



“Sharda Cropchem Limited  
Q3FY2021 Earnings Conference Call”

January 27, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2021 results 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar of Antique Stock Broking. Thank you and over to you Sir!

**Manish Mahawar:** Thank you Rutuja. On behalf of Antique Stock Broking, I would like to welcome all the participants on this call of Sharda Cropchem. From the management, we have Mr. Ramprakash Bubna - Chairman & Managing Director, Mr. Ashok Vashisht - Chief Financial Officer and Mr. Dinesh Nahar- General Manager – Finance. Without further ado, I would like to hand over the call to Mr. Bubna for opening remarks. Over to you, Mr. Bubna!

**Ramprakash Bubna:** Thank you Manish. Good day ladies and gentlemen. A very warm welcome to everyone present here for the earning call of Sharda Cropchem Limited for the Q3 and 9M FY21. Sharda Cropchem is represented by myself, Ramprakash Bubna, Chairman and Managing Director, Mr. Ashok Vashisht, Chief Financial Officer and Mr. Dinesh Nahar- General Manager – Finance.

Talking briefly about our 9M FY21 results, revenues grew by 16% YoY from Rs. 1,127 Crores in 9M FY20 to Rs. 1,307 Crores in 9M FY21 mainly due to growth in Europe by 25.3%, NAFTA by 13.6% and LATAM by 23.2%. There was a decline in RoW by 10.4%.

During 9M FY21 our volumes grew by 11% YoY. Gross profit grew by 41.2% YoY from Rs. 296 Crores in 9M FY20 to Rs.419 Crores in 9M



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FY21. Gross margin expanded by 571 bps from 26.3% in 9M FY20 to 32.0% in 9M FY21 mainly due to volume growth and lower raw material costs.

EBITDA grew by 78% from Rs. 118 Crores in 9M FY20 to Rs. 209 Crores in 9M FY21. During this period, EBITDA margin had expanded by 577 bps to 16%.

Profit after tax grew by 314.1% YoY from Rs. 23 Crores in 9M FY20 to Rs. 95 Crores in 9M FY21 attributed to higher foreign exchange gains and lower effective tax rate.

Net Working capital stood at 71 days in 9M FY21 as against 84 days for the same period last year.

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

**Ashok Vashisht:** Thank you Mr. Bubna. Ladies and gentlemen a very warm welcome again and a very good evening to all. I will give you the brief about 9M FY21 performance of Sharda Cropchem.

During 9M FY21, our revenue grew by high double-digits at 16% YoY driven by volume growth of nearly 11% and foreign exchange gain impact of 6.7%. On the other hand, there was an adverse price and mix impact of 1.8%. During 9M FY21, Agrochemical business grew by 22.2% YoY, contributed favorably by all the regions, led by Europe 26.5%, LATAM 18.2%, NAFTA 17.3% and Rest of the World 22.9%. Our, non-agrochemical revenue de-grew by 4.1% YoY.

During 9M FY21, we generated an impressive cash profit of 214 Crores in 9M FY21 as against Rs. 125 Crores in 9MFY20. In terms of capex, it



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stood at Rs. 170 Crores for 9M FY21 vis-a-vis Rs. 122 Crores of same period of last year.

With this we open the floor for questions from all the participants. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

**Tarang Agarwal:** Good evening. Congratulations on a strong set of results. Two questions; one the gross margin expansion that we have witnessed, is it primarily on account of we have been able to source the material more optimally or you had some pricing advantage across the regions? Second, is your working capital intensity has reduced as it is quite heartening to see how gross margins have improved than working capital intensity has reduced at the same time. So, just wanted your thoughts on what led to the working capital release?

**Ramprakash Bubna:** Sir, I think I explained why the margins grew.

**Tarang Agarwal:** You did indicate that it was on account of the lower cost of goods, so that was the only reason.

**Ramprakash Bubna:** Yes Sir. What was your second question, working capital?

**Tarang Agarwal:** Yes.

**Ramprakash Bubna:** Working capital improved because of higher creditor days of 129 days in 9M FY21 as compared to 112 days for the same period last year.

**Tarang Agarwal:** Correct, so is it going to continue. So, essentially you have been able to procure your raw materials from your suppliers at lower costs and at the same time you have been able to defer payments as well?



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**Ramprakash Bubna:** I think it is both. We are also going to get better credit, longer credit from the suppliers.

**Tarang Agarwal:** What was the reason for this?

**Ramprakash Bubna:** The relationship with the suppliers and better performance, so winning the suppliers confidence in the company.

**Tarang Agarwal:** Then would it be feasible to presume that this is going to be your normal creditor days going forward?

**Ramprakash Bubna:** I think so.

**Tarang Agarwal:** Thank you, Sir. All the best.

**Ramprakash Bubna:** Secondly, the account receivables efficiency has improved. Accounts receivables have gone down from 103 days in 9M FY20 to 99 days in 9M FY21.

**Tarang Agarwal:** Yes. Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Deshpande from Fair Deal Investment. Please go ahead.

**Amit Deshpande:** Congratulations on very good numbers. Normally, in the last few years, we saw the profits mainly accrue in the last quarter that is the Q4 and to some extent Q3, but this time, the growth in our business has been excellent in the entire year that is Q2 and Q3 has been very good. So, these two things happened earlier, was it due to some product mix, etc., or it will happen during this year?

**Ramprakash Bubna:** I think it is a general atmosphere when the world was very much concerned about Covid-19, people were not very active and we were more proactive with our suppliers as well as with our customers.



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**Amit Deshpande:** Sir, but in Q3 this time, we had very good results, is Q4 also expected to be good considering the current things?

**Ramprakash Bubna:** Q4 is expected to be good but Q3 the base of last year was much weaker so we will have assured better performance. Q4 last year was almost excellent. So, it will be very tough to beat Q4, but we hope to maintain it.

**Amit Deshpande:** Another thing is Europe, the sales were around 38% to 50% as you had mentioned. So, the current lockdown, etc., had no effect on our business?

**Ramprakash Bubna:** No. The current lockdown is not affecting our business. In the last nine months, right from March, Europe was supposed to be having a lockdown but the factories were working, all the products were getting processed and repacked without any hurdles. The transportation is also working very smoothly. So, most of the operations as far as the lockdown was concerned were very normal.

**Amit Deshpande:** The other industries may suffer but you are out of that?

**Ramprakash Bubna:** The only thing I would like to mention here is the efficiency, the freight rates from China to the Rest of the World has increased astronomically to the extent of five to seven times the normal freight rates that is because of less number of ships travelling to China and fewer containers available for exports out of China, but we hope it will smoothen in the process of time.

**Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.

**S. Ramesh:** Good evening Bubna Ji. Congratulations on your good performance. Just wanted to get your thoughts one in terms of your dependence on China imports, what is it in the current quarter?



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**Ramprakash Bubna:** Sir, we are dependent upon China throughout the year including the fourth quarter. Now it is adversely impacted. In fact, China is going through their partner and other support bringing the quantities at time and prices are also very reasonable.

**S. Ramesh:** So, in your view, the kind of trend you are seeing in the raw material costs are they likely to sustain in the coming quarters?

**Ramprakash Bubna:** These are all affected by the law of demand and supply because of the demand from other quarters, over our competition, over our peers, we were able to get better terms and better prices because there is surplus available in China for the quarter that we are dealing.

**S. Ramesh:** Sir, in terms of your trend and between formulations and AI, there is a significant increase in the share of formulations, so how do you see this performance in the formulations shape in the coming quarters?

**Ramprakash Bubna:** This should continue. Formulations should be almost at the same level. The AIs have increased in the last year or before last year mainly because of the demand from many multinational companies who were not able to secure the AIs on their own and we were able to supply them at competitive prices, but that trend has not happened this year.

**S. Ramesh:** Sir, if we are looking at the current discussion in the industry about investing in backward integration, are we having any plans to invest in sourcing your own materials from the local manufacturing. What are your thoughts for the future?

**Ramprakash Bubna:** At present, that alternative does not exist. The local industries are not able to produce the quantities that are required for the international market and also the product mix. Our portfolio is much bigger not more than 45% of those are not manufactured in India, so we have to either not supply or supply it from China.



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**S. Ramesh:** Thank you very much. I will join the queue. Thank you, Sir. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

**Rohit Nagraj:** Thank you for the opportunity. Congrats on a good set of numbers. Sir, the first question is in terms of the raw material availability and prices. So, we have seen that recently in the last quarter, the availability for some of the raw materials has been an issue from China and also the prices have also started inching up. So, how are we seeing that trend till now in the month of January and what is our expectation in the near future? Thank you.

**Ramprakash Bubna:** We have a good demand for our products in the Q4. In order to meet the demand of our customers, we start sourcing the goods mainly in the third quarter. So, as far as the current financial year is concerned, most of our requirements have been already fulfilled. The goods are either in transit or already reached the destinations. There is a linkage in the trend of increasing the prices in China for many products now, but we will not be impacted because of this increase and we will have to see what happens after two months.

**Rohit Nagraj:** That is helpful. The second question is you just mentioned that the shipping costs and freight rates have gone up substantially, so will it have any impact on our shipping from China to European countries or the LATAM American countries in the near future?

**Ramprakash Bubna:** It will have, but as I mentioned our shipments in the month of February, March are going to be not so big because we are already covered most of our requirements.

**Rohit Nagraj:** That is helpful. Sir, last clarification on our guidance the last quarter we had indicated that in the second half we expect revenue growth of about



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5% to 10% more than first half and in first nine months, we have done about 16%. So, is there any change in terms of our guidance on topline and the EBITDA front? Thank you.

**Ramprakash Bubna:** I would say that we still want to maintain 10% plus or minus a few percentages.

**Rohit Nagraj:** Thank you, Sir. Best of luck.

**Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

**Vishnu Kumar:** Good evening and thanks for your time. Sir, if I understand right, in the areas where you sell, your competition was not present so you had an extra opportunity this time to place more volumes than normal and second at the same time you have got much lower pricing from China? Is that understanding right?

**Ramprakash Bubna:** Yes, but there is a small correction. I said that our competition was not so proactive. Many of the people are concerned about COVID-19 and they were concerned about what will happen in the future. So, they were not so proactive as we were.

**Vishnu Kumar:** Are they proactive now as they come back?

**Ramprakash Bubna:** Now, people are getting used to live with COVID-19. People have become more careful with COVID-19 as compared to earlier in the initial few months.

**Vishnu Kumar:** The third quarter if you could just give me the volume, price and currency, mix?

**Ramprakash Bubna:** The price had an impact of 5%, currency impact was about 7% and the volume impact was 17%, overall, 29% for the quarter.



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**Vishnu Kumar:** Essentially my question is only on the gross margin. In the last couple of years, we did see the margins shrink, now sustainably how much do you think in the forward-looking let us say in the next one year you think, at least you are going to be materially better trajectory on gross margins and regions if anything?

**Ramprakash Bubna:** If we look at the improvement in the gross margins for this financial year, we have improved considerably up to the first nine months of FY21. We would be able to show better gross margins for FY21. We have also received some new registrations, which have helped us to get better margins because initially when we get the registration, which is second and third registrant then the margins are better. But over the course of time, if some more competitors receive the registration which has an adverse impact on the margins.

**Vishnu Kumar:** Sir, you have got some registrations where you will be the second or the third player, this is from the Q3, is it?

**Ramprakash Bubna:** The registrations came in the first and second quarter but the impact came in the third as well as impact will come in the fourth quarter.

**Vishnu Kumar:** Is this for the weeds like corn crops?

**Ramprakash Bubna:** Beg your pardon.

**Vishnu Kumar:** Is it for the US market or Europe and which crop would that be?

**Ramprakash Bubna:** I would say overall. Mainly for Europe and US and North American markets.

**Vishnu Kumar:** One final question, we had multiple CFO exits in the last couple of years. Any specific reason you do attribute. I know it is for personal reasons, but just any thoughts on that.



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**Ramprakash Bubna:** Sir, if you know it is a personal reason then what else can I add. It is a fact. It is due to personal reasons. One CFO's father was sick and he was staying outstation, so he had to move himself to take care of his father. Second CFO also in similar reasons, all personal reasons Sir.

**Vishnu Kumar:** Just one final question on the capex part, the trajectory for this year and next year Sir and if you could probably try to help us understand whether our Europe capex re-registration is completed?

**Ramprakash Bubna:** The cost of registrations is exponentially high. The government authorities, the sourcing authorities, who used to charge nominal fees, they now started at looking some more kind of profits in these regions because they feel the operators and players in the market are getting profits then why not the government. So, all the costs are increasing. Secondly, the requirements of the authorities to qualify for registrations are also increasing tremendously. So, these two factors, early the re-registration process was not so very simple and not so expensive, now there are new demands for the new re-registrations also. So, the trend for capex is on the rise.

**Vishnu Kumar:** To put it differently, at least have we re-registered 50% of the molecules, whatever we need to do. At least, if you can give a rough number, percentage that you can attribute, so let us say, we are half way through in terms of re-registrations, in terms of molecules or anything that you can help us understand at what stage we are in terms of the overall capex for re-registering. That is what I am trying to understand?

**Ramprakash Bubna:** Mr. Vishnu, it is a very dynamic situation. It is very difficult to say 50% because every quarter there are some products, which are going into the re-registrations and some products, which are getting and increasing the process of re-registrations. So, it is very difficult to say a 50% or 75%, because it is a dynamic situation. These percentages are attributed if the situation was tepid, but it was not the case.



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**Vishnu Kumar:** What is the broad capex trajectory for the next couple of years, if you could just give a number to us roughly in the next couple of years?

**Ramprakash Bubna:** Mr. Kumar, you are very much familiar with our business model and we have been repeatedly saying the process of registration or re-registration is very unpredictable. Sometimes you can get a registration in two years' time, sometimes it may take you, more than five, six, seven years and these time period of registrations cannot be calculated in advance.

**Vishnu Kumar:** Got it. All the best, Sir.

**Ramprakash Bubna:** Thank you, Sir.

**Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

**Chetan Thakkar:** Good evening Sir. Congratulations on a good set of numbers. Just one question, if you can share that volume number by region in agrochemical?

**Ramprakash Bubna:** Volume numbers by region in agrochemicals for this quarter. Europe it is 21,75,871, in NAFTA it is 20,00,481 in LATAM, it is 5,84,004, Rest of the World 9,92,429 total 57,52,785.

**Chetan Thakkar:** Thank you Sir. All the best.

**Moderator:** Thank you. The next question is from the line of Bharat Gupta from Edelweiss Securities. Please go ahead.

**Bharat Gupta:** Good evening. Congratulations for a great set of results. Sir, my question pertains to the NAFTA region. So, have we seen any relaxation in terms of the taxes, which was delayed due to China and US trade war issues, has there been any sort of relaxation?



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**Ramprakash Bubna:** Mr. Gupta, this information is in the public domain. We do not have any special access to the information. Till now, the new President has not visited this issue and when he will take a decision it will be known to everybody. So far there is no such change.

**Bharat Gupta:** How has been the pricing environment in both the markets, in Europe and North America?

**Ramprakash Bubna:** Pricing environment there is not much of a change. Actually, there is not much increase. It is more or less static.

**Bharat Gupta:** Sir, in regards to such a spurt in the volumes, which we are seeing, do you attribute it to a preponement of sales in regions pertaining to Europe because Q4 being a very big quarter for us so has there been any advance placement or any shifts of sales from Q4 to Q3.

**Ramprakash Bubna:** Gupta Ji, the mid-season buying is a normal practice in the agrochemical market. Most of the customers would like to have their goods in their possession at least two months before the actual application. So, there has been a slight increase in the pre-season buying for the three quarters.

**Bharat Gupta:** Sir, one last question, can you give us a gross margin breakup geography wise?

**Ramprakash Bubna:** You want it for Q3. In Europe, it was 41%, NAFTA 32%, LATAM 21%, and Rest of the World 21%.

**Bharat Gupta:** Thank you, Sir. That's it from my side.

**Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** Thank you for the opportunity. Congratulations Sir on an excellent set of results. I just wanted to understand on since we follow an asset light model,



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our ROCE and ROE should have been very high. They were high in the past and it has come down in the last two, three years. So, what is the outlook on this and if you can explain how this will go up over the next three to five years?

**Ramprakash Bubna:** There has been a decline in our ROCE and ROE for the period of five years. We hope this will be the bottom, the business is going up slightly step by step.

**Tushar Sarda:** But what is the reason for the decline? Is it increase in working capital or contraction of margins and how do we see this going forward over the three to five years? What steps are we taking to address the reason for decline in the ROCE and ROE?

**Ramprakash Bubna:** The reasons are increase in the capex and surge in the cost of registrations.

**Tushar Sarda:** Thank you, Sir.

**Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

**Rohan Gupta:** Good evening, Sir. Hope everyone is fine also at your side. A couple of questions; first is which you have already explained, just wanted a little bit more on the same thing, Sir, rising freight cost so that definitely I think has gone up almost 6 to 7 times and the impact is seen from China to Europe market where the maximum of our supplies are there and a lot of our business comes from there. So, you mentioned that you have enough raw material or enough inventories as of now to cover for the entire Q4 or you see that there is a need to increase the prices in these markets?

**Ramprakash Bubna:** Gupta Ji, I do not think, I have said that we cover the entire economy. What I am saying, the requirement now from the second half of January till March, the problem of shipments will be significantly lower. We have not



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stopped shipments, we have not drawn down the requirements, but first of all, in the next month, there is going to be almost 15 days of dullness in Chinese situation because of their New Year Holidays. And the amount of quantity that we want to ship is much lesser compared to what we had in the previous quarter.

**Rohan Gupta:** Sir, if I assume that the pre-cost and the higher freight cost continue then and we also mentioned that the competition or the competitive intensity was slightly lower because of the COVID environment and I just wanted to understand that if a higher fleet cost persists will we be in a position to increase the prices in subsequent to cover the high shipment costs or we have to take some impact on our margins?

**Ramprakash Bubna:** Rohan Ji, I would like to throw some light on our business model. See, we are a generic company and we get into a molecule after it gets off patent. So, for all practical purposes as far as the prices are concerned, we follow the innovators and multinationals. If the multinational reduces the price, if they increase it, then we get a chance to also increase ourselves. We do not decide the prices on our own, we cannot because our market share is very small compared to the total world demand.

**Rohan Gupta:** On that extension given that our dependency is more on China and other competitors or innovators are not so much dependent on China for the raw material availability. So, probably if they do not increase the cost, or they will increase the prices we have to suffer on margins, right?

**Ramprakash Bubna:** Rohan, your first projection is not correct. Including the innovators, we are all dependent on China. China is the factory to the world today. The production in Rest of the World has come down considerably during the last 15 to 20 years on account of pollution and environment control. So, everybody is dependent upon the freight out of China. We and MNCs are dependent on China. When I visit the factory sometimes, I see that our



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goods have been packed and stacked close to the multinationals. Also, the multinationals have almost cut down their production because they cannot afford considering their requirements and pollution control standards. The cost is very prohibitive and very exorbitant.

**Rohan Gupta:** Second question is on our segmental assets. So, agrochemical assets has gone up from Rs. 1,600 Crores in Q3 FY20 roughly to Rs. 1,900 Crores in Q3 FY21 that is close to Rs. 300 Crores increase in segmental assets that probably be possible because of the higher receivables while the revenues have not gone up so much. So, just wanted to understand that a lot of receivables have increased in the current quarter and/or any other reason for that?

**Ramprakash Bubna:** Our sales in the Q3 FY21 was higher than the corresponding quarter last year. Similarly, our sales in Q4 are the highest, so at the end of Q4 our receivables are at the peak.

**Rohan Gupta:** No Sir. That I agree, but I am talking of from Q2 to Q3. Generally, we see this jump from Q3 to Q4 but this time we are seeing that the same from Q2 to Q3. It has not increased so much from Rs. 425 Crores to just Rs. 500 Crores that is Rs. 75 Crores increase but our assets have gone up significantly by Rs. 300 Crores. In general, we see in Q4 this increase is significantly because the revenues increase significantly in Q4. So, I am just asking that it is a higher inventory or receivables, which have caught this change?

**Ramprakash Bubna:** It is because also of higher inventory. We are preparing ourselves for the fourth quarter.

**Rohan Gupta:** Thank you Bubna Ji. Thank you so much.

**Ashok Vashisht:** Some impact of account is also because we did higher sales this quarter.



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**Ramprakash Bubna:** That is roughly Rs. 75 Crores only.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

**Nitin Agarwal:** Sir, with this increase which has been happening in the agri commodity prices over the last month, or two months, are you seeing any changes in the market dynamics because of this in terms of the volume offtake for agrochemicals in general?

**Ramprakash Bubna:** In general, if the agrochemical prices go up, the demand for agrochemicals will also grow up, but we are not seeing any such impact or connection at present. If agro commodities continue to be holding a higher prices then the farmers will be introducing more chemicals to protect their plants and that situation will come only from the application space that is first quarter of next financial year. At present there is no such connection.

**Nitin Agarwal:** This probably something will be impact if it continues probably more in FY2022 onwards?

**Ramprakash Bubna:** Yes. If the prices of the agro commodities go up, then the sowing also increases and when the sowing areas increase then the demand of agrochemical is naturally going to increase.

**Nitin Agarwal:** Sir, for this year, for the nine month what has been the impairment that you have taken?

**Ramprakash Bubna:** In Q3 our impairment was Rs. 5.7 Crores.

**Nitin Agarwal:** What would be the number for nine months?

**Ramprakash Bubna:** Nine months it is about Rs. 8.7 Crores.



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**Nitin Agarwal:** This is significantly lower than what we have done in the last two years, so, is this...?

**Ramprakash Bubna:** Mr. Agarwal, I am saying that our impairment for 9M FY20 was about Rs. 2.3 Crores against Rs. 8.7 Crores for 9M FY21.

**Nitin Agarwal:** This is the way it will continue in Q4?

**Ramprakash Bubna:** Very difficult to say at this stage. It could increase because there are no standard formulas to link this. We have to study each molecule independently for their impacts and their demand and testing, but generally if you ask me it is going to be higher as compared to last year.

**Nitin Agarwal:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Deepak Kolhe from B&K Securities. Please go ahead.

**Deepak Kolhe:** Good evening Sir. Congratulations for a good set of numbers. Sir, can you please guide us on our tax rate for the FY21?

**Ramprakash Bubna:** Effective tax rate for FY21 should be in the range of 30% to 35%.

**Deepak Kolhe:** Thank you, Sir. Also, if you can give some breakup of our registration pipeline as per geography?

**Ramprakash Bubna:** The registrations in pipeline stood at 1,062. The Europe region is 722, NAFTA has 154, LATAM has 114, and Rest of the World has 72. This is as on December 2020.

**Deepak Kolhe:** Thank you. Sir, the total registrations at the end of the quarter stood at 2,495, if you can give up the breakup of that also will be great Sir?



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**Ramprakash Bubna:** Out of 2495 registrations at the end of December 2020, Europe has 1291, NAFTA has 225, LATAM has 742 and Rest of the World has 237.

**Deepak Kolhe:** Thank you. That's it from my side.

**Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

**Rohit Nagraj:** Thanks for the follow-up. We justified the raw material price increases from China as they have increased and we have certainly covered the Q4, but my question is whether it will have an impact on Q1 and if it does have then how does our pricing cycle generally move?

**Ramprakash Bubna:** Mr. Rohit, this is a trend as we do not decide the prices. The prices are decided by multinational companies who in general command 75% of the market. Secondly, depending on the weather, the sowing, some products may have good demand, some products may have a reduced demand. So, it is very difficult to predict the overall trend for Q1 at this stage.

**Rohit Nagraj:** Fair enough. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ayaz Motiwala from Nivalia. Please go ahead.

**Ayaz Motiwala:** Thank you. While there is a decline in the ROCE trend, you hope that this is the bottom and it is going to firm, and at the same time, you have shared the facts that the registration costs are going up, so my question to you is, is the productivity of registration is that some way that you measure internally on when you are successful with registration despite the rise of costs for the registration and on a two, three-year basis when you make those sales, are you able to get better productivity and thus you are confident that your ROCEs have hit a bottom end on that return. How do you see that? That is the question. Thank you.



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**Ramprakash Bubna:** Motiwala Ji, I have not done any detailed calculations to answer all your questions. I just indicated a trend. That is a trend because we hope our volumes will grow, our revenues will grow up and that would have a better impact on the ROCE, but I do not have any detailed calculation.

**Ayaz Motiwala:** Sir, can you give one sense of a ballpark increase in your registration costs when you are filing three, four years ago and you are filing now. What do you think is the change in the cost of registrations?

**Ramprakash Bubna:** It could be 70% more, it can be 100% more and 150% more.

**Ayaz Motiwala:** So, you are saying that has gone up from 50% to 100%.

**Ramprakash Bubna:** Yes, very high.

**Ayaz Motiwala:** To compensate that how are you able to manage because your margins dipped for a few quarters, the EBITDA margins have come back into the 20% range now, so what have you done while costs have gone up, which is a very important cost which is registration, how have you been able to maintain and manage these margins despite sales?

**Ramprakash Bubna:** This is mainly because of margins in individual products. These have been introduced in the last year.

**Ayaz Motiwala:** But the registration cost has been going up for the last three-five years, is what you are saying?

**Ramprakash Bubna:** It is and that has impacted our EBITDA and margins also adversely.

**Moderator:** Thank you. The next question is from the line of Somaiya V from Spark Capital. Please go ahead.

**Somaiya V:** Thanks for taking my question. If I were to look at probably slightly medium-term outlook, so once your operating geographies say Europe or



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NAFTA. So, how would you kind of look in terms of emphasis between these two geographies? You would probably want to continue at the current level or probably there will be more in terms of your registrations or your terms of penetration levels? or You want to be more in particular geographies an outlook into of these two geographies where your emphasis would be?

**Ramprakash Bubna:** Mr. Somaiya as I explained to you, we cannot switch strategies and other things, adversely but the process of registrations is very long as you know, one molecule may take two years, three years or even five to six years. So, we cannot change any strategy of our registrations based on the factors that you have pointed out. I was just explaining that these are the facts and we have to live with them.

**Somaiya V:** Sir, in terms of your volume numbers that you have given for this quarter and NAFTA and Europe there has been growth though LATAM is small for you, but there has been a slight decline. Is it predominantly because of the late season pickup or anything?

**Ramprakash Bubna:** There is a drop in the volume in LATAM to the extent of 25% to 26%.

**Somaiya V:** Is it because this season got delayed because of the dry weather there or is it more of a macro thing, that is what I wanted to understand?

**Ramprakash Bubna:** Sir, I think it is more connected with their state of the economy and their political situations. We hear a lot of protests and many kinds of changes and accusations against the government, so their currencies are very much unstable against US dollars and they have their own uncertainties with their own individual country's economic situation. I think these are the factors, which are there in Q3, but if you look at the last nine months, then LATAM has been very much flat. Only in Q3 FY21, it has been there, so there could be some small specific situations which is difficult for us to throw light on.



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**Somaiya V:** Sir, in terms of your gross profit margins, you have clocked from 25% in Q3 FY20 to 35% during the current quarter. So, you had alluded to lower RM costs, but also you mentioned that some of the molecules and the China RM prices are inching up. So, in terms of benefit from a gross margin standpoint, one is lower RM cost compared to last year. Second, we have also had a product mix benefit because of the newer registrations and also is there an inventory led impact as we have done procurement ahead of the season and we got it at a lower price. If we have to compare it with today's price probably it would have been slightly on the lower side. What could be the inventory impact that is within this gross margin?

**Ramprakash Bubna:** I do not have an analysis for that. All I can tell you is that the prices are not fixed. The prices also vary both the raw material prices as well as my sale prices depending upon the factors, which are not controlled by our company. We just share with them and I am only telling you what is the end effect. Did I answer your question correctly, Sir?

**Somaiya V:** Yes. One minor clarification that I wanted to have was, is there an inventory gain. I understand that we will not be able to quantify it but is there an inventory gain that is helping the numbers, in terms of gross profits.

**Ramprakash Bubna:** The inventory gain is there, if you compare to current prices, but I also know it is the same case, for most of my peers. Everybody has done procurement and it is not that anybody would willingly delay the procurement till January end or till February so, most of the people are in the same boat.

**Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

**Rohan Gupta:** Thanks, Bubna Ji for follow-up. Sir, just wanted to reconfirm gross margins for the quarter geography wise which you had shared? You have



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mentioned Europe is 41%, NAFTA is 32%, LATAM America 21% and RoW 21%.

**Ramprakash Bubna:** Yes Sir.

**Rohan Gupta:** Sir, we have seen that Europe margins are continuously improving while LATAM has continuously come down at 21% for the current quarter probably had seen lowest in the last four to eight quarters. They have mentioned that there will be quarter specific reasons and not getting too much in the quarterly detail, but in general, we are seeing Europe margins are improving and LATAM has declined. I also understand that in our business model in LATAM market that these are the high working capital day market, because LATAM American markets with a later in the cycle, so with this kind of LATAM America markets, margins are continuously declining. Do you see that we need to review our LATAM American Market business and also wanted to understand in Europe the reason for the realizing margins?

**Ramprakash Bubna:** Rohan, this has always been the case with us, but for better clarification, I will give you 9M FY21 numbers. The LATAM margins are not going down so much, it was 27.7% for 9M FY20, which is 25.3% during 9M FY21, so it is hardly 2.4% decline.

**Rohan Gupta:** Sir, Europe margin which has been continuously improving is led by new product registration which you had initially done in Q1 and Q2 or is it in general pricing trend is improving or is it a less competition which has helped us in better margins in Europe?

**Ramprakash Bubna:** I have a feeling that on the pricing front there is not a big change in Europe but on the raw material front, we are not getting an improvement in the sourcing prices that must have led to this increase in the margins.

**Rohan Gupta:** Thank you so much.



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**Moderator:** Thank you. Ladies and gentlemen as this was the last question for today, I would now like to hand the conference over to Mr. Manish Mahawar for his closing comments.

**Manish Mahawar:** I have two questions; one in terms of intangible write offs. You said, it will be higher than the last year particularly FY21?

**Ramprakash Bubna:** Yes.

**Manish Mahawar:** What would it be for the last year? What I can see is around Rs. 55 Crores for the FY20, so what could be the number we are expecting for this year tentatively? Why I am asking is because earlier you had indicated that this number will be much lower versus the last year. Now you are saying it will increased?

**Ramprakash Bubna:** Sir, I have given you just my personal feeling. We do not have any calculations and we have not done any analysis. Ideally what price has happened in Q3 and just a feeling for the Q4. Maybe my expectation and estimations may or may not be correct. This is just a trend and inflation.

**Manish Mahawar:** It will be higher, or lesser, just what should the investors assume?

**RamprakashBubna:** Let me see if I have any figures.

**Manish Mahawar:** Last year it was Rs. 55 Crores and it was Rs. 52 Crores during Q4FY20.

**Ramprakash Bubna:** Yes, it was Rs. 55 Crores last year. Last year in Q4 the write off was substantial. In that case, maybe I should say that this year it may not be so substantial, because part of it might have been covered in Q3. It could be in the same range.

**Manish Mahawar:** Last year, we had annualized number of about Rs. 55 Crores, so you are saying it will be same or lesser than this number, right?



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**Ramprakash Bubna:** Yes Sir.

**Manish Mahawar:** My second question in terms of gross margin expansion which has happened because of lower raw material cost, so do we think this benefit will continue in the 4Q as well?

**Ramprakash Bubna:** I have already explained the current situation, some of the products in China are going to have a shortage and the prices are increasing. So, I do not expect the same thing in Q4, but whatever we outsource, which is going to be sold in Q4 we would be definitely at some advantage.

**Manish Mahawar:** One bookkeeping question if you can give, you said the total volume for the quarter is around 57,53,000 for the quarter, total number volume?

**Ramprakash Bubna:** The figure I have is I mean agro, non-agro or both?

**Manish Mahawar:** Agrochemicals?

**Ramprakash Bubna:** Agrochemicals total is 57,53,000.

**Manish Mahawar:** What is the non-agrochemical, volume?

**Ramprakash Bubna:** Non-agro is 5,00,180.

**Manish Mahawar:** Is it possible to give both the numbers for the last year as well?

**Ramprakash Bubna:** Last year it was 50,00,000 for agro and 3,33,000 for non-agro.

**Manish Mahawar:** Thank you Sir. That is all from my part. Would you like to make any closing comment?

**Ramprakash Bubna:** I would only like to thank everybody who has taken interest and time for attending the earnings call. I am very happy that people are going into the details of our company. Thank you, Manish.



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