas:** So if I were to summarize, sir, we are below the pre-COVID prices?

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

**Moderator:** We have our next question from the line of Rohit Nagraj from Centrum Broking.

**Rohit Nagraj:** Sir, my first question is on the debtor days. So the debtor days have increased sequentially. And historically, whenever such an incidence has happened, have we realized that the bad debts mounting up maybe during the 2008 crisis or any other such unique situations?

**R V Bubna:** Sir, bad debts have not mounted up. But as I've told you, a lot of people have returned back the goods saying that they cannot sell and they cannot pay. And with the current situation, we don't think the bad debt is going to be a big concern. The concern is the margins and realizations and the quantities.

**Moderator:** We have our next question from the line of S. Ramesh: from Nirmal Bang Equities.

**S. Ramesh:** Just a follow-up question, Bubnaji. So based on the discussions we've had, under normalized supply chain margins, pricing and volume growth, will you be able to improve your ROCE to whatever we were achieving, say, 1 year ago? And how do you see that move in the next, say, 2 years, so take 2 years by '25, '26, will you be able to get back to a normalized ROCE because ROCE has been under pressure?

**R V Bubna:** Well, ROCE, there has not been a very steep fall. It's from about 26% to 21% March '23 compared to March '22.

**S. Ramesh:** I'm talking about in terms of the first quarter trend.

**R V Bubna:** First quarter trend, I don't know. Sir, we are working on the yearly basis. We are not working on the quarter-to-quarter. So I'll not be able to comment.

**S. Ramesh:** No, I understand that. So given that you've gone through one of the worst quarters. So if you look at '23 ROCE of 21%, what is the timeline you are giving yourselves to achieve that, say, over the next 4 to 8 quarters? Say by '25 end, should we be in a position to expect that kind of run rate where you can get that 21% ROCE and from there maybe move back up to, say, 23%, 25% by '26? Is that possible?

**R V Bubna:** Yes, sir. March '25, I think we should be able to return back. And one more thing, Mr. Ramesh, I'll tell you and thisalso gives me a little satisfaction, that our business model is very nimble footed. So our limitation today is only to the extent of the stocks that have been returned back to us and our compulsion to sell them at a cheaper price than our cost price because of the market situation. But that is not a huge thing. Moment we get rid of it, we'll source it at a very cheap price and also sell it at some margins.

**S. Ramesh:** So in terms of your supply chain for third and fourth quarter for the second half of this year in terms of whatever you are planning in terms of the volumes and pricing, you are reasonably comfortable in terms of being able to achieve your volumes for third and fourth quarter?

**R V Bubna:** Exactly. Our load is temporary and that too of having compulsion to take back the goods. Otherwise, there will be litigation and other things, which will spoil relations with the customer because there are others who are willing to sell them. But this is a very temporary situation for us and we are very confident we'll be able to come out of it. We don't have any compulsion to keep on manufacturing. We don't have any compulsion like most of the manufacturers and other companies have. We are able to switch over very quickly as our company is nimble footed.

**Moderator:** We have our next question from the line of Rohan Gupta from Nuvama.

**Rohan Gupta:** Sir, first question is on our small, but quite sizable belting business. There we have seen that revenues have declined, but your profitability hasn't been impacted. So in that segment, we see that roughly INR46 crores is the EBIT from the current quarter that has remained stable. So that business is not impacted in the current scenario?

**R V Bubna:** Rohanji, let me understand. Can you please repeat once again?

**Rohan Gupta:** So I'm saying that though the revenue there has declined, but it's still a INR43 crores contribution at EBIT, which has been maintained at the last year level. So just want to understand, in that business, there is no impact of this China and all?

**R V Bubna:** No, sir. You see, in that business, we are making to order and we are selling after receiving the orders. We are not maintaining inventories because every demand is specific, you understand? The only impact there is the economies of consumption. Like in Europe, our sales of non-agrochemical products in Europe has got affected because of this Ukraine war, which has totally destabilized the economies of most of the European countries. So new projects are moving slow. New developments are coming slow. And our non-agrochemical business is mainly conveyor belts which are linked to the new projects and new developments.

And secondly, the revenues have come down because mainly the logistics cost has come down substantially. For a container to ship to Europe, we were paying $20,000, $25,000. Today, it has come down to $2,000 to $2,500. And all those logistics costs was built up in our sales realization and revenues.

**Rohan Gupta:** And sir, last year, in '23, we had gained significantly in terms of the profitability in non-agrochemical. I mean, belting business contributed roughly INR170 crores EBIT. So as the new project comes down and all, do you see that there is a risk of declining in this business also? Because earlier, we used to have roughly just only INR50 crores, INR60 crores contribution from this segment, but last year, it has significantly contributed INR170 crores. So do you see that this business is also going to decline?

**R V Bubna:** Sir, it will decline, but not very significantly because we are not impacted by unnecessary stocks. We are not sitting on the stocks. The only thing is, if the projects are going down then the buyers may delay taking deliveries and all that. But there's no big impact on the stocks and margins are fairly consistent even now.

**Rohan Gupta:** And sir, in a post-pandemic era, we have gained significantly in Europe market and all where because of the many local players who were not able to source the supply from China. Now do you see that when the supplies have increased so sharply from China and the material is abundantly available, do you see that these local players and all who have probably vanished from the trade have come back again and are looking for the opportunistic business in the current scenario that may affect our market share as taking market like those and all?

**R V Bubna:** Rohanji, we don't feel that those local players have again come up into the scenario. I think that advantage will stay with us.

**Rohan Gupta:** And sir, just last thing. Sir, with such a sharp fall in agrochemical prices, do you see that farmer level consumption, and ultimately, farmers are likely to benefit from the lower pricing of pesticides? Definitely, when the season comes in, in H2 for us, maybe Q3 and Q4, do you see that there is a possibility of -- I mean, the overall growth at the agrochemical consumption may remain high and the farmers benefiting from the low pricing scenario?

**R V Bubna:** Yes, I foresee that. The only thing is, particularly Europe, the only impact that the farmers are going to face is the disturbance in the economies. Like when I visited some European countries, they were saying that the goods from Ukraine are being exported out of Europe through their ports and the prices were so low that they get absorbed into those countries and that is impacting the agricultural economy of those countries.

If somebody is selling from Ukraine, say, grains at maybe $500 per ton and per market price, local prices in Poland is $1,000. So the $500 per ton goods instead of getting exported out of Poland, they get absorbed into Poland, affecting their inventories of the produced product in Poland. So these kind of disturbances are impacting the European countries. And the cost of fuel going up, the cost of living going up and their capacity to purchase agro commodities -- excess availability of agro commodities in Europe is another big problem.

**Moderator:** Mr. Gupta, I request you to join back the queue, sir. Thank you. I would now like to hand over the conference to management for closing comments.

**R V Bubna:** Thank you everyone for joining us for this conference call of Sharda Cropchem. I hope we have been able to answer all your queries. We look forward to such interactions in future. We hope to meet your expectations in the future too. In case you require any further details, you may contact us or Mr. Deven Dhruva of SGA, our Investment Relations Manager. Thank you very much.

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