"Sharda Cropchem Q3FY15 Earnings Conference Call"

February 9, 2015

MANAGEMENT: **MR. R. V. BUBNA – CHAIRMAN & MANAGING DIRECTOR, SHARDA CROPCHEM LIMITED**
MR. GAUTAM ARORA – CFO, SHARDA CROPCHEM LIMITED

ANALYST: **MR. RITESH GUPTA – ASSOCIATE VICE PRESIDENT, AMBIT CAPITAL PVT. LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Q3FY15 earnings conference call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Gupta of Ambit Capital. Thank you and over to you sir.

Ritesh Gupta: Good morning, everyone and thanks for logging into the call. We have with us today the management of Sharda Cropchem led by Mr. R. V. Bubna – Chairman & Managing Director and Mr. Gautam Arora – CFO. I would request the management to take us through the key highlights for the quarter, post which, we will open up the floor for questions. Thanks and over to you sir.

R. V. Bubna: Ladies and gentlemen, greetings to all of you present on the call. This is the second conference call for the company post IPO and we are here to discuss our third quarter and the 9 months ended 31st December financial year results of the company. I will quickly take you through the numbers with some details and then we can respond to the questions.

Gautam Arora: Hi, morning everybody, this is Gautam Arora here just to take you through the results. As you may all have observed, the revenues from sales for the third quarter ended 31st December 2014 increased by 29% to Rs1.838 billion as against Rs1.428 billion in the same quarter last year and revenue from sales in the 9-month period ended 31st December 2014 increased by 44% to Rs7.205 billion from Rs5.01 billion in the corresponding 9-month period of the previous year. The gross profit or the gross margin for the third quarter ended 31st December 2014 increased by 25% to Rs514 million as against Rs410 million in the same quarter last year and gross profit in the 9-month period ended 31st December 2014 increased by 44% to Rs2.345 billion from Rs1.624 billion in the corresponding 9-month period of the previous year.

Gross margins as a percentage of total income from operations in the third quarter ended 31st December 2014 at 27.82% was marginally lower as compared to 28.72% in the third quarter of the previous financial year and gross margins as a percentage of total income from operations for the 9-month period ended 31st December 2014 remained consistent at 32.46% as compared to 32.38% for the 9-month period of the previous financial year. The operating EBITDA of the company after adjusting for foreign exchange gains and losses for the third quarter ended 31st December 2014 increased by 2,030% to Rs115 million from Rs5.40 million in the same quarter last year and the operating EBITDA after adjusting for foreign exchange gains and losses for the 9-month period ended 31st December 2014 increased by 66% to Rs1.191 billion from Rs716 million in the corresponding 9-month period of the previous year.

Operating EBITDA margins adjusted for foreign exchange gains and losses in the third quarter ended 31st December 2014 at 6.23% was significantly higher as compared to 0.38% in the third quarter of the previous financial year, primarily due to fixed cost remaining flat and getting apportioned over the higher revenue base in the current quarter ended 31st December 2014. And operating EBITDA margins adjusted for foreign exchange gains and losses for the 9-month period ended 31st December 2014 at 16.49% was better as compared to 14.28% for the 9-month period of the previous financial year, again primarily due to fixed cost remaining flat and getting apportioned over the higher revenue base in the 9-month period ended 31st December 2014.

The company's profit after tax for the third quarter ended 31st December, 2014 increased by 195% to Rs52 million as against Rs18 million in the same quarter last year and the profit after tax in the 9-month period ended 31st December 2014 increased by 30% to Rs749 million from Rs576 million in the corresponding 9-month period of the previous year. The PAT margins as a percentage of total income from operations in the third quarter ended 31st December 2014 at 2.84% was higher as compared to 1.25% in the third quarter of the previous financial year and PAT margins as a percentage of total income from operations for the 9-month period ended 31st December 2014 at 10.37% was lower as compared to 11.49% for the 9-month period of the previous financial year, a decline of 112 basis points.

The segment-wise breakup of sales revenue between agrochemicals and non-agrochemicals is as follows:

In the third quarter ended 31st December 2014, agrochemicals sales contributed 72% and non-agrochemical sales contributed 28% respectively to the total sales revenue. The corresponding figures in the third quarter of the previous financial year were 73% and 27% respectively. Correspondingly, in the 9-month period ended 31st December 2014, agrochemical sales contributed 79% and non-agrochemical sales contributed 21% respectively to the total sales revenue. The corresponding figures for the 9-month period of the previous financial year were 74% and 26% respectively.

The region-wise breakup of sales revenue of agrochemicals is as follows: In the third quarter ended 31st December 2014, Europe contributed 21%, NAFTA 26%, LatAm 38% and rest of the world 15% respectively to the total sales revenue. The corresponding figures in the third quarter of the previous financial year were Europe 21%, NAFTA 21%, LatAm 34% and rest of the world 24% respectively. Correspondingly in the 9-month period ended 31st December, 2014, Europe contributed 42%, NAFTA 21%, LatAm 25% and rest of the world 12% respectively to the total sales revenue. The corresponding figures for the 9-month period of the previous financial year were Europe at 39%, NAFTA 21%, LatAm 26% and rest of the world 14% respectively.

I believe it is imperative to note here that the business of the company is seasonal in nature. The third quarter of a financial year usually has the lowest contribution to sales revenues. Europe which contributes approximately 50% to the annual agrochemical sales revenues has the lower sales during this third quarter due to seasonality as reflected in the third quarter region-wise sales breakup. Gentlemen, I am done from my side in terms of providing you with the brief breakup of the results of the company. I leave the discussion open for further discussions. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Given like Mr. Arora mentioned Q3, inherently seasonal quarter**,** could you help us understand how the revenue split is in a normal year between quarters 1, 2, 3, and 4?

Management: See, quarter 4 is the strongest quarter for the business. Next comes quarter 1, then comes quarter 2 and quarter 3 is the weakest among the 4 quarters every year.

Baidik Sarkar: So Mr. Bubna, over the last quarter I think you mentioned a figure of about 40% which is what quarter 4 contributes to the entire year's revenue. So does that statistic hold good for this year as well?

Management: I think so, it should hold good.

Baidik Sarkar: Given that, if Q4 is disproportionately high in terms of revenues, obviously the cost absorption and the margin for the fourth quarter would have obviously been much higher for the 9 months as well. So is that a fair assumption to make and what kind of a margin be it do you normally see in Q4?

Management: We should be able to keep the same trend as last year.

Baidik Sarkar: So last year as in the entire financial year FY14, so you are basically saying we should calculate in backward and see what the margin profile for Q4 should be?

Management: Yes sir and there is one more addition here, the euro weakness is going to affect us adversely.

Baidik Sarkar: That is right. So what is the current hedging strategy so? What kind of hedge books do we have right now?

Management: We do not have much of a hedging for the euro-dollar exchange variations. We do have for the rupee-dollar and we have some natural hedge in the sense that most of the expenses on the consultants and other expenses are spent in European zone. So to that extent, we will have some hedging.

Baidik Sarkar: So do we plan to reverse our strategy and also hedge with the US-euro because the euro is at about 1.2, it is about 1.13 and going by experience it looks like there will be euro-dollar parity 1:1 very soon. So are we looking at hedging our euro-USD positions as well?

Management: We do it from time to time as advised by our consultants. We do some forward selling whenever we get a chance, then the euro dollar exchange rate goes up.

Baidik Sarkar: And lastly sir, what kind of gross margin expansion can one build in given in perspective, the depreciation of crude? Typically, what is the sensibility of crude to our raw material?

Management: It is not much except that the raw material prices and the solvent prices go down with the crude prices going down, but the impact is very marginal.

Moderator: Thank you. Our next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manish Mahawar: Sir just 2-3 questions I have. In your presentation, we have almost 30% growth for the quarter which there is a two breakups, volume is 62% growth and your realisation or price growth is -32%?

Management: It is a price mix actually; it is not price growth and region mix. So Manish, this is broadly on account of product, region, and price mix variance that we are explaining. So as we mentioned earlier that there is a lot of seasonality in the business and the 28.7% overall change is therefore reflected by lower sales in European region which is why there is a lower price realisation and therefore you have a 32.2% negative price product and region mix impact.

Manish Mahawar: So it is more of a geographical mix change right?

Management: Broadly, yes.

Manish Mahawar: So we have not seen basically this type of sharp correction in any product prices during the quarter?

Management: And we are all aware that prices in agrochemicals are on the decline usually. So the decline is not as sharp as in pharmaceutical business. So one cannot rule out some decline in some prices, but at some times or in some products, there is also an increase in prices depending upon the demand-supply variation.

Manish Mahawar: So majorly this 32% decline is more of a geographical mix change?

Management: Region mix change.

Manish Mahawar: And secondly, during the quarter if you look at what you have mentioned earlier right, the Europe and maybe US is not a major contributor this quarter, Q3 because there is a seasonality. So does that mean, if you look at this quarter, LatAm and RoW geographies are contributing majorly in this quarter. Both the geographies if you look at are not making much money. If you look at the EBITDA contribution, it is pretty small this quarter versus last quarter as well. Do you understand this like with both the geographies, we have minimal gross margin as well as EBITDA?

Management: You are referring to LatAm and RoW?

Manish Mahawar: Yes, because if you look at this quarter margins, if you look at it is barely 3-4% margin we are making after forex losses. If you add by the forex losses, we have made roughly 6-7% EBITDA margin this quarter versus last year it is minimal EBITDA margin we have. And if we look at gross margin as well, we are 27-28% above gross margin despite there is some sales from Europe and US as well during the quarter. So that is what I wanted to know basically, is it LatAm and RoW we have a very minimal or we are not making any money in both the geographies?

Management: So we are making money in those two geographies, Manish but the gross margins are not as high and as comparable to the margins that prevail in Europe and to some extent in US.

Manish Mahawar: And lastly Gautam, what could be the tax rate for the year we should assume?

Management: See, tax rate for the standalone financials is usually in the range of about 32-34%. On a consolidated basis, the tax rate comes down because of business operations that are being conducted in our wholly-owned subsidiary which is based in Dubai. So those operations are being conducted from a tax-free zone and therefore if you see the trend of tax rate on a consolidated basis, it usually ranges 25-28%.

Manish Mahawar: 25-28 should be a right band?

Management: Approximately, yes.

Moderator: Thank you. Next question is from the line of Ritesh Poladia, an individual investor. Please go ahead.

Ritesh Poladia: Sir, in the presentation it is mentioned about 60% revenue coming from top-10 molecules and we have about 1,334 registrations. So can we get to know how many registrations would be under these top-10 molecules?

Management: We do not have that number off hand, but broadly each molecule should have close to about 35-40 registrations at a global level. So my guess is that the number should be around the 400 range.

Ritesh Poladia: So roughly we can say that about 30% of your registrations contribute about 60% of the revenue. Would that be a fair assumption?

Management: Based on this number, yes, but since you have asked this question, we will try and find out what exactly are the total number of registrations and keep it handy.

Ritesh Poladia: And sir again registration pipeline is about 601 registrations as on date. So how many registrations would be from that top-10 molecule or is this the entirely new pipeline?

Management: No, so it is a mix of both. It is not just entirely from the top-10 or entirely new. It will have a mix of both.

Ritesh Poladia: And sir assuming from now onwards we are not filing any new registrations, so by what timeline this 601 registrations would be given to us and what would be the capex for this 601 registrations?

Management: These registrations should come by in all in the next 3 years or so, broadly in the next 3 years.

Ritesh Poladia: And sir now taking this question only forward, how many more registrations are we going to file say next over 2-3 years? So every year how many registrations we are planning to file?

Management: It should be in the range of about 150-200 registrations applications every year.

Ritesh Poladia: 150-200 registrations?

Management: Yes.

Ritesh Poladia: That is great. Now the final question is assuming in last 3 years we have filed the X number of registrations, how much they would be contributing to the revenue?

Management: We do not have this figure at this stage.

Ritesh Poladia: I will get it offline.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: Sir, just wanted to understand a little bit more about the currency implications on our P&L and FX sir because 90% of our raw material is coming from China and if we understand, almost 50% of our sales is in Europe. Europe sales is primarily in euro right?

Management: Yes.

Rohan Gupta: And the raw material purchase is primarily linked with dollar or it is in Chinese currency, yuan?

Management: It is in dollar.

Rohan Gupta: So 90% of our raw material is in dollar terms and 50% of our sales is in euro. So balance RoW and LatAm markets sales are pegged with currency sir?

Management: Mainly in US dollars.

Rohan Gupta: Mainly in USD?

Management: Yes. In Mexico and in Columbia and in Canada, they have the local currencies of each country.

Rohan Gupta: Mexico, Columbia and…?

Management: Canada.

Rohan Gupta: So this put together three countries would not be more than 5-6% of our revenues?

Management: More or less, yes.

Rohan Gupta: So coming back, so 90% raw material purchase is in dollar and 50% revenues are in euro. So if we do not follow a proper hedging mechanism, we had seen that euro depreciating against USD. So in that sense you should be beneficiary, but what happens to the payment in terms of condition and how we are going ahead planning to hedge this currency risk?

Management: We are seeking advice from the consultants. We have some consultants who are advising us from time to time and we book forward contracts of euro-dollar and rupee-dollars.

Rohan Gupta: We book forward contract?

Management: Yes.

Rohan Gupta: Sir, we follow hedging mechanism, as you said that you buy options right?

Management: We do plain-vanilla forward contracts.

Rohan Gupta: So it is 100% hedged or you only do 40-50% forward contract?

Management: See, there is a natural hedge as far as the business is concerned because the entire business is based on exports and imports and to the extent of the excess of exports over imports is something that is open and we usually try to hedge that.

Rohan Gupta: Sir as you mentioned that our China purchase is in dollar, right and sales is in euro to the European market. So that is 50% versus 90% purchase is dollar-linked. So there is a difference between these purchases and the sales which we generate.

Management: That is what Mr. Bubna said, in one of the earlier questions that we hedge the euro-dollar as and when we see a spike in it and we trying to hedge as much of that currency as we can. Depending on the view, where is the euro headed towards based on the global factors.

Rohan Gupta: And the hedging cost you accounted in interest?

Management: There is no hedging cost.

Rohan Gupta: So you simply plain vanilla buy for that futures?

Management: No futures; only forward contracts, of which there is no cost.

Rohan Gupta: Sir is there any payment default risk because of the huge volatility in currency from any of our debtors?

Management: No.

Rohan Gupta: So far now we do not see any such risk.

Management: Yes.

Moderator: Thank you. Our next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Sir is it possible to get a breakup of geography-wise for FY14 last year, full year?

Management: It is there in our…

Mithun Soni: You do not have the presentations handy?

Management: No, we do not have handy at the moment.

Mithun Soni: And sir just to understand one part, since this euro devaluation issue you will do the hedging as and when you feel the timing is correct, but going forward like if the euro was to settle compared to dollar at 1:1 parity, then will we be able to pass on the cost increases or the adjustment in the market?

Management: No, there is a time lag. We cannot do it instantly. It takes some time.

Mithun Soni: So how much time you feel it will take for us to pass on the cost increase?

Management: It is difficult to say, but it could be about 6-9 months and it may not be possible to do that all fully that we can transfer because European Union works in their own way and lot of suppliers, multinational companies are based in Europe who are not so much impacted and so it is not possible to pass on in the entire 100% effect.

Mithun Soni: But realistically how much pass on is possible, the euro to dollar would have let us say if it goes somewhere 20-22% or what you are talking about, then will we be able to pass on at least half of it or that also looks a little difficult?

Management: No, my friend that will be all speculations, difficult to estimate.

Mithun Soni: And Q4 being a very strong quarter for the Europe, so for that you have already hedged the currency or not really, that is still to be…

Management: As we told you, we go by the advice of the consultants and when the consultants say this is the right level to sell, we normally do the selling.

Mithun Soni: No, I agree and understand, but I was saying have we done the hedging for Q4 or the sales or not really?

Management: We are doing it partly.

Mithun Soni: Partly we are doing it?

Management: Yes and we have taken most of the consultants by surprise, so we are trying to do what best is possible under the current situation.

Mithun Soni: So broadly what 40-50% would have been done by now?

Management: I do not have that figure right now.

Moderator: Thank you. Our next question is from the line of Nitin Gosar from Religare. Please go ahead.

Nitin Gosar: Just wanted to understand the positioning of the company in terms of raw material procurement. Whenever there is some deflation in the raw material side that is the crude oil or any other derivative, do we get an immediate pass on from our supplier or they take their own time to negotiate it out with us?

Management: We do not have any long-term contracts with our suppliers. So most of the negotiations are done order-to-order or shipment-to-shipment. So whatever it does get passed on with the impact of competition, we get the advantage.

Moderator: Thank you. Our next question is from the line of Sameer Bendre from Prabhudas Lilladher. Please go ahead.

Sreesankar: This is Sreesankar here from Prabhudas Lilladher. I had couple of questions already. First is Mr. Bubna, when you are mentioning about earlier when I met you, you were speaking about the way Chinese costs have been going up in terms of environmental, I mean general sense of this huge cost increases which is happening in China, thanks to the pollution control and various kinds of the capex that these companies are forced to do. How is it impacting your supplies?

That is the first question and second is when you mentioned that you do not have any hedging which you do but it is you take forward positions. If I understand clearly, when you have a particular batch of raw materials or the agrochemicals coming from China, how do you operate it? You have an LC for it or whichever way you open an LC from the supplier and you do it with a back-to-back LC to your supplies in Europe, how do you do take a forward cover in this?

Management: See we do open LCs on our suppliers in China but they are not back-to-back LCs. Secondly, I do not recollect that I have told you that there is a cost increase in the China on account of this pollution control and all that.

Sreesankar: No, it was me who said that, not you, sorry.

Management: As far as we are concerned, we are not facing any cost increase or price increase phenomena from China. They are more or less steady and the trend is in some molecules, there is a slight decrease.

Sreesankar: Can you repeat that last line.

Management: I say the Chinese prices for our products, our procurements are more or less steady and there is a tendency of them going down in some of the molecules and they are not increasing.

Moderator: Thank you. We have the next follow-up question from the line of Ritesh Poladia, an individual investor. Please go ahead.

Ritesh Poladia: Just one question, how many registrations right now would be contributing to our topline?

Management: Almost all of them Ritesh for the simple reason that there is an impairment exercise that is done as a part of the internal monitoring mechanism and this impairment exercise is being subjected to audit by the tax-free auditors. So if there are any registrations which are not performing, then those registrations have to be written off.

Ritesh Poladia: Okay, sir when you say that they are not performing means do you have some benchmarks and can you share those with us for the impairment exercise?

Management: Yes, so the benchmark is typically over what period of time are these registrations going to generate revenue and if the revenue profile of these registrations when compared with the written-down value of that particular registration is going to be lower, then those registrations deserve an impairment. So this is the basis on which we compare.

Ritesh Poladia: So roughly if we say that 95% of these registrations right now would be contributing to our topline?

Management: More or less.

Moderator: Thank you. Our next question is from the line of Devang Mehta from Canara Robeco Asset Management. Please go ahead.

Devang Mehta: Just one thing, if I compare from last year, the registrations of LatAm have increased some 70-73 registrations from last quarter, so if you can highlight if any new molecule added or are there in the existing molecules?

Management: No, I do not think there is any great blockbuster molecule that has been added over the last quarter.

Devang Mehta: Okay, so this 73 are in mostly in the existing molecules?

Management: Yes.

Devang Mehta: And second question is on the impairment that we take on the registration, so out of the current registration because what kind of molecules or registrations would be near completion of the impairment or if you can give some lifecycle of the registrations?

Management: We have not done that exercise in this quarter. We do that at the end of the year.

Devang Mehta: The lifecycle of the registration would be what?

Management: Lifecycle of registration is much longer, it is 5 years and some cases 10 years.

Devang Mehta: So you impair it in a 5-year period.

Management: Yes. So the depreciation policy of the company is to amortise the value of these registrations over a period of 5 years and what I am trying to explain is after a lapse of one year from the date on which we have received the registration, it is then subjected to impairment.

Moderator: Thank you. We have the next follow-up question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: I just wanted to check what kind of lead indicators of growth are we looking at for FY16?

Management: Lead indicators of growth, are we looking for in financial year?

Baidik Sarkar: 16, the coming financial year?

Management: Current financial year 2014-2015.

Baidik Sarkar: Yes, 2015-2016 sir.

Management: So the lead indicators for growth will be getting registrations in newer geographies within the European Union, for which we have got registrations from a reputed country already and we are trying to expand the registration base in the same European zone. So that will be one of the indicators for further growth because that will bring in sale of the same product to other countries within the same zone and in addition to that, there will be some new products for which we will receive registrations during the year which we will be launching and these are the two main reasons where we see how growth will come in the next financial year.

Baidik Sarkar: So what is typical sale-cycle in the sense I understand when I met you a couple of quarters back, my takeaway was that we typically follow a just-in-time model with a lead time of typically maybe a month or two. So I just wanted to understand from a bit of qualitative perspective what are the typical sales cycles and how is the order book moved on Y-o-Y basis between last year and this which gives us visibility that we have kind of setup a new base and then backward calculate that new base to a new indicative growth number?

Management: That was too longer question. Can you just make it a short question?

Baidik Sarkar: So let me clarify this again, what is the typical sales-cycle, how does a typical sales-cycle work?

Management: What you mean by sales-cycle, so as I think Bubnaji mentioned in the previous conversation with you that approximately 40% of the revenues are booked in the fourth quarter of a financial year and this number tapers down in the ascending order that means fourth quarter of a financial year would be 40%, first quarter of a financial year could be around 25%, second quarter of the financial year could be around 20%, and the last quarter of the financial year could be the differential. So what exactly is that you want?

Baidik Sarkar: Okay fine, that is fine. I will probably take up this with you offline.

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

Rohan Gupta: Sir just one clarification, you mentioned that raw material prices are almost in terms of on immediate basis, we do not have any long-term contract while in case of payment of sales, you mentioned that almost it will take you 6-9 months to pass on if any cost increase happened. Right now we are seeing a sharp reduction in raw material prices mainly driven by crude, so is there possibility that in shorter term we may see margin expansion?

Management: Mr. Gupta, I have not understood you. Can you kindly break your question in 2 or 3 parts?

Rohan Gupta: Sir, raw material prices have come down recently right.

Management: I said there is a trend of coming down but the coming down is not so significant that we can say come down. I have said that they are steady and in some cases, they are slightly going down and the implication was that they are not going up.

Rohan Gupta: Okay, more of the raw material also linked with crude, so maybe right now not but may be in a quarter, they may come down further, am I right so?

Management: Yes. They will have some impact slowly with again some time lag.

Rohan Gupta: Now when you mentioned that in European market to pass on to increase in the cost, it takes 6-9 months. So I assume when the raw material price falls, then also the benefit, the reduction in the prices may not happen immediately right?

Management: Right.

Rohan Gupta: So in shorter term, is there a possibility of margin expansion?

Management: No, I do not think so. It will be normally flat because you see the raw material price are like crude oil prices, they are not going up, they have already touched the bottom as I see and the side going up now. So there is a much frequent and faster fluctuation in the prices than the trend which can have an effect on the prices of raw materials or finished goods.

Rohan Gupta: Okay, so that is for short term. You also mentioned probably because of the countries taking a wider call of devaluating their currency. So the leader can be Europe, as you mentioned that it may take 6-9 months to pass on the prices and probably you may not even be able to pass on the complete cost increase. So earlier you used to guide that Europe probably has a possibility of further margin expansion. At current level, sir do you think that any further margin expansion in European market may not be possible because of this currency related issues going ahead?

Management: Yes, you can say so.

Rohan Gupta: So at best, our margins will remain here or it will come down?

Management: Margins in Europe could be under pressure.

Rohan Gupta: Sir, have you internally calculated what kind of pressure, I mean 100-200-300 basis points margin drop may be there?

Management: No, we have not done this calculation.

Rohan Gupta: But you definitely see that European margins may come down?

Management: I said they are under pressure.

Moderator: Thank you. We will take the next question from the line of Ritesh Gupta. You may go ahead.

Ritesh Gupta: So one doubt I have on when I see the results presentation is so your 9-month growth is 44%, now if I divide it into organic growth which is like registrations which were done 6 months earlier or say a year earlier versus the growth being driven by the new registration or the new pipeline or the inventory pipeline which will have gone into the channel because of new registrations coming out. So can you break-up this both into organic part and secondly the growth due to new registrations because for example for this quarter, I see a big bump in the Latin America and NAFTA sales. It is clearly as I can see in the registration pipeline a lot of new registrations are into Latin America and to NAFTA as well that ended in Q1-Q2. So if I have to separate this new registration sale versus sales from the old registration and the growth there in, how should we see that?

Management: Ritesh, I think when we talk of organic growth or let me answer it this way, most of the new registrations that could have come through in Latin America or in NAFTA for that matter will be for smaller molecules which do not have a significant contribution to the overall revenues. Secondly, it is important to understand that getting a registration in a particular date or a particular month does not mean that there is going to gain immediate contribution to sales in that particular month or so. It is for the simple reason that we have to time ourselves well when we know that we are going to get a registration and we should be in a position to deliver the product from China to that respective country in order to take advantage of our getting the registration immediately.

So in several instances, there is a time lag of getting the benefit of that registration from the date on which we have got registration and this time lag will depend broadly on the season in which we have got the registration. If I got the registration for sale in Latin America and the season is on, then I would have got a feel that I am going to get this registration by say end of November or so and I can then plan myself well so as to ensure that the product is made available for delivery into the distributor of the shelf at least by end of October. So if not necessary that the benefit of getting a registration will flow in the same quarter, may be it may flow in the same quarter but partially, not entirely and the benefit of such registrations typically is felt in the next financial year on most of the cases rather than in the same financial year.

Ritesh Gupta: So for NAFTA and for Latin America, the growth is actually more organic because we can clearly see a NAFTA growth and Latin American growth in this quarter is much higher than what other regions have done on a Y-o-Y basis. So it takes care of the seasonality, so if I may understand it correctly Latin America and NAFTA growth is actually organic in nature to some extent?

Management: Exactly, you are right.

Ritesh Gupta: And sir on this Europe margins under pressure, can you clarify this point a bit more. I fail to understand why, so it is largely because of forex or something else?

Management: Mainly because of forex.

Moderator: Thank you. We will take the last question from the line of Sameer Bendre from Prabhudas Lilladher. Please go ahead.

Sreesankar: Sir earlier one of the points that you mentioned is after the registrations are done, one year from the registrations if things do not work out, you take an impairment, how does it operate, when do you take an impairment if the registrations are not working out in the revenues?

Management: The way it works is that the written-down value of that particular registration is arrived at after subjecting it to 20% flat deprecation on an annual basis and then we evaluate what is going to be the performance of this particular registration in this molecule in that particular country, that region over the next 4 years or so and we assume what is going to be the cost price of that particular molecule and the selling price of that particular molecules/registrations and we compare the effective gross margins that we will earn on this particular product over the next 4 years to evaluate whether the gross margin rate we will earn will be higher than the written-down value of this particular molecule or not.

If the gross margins earned over the next 4 years is going to be higher than the written-down value of this particular registration at the end of the first year, then there is no need for an impairment whereas if the gross margin for the next 4 years is going to be lower than the written-down value of this registration at the end of the first year, then be as it is subjected to impairment.

Moderator: Thank you. I now hand the floor back to Mr. Ritesh Gupta for closing comments. Thank you and over to you sir.

Ritesh Gupta: Thanks, Mr. Bubna and Mr. Arora for clarifying our doubts and giving more perspective on your Q3 performance. We can close the call now after the management's final comments.

Management: Thank you Ritesh. Thanks for this call and thank you very much.

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