



“Sharda Cropchem Q2 FY2017 Results
Conference Call”

November 07, 2016



ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Q2 FY2017 Results Conference Call, hosted by Dolat Capital Markets. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Afshan Sayyad. Thank you and over to you Madam!

Afshan Sayyad: Thanks Janis. Good evening everyone on behalf of Dolat Capital, I welcome you all to the Q2 FY2017 Earnings Call of Sharda Cropchem. From the management side, we have Mr. R.V. Bubna – the CMD, Mr. Conrad Fernandes – the CFO and Mr. Sylpesh Dedhia – the GM, Finance of Sharda. I would now like to handover the call to Mr. Bubna for his opening remarks on the earnings followed by Q&A session. Over to your Sir!

Ramprakash V. Bubna: Thank you Madam. Good day ladies and gentlemen. A warm welcome to everyone present here for the earning call of Sharda Cropchem Limited for the quarter of financial year 2016-2017. Sharda Cropchem is represented by myself, Ramprakash Bubna – Chairman and Managing Director, Mr. Conrad Fernandes – Chief Financial Officer and Mr. Sylpesh Dedhia – General Manager (Finance).

Talking briefly about our second quarter results, revenues grew by about 3.8% to Rs.2469 million in Q2 FY2017 driven by good performance across all regions and markets. Gross profits increased by 12.4% to Rs.904 million in Q2 FY2017 and gross margin expanded by 280-basis points from 33.8% to 36.6%.

EBITDA excluding foreign exchange impact increased by 15.9% to Rs.475.7 million in Q2 FY2017 and EBITDA margin increased by 202 BPS from 17.2% to 19.3%. EBITDA excluding foreign exchange impact increased by 24.1% to Rs.509.4 million in Q2 FY2017 and EBITDA margin increased by 338 BPS from 17.2% to 20.6%.

Net profit increased by 25% to Rs.332 million in Q2 FY2017 and net profit margin increased from 11.2% to 13.4%. The total number of registrations increased to 1936 as on September 30, 2016 compared to 1830 as on June 30, 2016. We have another 782 registrations in pipeline across the geographies.

The overall performance during the second quarter was as per expectation. We shall continue to drive growth in our business by consistently investing in new registrations and expanding into new geographies, and new market segments.



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With this, I would now like to hand over the call to our CFO, Mr. Conrad Fernandes, for discussing our financial performance in brief. Thank you everybody. Hand over to you Mr. Fernandes!

Conrad Fernandes: Thank you Mr. Bubna and a very good evening to you all. I will speak about the half-year revenues, half year revenue growth was 8.6% which is contributed by a 19% growth in Europe, 16% growth in LATAM a 1% growth in NAFTA while rest of the worlds saw degrowth of 16%.

On a half-year basis revenue composition was 48% from Europe, 25% from NAFTA, 17% from Latam and 10% from rest of the world.

Gross margins improved from 33% to 36% on account of a favorable price product and region mix.

For the half year depreciation and amortization expense stood at 245 million as against Rs.165 million for the corresponding period last year, this is mainly and only on account of our spend on registrations.

Consolidated profit after tax increased by 17.7% from 629 million to Rs.741 million. Our working capital cycle has marginally reduced from 77 days to 75 days.

I now leave the floor open for questions and discussions.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Vijay Raghvan from IDFC Securities. Please go ahead.

Vijay Raghvan: Congratulations on a very good set of numbers. Sir can you help us with the volume growth numbers geography wise for agrochemicals and for also belt division?

Ramprakash V. Bubna: The volume growth for agrochemicals for the Q2 of FY2017 agrochemicals is 8.5% in value terms.

Vijay Raghvan: Okay 8% is the overall volume growth for agrochemical division?

Ramprakash V. Bubna: 8.5% is agro growth and non-agrochemicals there is degrowth of about 13.2% and overall (including other operating income) is about 3.8%.

Vijay Raghvan: Is it possible to share the numbers geography wise aspect?

Ramprakash V. Bubna: For the agrochemical in Europe the growth has been 15.9%, LATAM 31.8%, NAFTA 6.2% and Rest of the World is 36.7% degrowth.



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- Vijay Raghvan:** It is a volume growth of 36.7%.
- Ramprakash V. Bubna:** The volume growth is Europe 45.9%, Latam 17.6%, NAFTA –8.1% and Rest of the World - 37.0%.
- Vijay Raghvan:** Okay this is the volume growth for agrochemical geography wise?
- Ramprakash V. Bubna:** Yes please.
- Vijay Raghvan:** Sir for the last two quarters we have been continuously seeing decline in ROW geography so any specific reason was there; did we had any one-half business last year which was not there this year. Can you elaborate about why there has been a decline in ROW geography?
- Ramprakash V. Bubna:** You see the rest of the world is getting slowly and slowly less important for us because the registrations barriers are not so strong and the margins are less and it requires an equal amount of efforts so it is receiving lesser attention from us.
- Vijay Raghvan:** Okay so incrementally we are focusing more on developed markets like in Latin America regions.
- Ramprakash V. Bubna:** Yes please.
- Vijay Raghvan:** Sir also overall the growth wise can we split it into what has been the impact of forex as well as realization in agrochemical, because in agro chemical you shared the number of volume growth to be at around 8.5% similarly what was the impact of forex and realizations for the quarter?
- Ramprakash V. Bubna:** Well I have the figures of total growth volume wise the impact is 13.3%, currency impact is 4.3% positive, and the price product and region mix is –13.3%.
- Vijay Raghvan:** Volume growth was 8.5%.
- Ramprakash V. Bubna:** Overall yes on the agro.
- Vijay Raghvan:** Sir cumulatively how much we have capitalized on the registration expenses so far?
- Ramprakash V. Bubna:** You mean this year.
- Vijay Raghvan:** Cumulatively what are the total intangible assets, which we have capitalized already, and what is the work-in-progress?
- Ramprakash V. Bubna:** Mr. Raghvan it is about Rs 397 to 400 crores on the balance sheet as on September 30, 2016.
- Vijay Raghvan:** Okay this does not include work-in-progress?



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Ramprakash V. Bubna: This includes work-in-progress.

Vijay Raghvan: Sir can you talk about how do you see the growth for the second half because for full year earlier is that thinking about 15% growth any change in that outlook how do you see it going forward for rest of the year and also if you can comment upon the profitability front as well, because realization seems to be continuously declined, but you have been able to pull down to your gross margins in the first half so how do you see it in the second half which is an important season for us?

Ramprakash V. Bubna: I feel overall we should be able to grow around 15%.

Vijay Raghvan: Okay that growth you are maintaining.

Ramprakash V. Bubna: Yes please.

Vijay Raghvan: On the profitability front Sir how do you see it?

Ramprakash V. Bubna: A little better than this it could be about 15% to 18%?

Vijay Raghvan: So gross margin you see it improving from current levels as well?

Ramprakash V. Bubna: We should be able to maintain around 35% to 36%.

Vijay Raghvan: So this is more sustainable kind of a number.

Ramprakash V. Bubna: Yes please.

Vijay Raghvan: Sir what is the total capex planned for this year?

Ramprakash V. Bubna: We have already spent about \$12 million in the first two quarters and we should be able to close the year at about maybe \$18 to \$20 million.

Vijay Raghvan: Where do you, most of the spending happening in Europe itself?

Ramprakash V. Bubna: Good quantities in Europe but the figures I am giving is global figures.

Vijay Raghvan: Sir in the top ten products did we see any change in the products, any new products have been added to top ten or anything it has dropped out of top ten?

Ramprakash V. Bubna: Yes there are two molecules, which have been dropped out, and two have been added, but the top ten molecules still contribute about 60% of the total revenue.



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Vijay Raghvan: Is it possible to share the names of the molecule which has been dropped and which has been added to top ten.

Ramprakash V. Bubna: We will let you know later on.

Vijay Raghvan: Sir broadly if we looking at the capex and the working capital also broadly remaining at a control so the cash flow would continue or remain strong for us and as well as we do not have much of a debt in the balance sheet as well. So how do we intend to use cash any plans to increase the payout or you will be looking at any inorganic opportunities.

Ramprakash V. Bubna: Well we are preparing ourself for spending more on the capex if there is some M&A opportunity we will be ready for it, but at the moment there is nothing which is under consideration.

Vijay Raghvan: So the capex will continue to remain for registrations.

Ramprakash V. Bubna: Yes please.

Vijay Raghvan: Thanks a lot Sir and all the best and thanks for the opportunity.

Moderator: Thank you. Next question is from the line of Diresh Pathak from Goldman Sachs. Please go ahead.

Diresh Pathak: For the first half what is the volume currency and price mix impact on the total book?

Ramprakash V. Bubna: For the first half the volume impact is 9.2% positive, currency impact is 4.3% positive and the price, product mix and the region mix is negative 4.3%. So overall is 9.2%.

Diresh Pathak: Sir, could you give region wise volume growth for Q2 can you also give for the first half?

Ramprakash V. Bubna: First half volume in European region has increased.

Diresh Pathak: Sir agro would be more of interest.

Ramprakash V. Bubna: European region it has increased by 34.9%, LATAM 17.2%, NAFTA there is degrowth of 11.3% and rest of the world there is a degrowth of 40.5% volume wise.

Diresh Pathak: Sir Europe this 35% volume growth this is any on a like-to-like portfolio or there is some new molecule that has been added this year which was not there last year.

Ramprakash V. Bubna: There are one or two molecules, which have been added this year.

Diresh Pathak: So how much of that would be impacting growth numbers?



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- Ramprakash V. Bubna:** We do not have that figure readily available now.
- Diresh Pathak:** Okay, but in your sense is it meaningful impact of growth coming from new...?
- Ramprakash V. Bubna:** Not a very big impact.
- Diresh Pathak:** Sir then can you just call out like which molecules did well for us in Europe this first half.
- Ramprakash V. Bubna:** In Europe.
- Diresh Pathak:** Yes.
- Ramprakash V. Bubna:** See there is a molecule by name Diquat, Tebuconazole, Quizalofop, Imidacloprid, Deltamethrin and Metaldehyde.
- Diresh Pathak:** These four five products all did equally well?
- Ramprakash V. Bubna:** Not equally I would say not equally they have been the ones, which have shown a significant growth.
- Diresh Pathak:** And the largest out of them would be in Europe.
- Ramprakash V. Bubna:** Tebuconazole.
- Diresh Pathak:** Thank you.
- Moderator:** Thank you. Next question is from the line of Alok Deshpande from HSBC. Please go ahead.
- Alok Deshpande:** Sir I had a question on the pricing scenario. Can you just give us a sense of how is the pricing scenario panning out for agro chemical products in European region and the Latin American region is there any pricing pressure that you are seeing?
- Ramprakash V. Bubna:** There is a slight pressure but not very significant both Europe as well as in Latin America.
- Alok Deshpande:** And this is compared to last year you are saying?
- Ramprakash V. Bubna:** Yes please.
- Alok Deshpande:** Sir my second question was specifically with the European region. Sir within the European crop protection market which are the two or three growth categories that probably you can point out which are going above the industry growth?
- Ramprakash V. Bubna:** I have not understood growth categories.



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- Alok Deshpande:** Sir means any specific crops for which the products growing faster compared to others?
- Ramprakash V. Bubna:** No we do not have that analysis my dear Sir.
- Alok Deshpande:** Thank you so much for your answers.
- Moderator:** Thank you. Next question is from the line of Himanshu Binani from B&K Securities. Please go ahead.
- Himanshu Binani:** Sir can you just give us the breakup of registrations in pipeline across geographies?
- Ramprakash V. Bubna:** Registration in pipeline we have about 780 to 800 registrations in the pipeline and out of this Europe is around 450, NAFTA region about 100, Latam is 180, and rest of the world about 60.
- Himanshu Binani:** Sir can you just comment on the industry outlook like the gain in market share in Europe as well as other geographies just basically wanted to understand the industry environment in Europe as well as like NAFTA and Latam?
- Ramprakash V. Bubna:** See as we look at it the industry environment in Europe is fairly stable, it is I would say flat or steady. We do not see any significant jump or big decline.
- Himanshu Binani:** Sir any market share gain?
- Ramprakash V. Bubna:** Market share see we are forming a very small share of the total market in Europe so our presence from that point of view overall is very insignificant. For some particular molecule in one or two countries we could be significant, but if you take the overall picture we are having a very small share of the total market.
- Himanshu Binani:** Thank you.
- Moderator:** Thank you. Next question is from the line of Ketan Thakkar from ASK Investment. Please go ahead.
- Sudhir Kedia:** Good evening Sir. This is Sudhir Kedia here. Sir can you have impact with the geographical breakup in terms of volume across geographies like Europe, LATAM and NAFTA?
- Ramprakash V. Bubna:** Yes please, you mean overall or agrochemicals.
- Sudhir Kedia:** Agrochemicals I am asking volume breakup.
- Ramprakash V. Bubna:** You mean volume breakup in Europe and volume breakup in Latin America.
- Sudhir Kedia:** That is right Sir.



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- Ramprakash V. Bubna:** See volume share Europe is about 51.5% this is for the Q2 not H2, NAPTA is about 18%.
- Sudhir Kedia:** Sir that is value breakup. What I am asking is let us say if you are telling 100 tons of agrochemicals how much you are selling in Europe or somewhere.
- Ramprakash V. Bubna:** See volume breakup we do not have readily available with us.
- Sudhir Kedia:** Can you just tell me Sir when you are paying that euro has grown by 34.9% in terms of volume what is the absolute amount for Europe?
- Ramprakash V. Bubna:** You want the quarter or the half-year?
- Sudhir Kedia:** Sir you have given for H1 Europe growth in volume is 34.9% and which is the quantity?
- Ramprakash V. Bubna:** Yes that is for the half year.
- Sudhir Kedia:** Yes first half so what is the total quantity you have sold for Europe in terms of tonnage for Q1 and Q2 the half year whatever number you have readily?
- Ramprakash V. Bubna:** See there are various quantities and various products so the total figure does not have much of a sense.
- Sudhir Kedia:** So when you say that this growth of 34.9% in first half how do we relate to this number?
- Ramprakash V. Bubna:** See there is an increase in the quantity by 34.9%.
- Sudhir Kedia:** Yes that is why I am asking that quantity number only.
- Ramprakash V. Bubna:** This is increased from 3700 tons to about 5000 tonnes.
- Sudhir Kedia:** 5000 tons in H1 right.
- Ramprakash V. Bubna:** Yes.
- Sudhir Kedia:** Would you have just the same number for other regions as well.
- Ramprakash V. Bubna:** Yes please, in LATAM it has increased from 1450 tonnes to 1700 tonnes, in NAFTA it has decreased from 2000 tonnes to 1800 tonnes and Rest of the World are about 1400 tonnes to 880 tonnes.
- Sudhir Kedia:** Will it be possible to share the same number for Q2 as well?
- Ramprakash V. Bubna:** Pardon me.



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- Sudhir Kedia:** Will it be possible to share the same number for Q2 as well?
- Ramprakash V. Bubna:** The ratio is about 45%, in European Union it has increased from 1700 tonnes to about 2450 tonnes, Latam 760 tonnes to 890 tonnes, NAFTA 660 tonnes to 610 tonnes and Rest of the World it is degrowth from 900 tonnes to about 570 tonnes.
- Sudhir Kedia:** That is helpful. We will come back if we have more questions. Thank you.
- Moderator:** Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Thank you for the opportunity and congratulations on decent set of numbers. Sir I just had a couple of questions. First is if we look at our overall sales growth and overall profitability we have enjoyed plus 18% / 19% EBITDA margin in fact plus 20% and the kind of growth rate we are projecting and the kind of spends we are making on registrations, the future cash flow generation will be even much higher given that we are primarily have so far be focusing on registration and we have a very small market share even in a region like Europe is there any thought process of actually investing further into the value chain that in the distribution side, so that the overall scalability is much more significant for company like us, what are the thought process in terms of allocation of cash apart from registration portfolio which we are trying?
- Ramprakash V. Bubna:** No we are also paying attention to the distribution channel, we are hiring more people and we are getting better access to the market and more understanding of the market.
- Viraj Kacharia:** Sir but at the sametime I understand that over the years we are trying to build a more organic approach to distribution but if we look at competitors in this space they have tried to bridge that gap by acquiring distribution companies in key statutory regions thereby fastening their access to the market. So is there any thought process on similar lines for us?
- Ramprakash V. Bubna:** We do get some proposals from time-to-time for acquisition of Distribution Company, but we have not zeroed down on any they have not been approved due to some reason of the other.
- Viraj Kacharia:** Second question is you talked about certain key molecules in Europe can you also talk about certain key molecules say top three in LATAM which we cater to that is one?
- Ramprakash V. Bubna:** The top three molecules in LATAM are Fomesafen, Paraquat and Imidacloprid.
- Viraj Kacharia:** Sir we having hearing some other players also who are pretty large in exports and the demand for certain other molecules like Mancozeb, Tropylium those are also had companies are facing capacity constraints and there were catering those demands. So how are we positioned with respect to those molecules and how you see the overall demand environment panning out for these kind of molecules globally?



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- Ramprakash V. Bubna:** We do not have registrations of these molecules and in our assessment these molecules are of older generation. We concentrate on the newer molecules. So we have not studied these molecules.
- Viraj Kacharia:** Last question was on the LATAM market how is the overall demand environment panning out in those key countries like Brazil and Argentina or how is the demand environment there and how is the overall credit factor behaving in those markets?
- Ramprakash V. Bubna:** See there is the demand and the demand is on the increase compared to last year and the biggest market in LATAM is Brazil where we are not very strong. We have been making effort for registering these products for the last eight years, but by the time we get the registrations the prices are dropping down to even below our cost so we have not made much of a significant push in Brazil. Other markets are growing reasonably well.
- Viraj Kacharia:** That is all Sir. Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Shekhar Singh from Excelsior. Please go ahead.
- Shekhar Singh:** Sir I just wanted to know like why was there degrowth in the Rest of the World market?
- Ramprakash V. Bubna:** As I told you in Rest of the World market the registration barriers are not implemented very seriously and the margins are not much. So we do not find it very interesting to promote our efforts and our investments into those markets where we do not get much value.
- Shekhar Singh:** Sir secondly like in terms of your approved molecule the list has grown significantly but in terms of volume growth we do not see that sort of an increase in volume growth. It is good I am not saying the volume growth is not good, but say the quarter-on-quarter the sort of approvals which you have been getting that basically in a way point that the growth can be much higher as compared to what so far we have achieved.
- Ramprakash V. Bubna:** See quarter two has been a bit of an aberration, but we are hopeful that in the overall for the full year we should be able to grow about 15%.
- Shekhar Singh:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Mrunal Savla from Anand Rathi Shares. Please go ahead.
- Mrunal Savla:** Sir can you give breakdown of credit receivables of Rs 3,905, region wise?
- Ramprakash V. Bubna:** It is about Rs 1,740 million in Europe, Rs 585 in NAFTA, Rs 950 in LATAM and about Rs 635 in Rest of the World.



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- Mrunal Savla:** Sir any specific reason for increase in the inventory days from 43 days to 72?
- Ramprakash V. Bubna:** See we have been preparing ourselves for the fourth quarter and last year we experienced that sometimes we have been short of availability of the goods so we are building up some service and inventory to meet the demand of fourth quarter.
- Mrunal Savla:** Thanks a lot Sir. All the best.
- Moderator:** Thank you. We take the next question from the line of Mahesh Bendre from Way2Wealth. Please go ahead.
- Mahesh Bendre:** Just I would like to know what is the growth outlook for FY2018?
- Ramprakash V. Bubna:** I would say it is more or less in the same line about 15% to 20%.
- Mahesh Bendre:** Will we able to hold on the margins that currently we are making?
- Ramprakash V. Bubna:** Yes they appear to be sustainable.
- Mahesh Bendre:** Capital expenditure will be?
- Ramprakash V. Bubna:** It will be in the range of about \$18 to \$20 million.
- Mahesh Bendre:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Pratik Tholiya from Emkay Global. Please go ahead.
- Pratik Tholiya:** Sir I just wanted to check what is the guidance for tax rate for the full year, I think this quarter is come at around 26, which I think is a little lower than what it has been earlier? Sir I just wanted to know the tax rate guidance for the full year FY2017.
- Ramprakash V. Bubna:** It should be in the range of about 28%.
- Pratik Tholiya:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Diresh Pathak from Goldman Sachs. Please go ahead.
- Diresh Pathak:** Sir, reason for volume degrowth for first half in NAFTA region?



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Ramprakash V. Bubna: I have a feeling that weather is a main reason for that. There have been very heavy rains in some regions and storm another things and then also in the Mexico the demand was subdued so these have been the factor.

Diresh Pathak: Sir when you guide for 15% this is volume growth or value growth you are guiding for?

Ramprakash V. Bubna: Mainly value growth.

Diresh Pathak: Sir anything on purchase side because in the initial part of last year I think we had issues this currency treated issues and all that so can you give some colour? On our sourcing from China in terms of currency and pricing related problems that we had in the past can you just give an update in terms of how that outlook is in terms of our sourcing of material?

Ramprakash V. Bubna: What is your good name my friend?

Diresh Pathak: Diresh.

Ramprakash V. Bubna: Diresh actually I do not think that we have had any pricing issues or sourcing issues from China on account of currency I feel that we have been comfortable on the sourcing front and that situation continues.

Diresh Pathak: All right Sir. Thank you.

Moderator: Thank you. Next question from the line of Ketan Thakkar from ASK Investment. Please go ahead.

Ketan Thakkar: Sir your realizations in Europe has dropped by almost 20% in Q2 on a base of last year Q2 is this function of product mix or is there is a price decrease?

Ramprakash V. Bubna: Realization.

Ketan Thakkar: I am saying in rupee terms?

Ramprakash V. Bubna: You are talking in terms of rupees.

Ketan Thakkar: Yes Sir, in Euro terms it is even higher.

Ramprakash V. Bubna: My friend this is mainly due to the product mix, because there is a big difference in the price from one product to the other, so we receive demand from the product which are not so highly valued there is not from those products were high.

Ketan Thakkar: So Sir when despite of product there is in terms of realization we have adverse product mix then does it have an impact on our gross margins that is why our gross margins remain same



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respective on the product mix meaning even as low realization product has a similar gross margin or it is lower.

Ramprakash V. Bubna: See as far as the percentage margin is concerned it is the same it is not lower.

Ketan Thakkar: Thanks Sir.

Moderator: Thank you, Sir. That was the last question, I now hand the conference over to Ms. Afshan Sayyad for her closing comments. Over to you Madam!

Afshan Sayyad: Just one last question from my side before we close. Just wanted to know we have seen a degrowth of around 15% in the non-agchem side of the business so I just wanted to understand what is led to that it is like more of a strategic shift towards the core agrochemical side of the business if you can throw some light on that?

Ramprakash V. Bubna: No it is not that. Madam we had some very good demand of some products in Brazil, which was the non-ag that was some rubber chemical. This year because of the currency situation and other things and the volatility this demand has gone down and we are very careful about the realization. So we do not want to be very liberal in extending the credit facility that has been the reason for degrowth.

Afshan Sayyad: So we are maintaining the share of 18% for the non-ag chem side and the rest on the ag chem.

Ramprakash V. Bubna: Yes madam.

Afshan Sayyad: That is it from my side Sir. Do you have any closing remarks to make?

Ramprakash V. Bubna: No. I think I want to say thank you so much for you all good questions and we are very happy to answer that.

Afshan Sayyad: Thank you so much Sir and I would like to thank all the participants for joining the concall as well.

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