



“Sharda Cropchem Q2 FY2018 Results
Conference Call”

October 27, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Cropchem Q2 FY2018 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Afshan Sayyad from Dolat Capital. Thank you and over to you Madam!

Afshan Sayyed: Thanks Raymond. Good evening everyone. On behalf of Dolat Capital, I welcome everybody on this Q2 FY2018 Earnings Call of Sharda Cropchem. From the management side, we have Mr. Ramprakash Bubna – the CMD of the company, Mr. Conrad Fernandes – the CFO and Mr. Sylpesh Dedhia – GM, Finance. 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 very warm welcome to everyone present here for the earnings call of Sharda Cropchem Limited for the second quarter and first half of financial year 2017 and 2018. Sharda Cropchem is represented by me, 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, Q2 revenues increased by 12.7% YoY from Rs.247 crores to Rs.278 crores. Revenues grew in Europe by 7.5% and in NAFTA by 63.3% while revenues declined in LATAM by 13.8% and in rest of the world it declined by 14.2%. Q2 gross profit increased by 9.4% YoY from Rs.90.3 crores to Rs.98.8 crores. Gross margins declined from 36.6% to 35.5%. Q2 EBITDA excluding foreign exchange impacts increased by 5.3% YoY from Rs.47.6 Crores to Rs.50.1 Crores, EBITDA margin declined from 19.3% to 18.0%. Q2 profit after tax declined from Rs.33.2 crores to Rs.24.4 crores.

Total number of registrations as on September 2017 were 2087 as compared to 2069 in June 2017 and 1936 as on September 2016. The company has another 890 registrations in the pipeline across geographies. With this brief overview, I would now like to handover the call to our CFO, Mr. Conrad Fernandes for discussing our financial performance. Thank you.

Conrad Fernandes: Thank you Mr. Bubna and a very good afternoon to all. Agro revenue composition for the quarter was 48.4% from Europe, 28% from NAFTA, 17.5% from LATAM and 6.1% from rest of the world. Our top 10 molecules accounted for 53.9% of the overall agro revenues. On the depreciation and amortization side, expense for the quarter was higher by 48.7% on YoY basis from Rs.11.8 Crores to Rs.17.6 Crores because of capitalization of our registration cost. The working capital cycle as of September 2017 is marginally higher as 69 days as against as 61 days as of September 2016. With this, we now invite questions from the participants. Thank you.



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Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Sumant Kumar from Emkay Global.

Sumant Kumar: Sir, we have seen degrowth in LATAM for two consecutive quarters, so when can we expect growth in this region and any new product registration to drive growth in the region?

Ramprakash V. Bubna: This degrowth is not our strategy, the degrowth is due to the economic situation in that geography. The requirements are less and competition is more. We hope the situation will change with the change of economic environment in the Latin American countries.

Sumant Kumar: Can we expect growth from next quarter onwards in LATAM or maybe next couple of quarters?

Ramprakash V. Bubna: Mr. Sumant Kumar as I have told you it is not in our hands. If the economies of these countries improve, then the growth will be definitely there in these regions.

Sumant Kumar: Can you give us the sales volume data geography wise for Q2 FY2018 and previous quarter?

Ramprakash V. Bubna: Q2 FY2018, Europe was 20,22,000, NAFTA 12,40,000, LATAM 6,95,000 and rest of the world 4,11,000.

Sumant Kumar: And previous year same quarter?

Ramprakash V. Bubna: Previous year same quarter was Europe 24,44,000, NAFTA 6,08,000, LATAM 8,91,000 and rest of the world 5,68,000.

Sumant Kumar: Thank you so much Sir. Regarding the sales growth and EBITDA margin, can you give us the guidance for FY2018 and FY2019?

Ramprakash V. Bubna: Sales growth we expect in the range of 15% and EBITDA is mainly depending upon the situation in China. As you know, China is the factory to the world and we including all the other people are sourcing from China and Chinese government in the last four-five months have taken a very harsh stand of closing the industries which are creating pollution and disturbing the environment. So many factories are closed; others are forced to curtail their production. It has impacted the margins of everybody in the agrochemical business including Sharda. Now it all depends what will be the stand of the government in the next quarter.

Sumant Kumar: What is the tax guidance for FY2018-2019?

Ramprakash V. Bubna: It would be same that is around 29% to 30%.

Moderator: Thank you. We have the next question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.



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Chetan Thacker: Good afternoon Sir. I just wanted to understand if you can share the volume growth by region, what was that during the quarter?

Ramprakash V. Bubna: Volume growth, well in Europe there was a decline from 24 lakhs to 20 lakhs, which is around 17% degrowth. In NAFTA, there is an increased from 6,00,000 to 12,40,000, which is about 104% growth, LATAM from 8,90,000 to 6,95,000 which is about 22% degrowth and rest of the world from 5,69,000 to 4,12,000 which is a about 27% degrowth. Overall from 45 lakhs to 43.67 lakhs which is a degrowth of 3.2%.

Chetan Thacker: Just on the Europe business, I wanted to understand that we have seen the first two quarters specifically being a little weak, so what is your sense now for H2, because now the main season will kick in towards Q4, so you would start getting some sense over there if you can share that?

Ramprakash V. Bubna: This degrowth in Europe has been caused mainly by the weather and as we understand from the law of natural statistics, it cannot continue. So if the weather improves we can see an improvement in the business in the third and fourth quarters.

Chetan Thacker: On gross margin, the range still stays at your guidance of 33% to 36%?

Ramprakash V. Bubna: Yes, please.

Moderator: Thank you. We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Thanks for your time Sir. As we can see the growth has been quite good in US, if you could specifically explain us where exactly this is coming and how fast you expect this geography to grow from here on?

Ramprakash V. Bubna: We have got an encouraging information, that we have received many registrations in USA. These registrations have taken us so far and they are responsible for the growth and we will continue to receive more registrations, so I look forward to equally match growth in the third and fourth quarters of FY2018.

Vishnu Kumar: Okay. Are these relatively favorable margin products or is it going to be difficult for you to sustain the margins, because what we understand is Europe and US typically have been very good margin regions for you, but now as you stated if China increases the cost, will we be able to further pass on the cost or we need to take a hit?

Ramprakash V. Bubna: We are very hopeful, and we are very optimistic about the margins in the NAFTA region with the new registrations that we have received.

Vishnu Kumar: Okay, so a chunk of the growth is yet to come if we understand it right?



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Ramprakash V. Bubna: Yes, please.

Vishnu Kumar: Okay and in Europe as we can see that you have 17% decline in volumes, but still you have managed to get a 8% growth, so if you could just explain any specific reason why this divergence, price mix, if its mix which products you are pushing more or which crops you are pushing more?

Ramprakash V. Bubna: Degrowth has been mainly caused by the adverse weather situation and the margin is also influenced by the product, sometimes there is a demand for high margin products, the growth improves. In case the growth is from the less margin generating products, then the margin gets affected adversely.

Vishnu Kumar: So Europe are you exposed to the sugar beet crops?

Ramprakash V. Bubna: We are exposed to all the crops including sugar beet.

Vishnu Kumar: What we understand is there could be a major jump in sugar beet acreage in Europe next year. So, just trying to understand will this give you material delta or it will be just another product for you?

Ramprakash V. Bubna: We have not analyzed in that detail but if the sugar beet acreage increases it would help our business in a positive way.

Vishnu Kumar: Okay and coming finally to the margin front obviously you mentioned this China angle, what would be base case scenario if let's say china prices continues to increase another 10% to 15% in the next two quarters across the key commodities that you export. What level of EBITDA margin would be a base case margin above which you think you will have to increase prices if you would want to sell the product at profit?

Ramprakash V. Bubna: The increase of prices is not in our hand Mr. Vishnu. They depend upon the price and situation of the competition and availability of the product in the European market. Now I feel in the last quarter, I would say about four to five months, there has been enough material in the pipeline and warehouses caused by poor weather and poor uptake of last year and this year. So the increase in the prices in China has not been able to get passed over to the customers and to the market. I think this situation will change in a course of time and will have a positive impact on our margins.

Vishnu Kumar: This Euro movement from 1 to 1.2 has it not helped you or because of your hedges you are not seeing any delta now?



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Ramprakash V. Bubna: No, it will help us, but as a strategy of hedging the business, there is a lot of forward contracts booked when Euro started going up from 1.06 to 1.08 and 1.10 and gradually. Now we have utilized all those forwarded contracts to help us henceforth.

Vishnu Kumar: So most of your hedges are now over, so you are saying that from now on you will get the currency benefit on?

Ramprakash V. Bubna: Yes, please.

Moderator: Thank you. Next we have a follow up question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Just two questions more. If you could share the similar number for volumes for Q1 and the breakup of registration by geography which is there at the end of Q2 and the Euro million revenue in the quarter?

Ramprakash V. Bubna: In Q1, the volume was 27, 66,000 in Europe, NAFTA was 18,25,000, LATAM was 6,70,000 and rest of the world was 3,70,000.

Chetan Thacker: The breakup of registration pipeline by geography and the current registration?

Ramprakash V. Bubna: Registration pipeline as on September 30, 2017 is Europe 465, NAFTA 136, LATAM 210 and rest of the world 79.

Chetan Thacker: The registrations at the end of September?

Ramprakash V. Bubna: Registrations at the end of September in Europe is 1008, NAFTA was 169, LATAM 639 and rest of the world 271.

Chetan Thacker: And Sir, Euro revenue for the quarter?

Ramprakash V. Bubna: You mean sales in Euro?

Chetan Thacker: Yes Sir.

Ramprakash V. Bubna: I think we need some more time.

Chetan Thacker: Sure Sir. No issues. Thank you.

Moderator: Thank you. We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.



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Vishnu Kumar: Thanks again for the time Sir. Just wanted to know your capex guidance for the year, how much have you spent to date?

Ramprakash V. Bubna: We have spent about Rs.100 Crores.

Vishnu Kumar: For FY2018? Similar for 2019 also or any higher number you are targeting?

Ramprakash V. Bubna: It is very difficult to predict Mr. Vishnu, because there are lot of uncertainties, it is just like somebody predicting how many runs will be made... it is like a cricket game.

Vishnu Kumar: Okay, got it Sir. First half what is the number?

Ramprakash V. Bubna: Rs.100 Crores.

Vishnu Kumar: For first half is it okay. For FY2018 fully at least how much will we spend?

Ramprakash V. Bubna: Again the next six months it is difficult to predict but it could be around Rs.150 Crores to Rs.180 Crores.

Vishnu Kumar: For full year or target could be anywhere about Rs.250 Crores to Rs.280 Crores?

Ramprakash V. Bubna: I am saying full year figure.

Vishnu Kumar: Rs.150 Crores to Rs.180 Crores got the point Sir. Your inventory has gone up vis-à-vis at 1H 2016 and 1H 2017, any specific reason for the same?

Ramprakash V. Bubna: The reason is the same factor as I have told you before. The uncertain situation in China, we have been predicting that Chinese prices will go up and the Chinese prices are going up every week. We are trying to cover and there is no availability of the product. So we are very happy with the strategy. We have been able to cover up a lot of products and at a very good prices compared to the prices that we see today.

Vishnu Kumar: Please correct my understanding if I am right. So essentially your strategy started buying, holding a lot of inventories seeing the prices starting to already move up and despite that in some places you are not able to pass on completely though you have got stock at a lower level. That is where gross margin is slightly off?

Ramprakash V. Bubna: Lot of the stock is on the waters and in transit. If we are to cover these stocks in the month of November-December, we started covering them in the month of September-October or August-September, you understand?

Vishnu Kumar: No, I could not get the point Sir.



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Ramprakash V. Bubna: Normally there are some stocks which are required in the fourth quarter; we had to cover them in the periods of October, November and December. But Foreseeing the situation, we have covered these products two or three months in advance.

Vishnu Kumar: Okay, got it. In case of the inventory situation, in those end markets kind of normalize then you will be able to pass on the cost whatever increase and there could be extra slight delta and cushion in margins?

Ramprakash V. Bubna: We will be in a better position compared to competition, who would be buying in the normal course only. The prices have gone up by 50% in the last three months.

Vishnu Kumar: Got it. Sir just on the point from your sourcing in case of if let us say fast forward one, two years if the situation in China continues to tighten then is it going to be structurally a problem for our margins or should we see that our trajectory could be slightly lower heading into 2019, 2020 or how should we see that from two, three year angle, how in terms of gross margins and EBITDA margins will be maintained?

Ramprakash V. Bubna: Mr. Vishnu, it is very difficult to predict because this is not just one factor that is influencing the situations. It depends upon the demand, it depends upon the position of the competition, and there are many factors, also the exchange rates.

Vishnu Kumar: Okay, Sir and finally just on the Latin American market, which countries are we predominantly present in and as you mentioned there are some problems but do you see them getting corrected?

Ramprakash V. Bubna: The Latin America, we are present in Argentina, Peru, Nicaragua, Dominican Republic, Honduras, Costa Rica, Guatemala, Bolivia, and Colombia.

Vishnu Kumar: Okay.

Ramprakash V. Bubna: It is difficult for me to give you a situation of individual countries, but in general these countries are having a problem of liquidity, payments and many things.

Vishnu Kumar: Okay, any registrations that you have coming up in Brazil?

Ramprakash V. Bubna: Pardon me.

Vishnu Kumar: In Brazil, do we have any registrations coming up in the next six to nine months?

Ramprakash V. Bubna: There are some registrations which are expected to come in the next six months.

Vishnu Kumar: Thanks, that was useful.



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Moderator: Thank you. We have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir, as far as your Europe sales and your purchases in dollar is concerned, can you give us a sense of what the current quarter rates have been, what you purchased in dollar, what has been the rate and what you have sold in Euro, what has been the rate?

Ramprakash V. Bubna: I did not understand your question Mr. Chirag.

Chirag Dagli: When you purchase in dollar terms, the dollar two quarters back was about 67 and it has now gone down. This quarter's financial performance does it reflect 64 or 67?

Ramprakash V. Bubna: No, it is 64, I mean it there is no question of the reflecting, we are going by exchange rate at the end of the quarter, and it is 64.3 on an average dollar to rupee.

Chirag Dagli: And so similarly as far as sales in Europe is concerned, it will also reflect the average for the quarter of 75 thereabouts?

Ramprakash V. Bubna: Yes, please.

Chirag Dagli: You indicated that at some point in time the inventory should be used up and then thereafter the new Chinese prices will start getting passed on to customers, when do you think this can happen, can this happen in the upcoming season in Europe in Q4?

Ramprakash V. Bubna: It could.

Chirag Dagli: But still there is a question mark?

Ramprakash V. Bubna: There is a question mark, because we do not have all the ground level information.

Chirag Dagli: Okay Sir, for the upcoming season in Europe, how many new products do we get into this upcoming season with, new registrations so to say and rather than the registration number what will be helpful is number of molecules so let us say do we get into the market with two new molecules and that kind of?

Ramprakash V. Bubna: We are coming with at least three, four, five new molecules in Europe and initially the margins are expected to be good.

Chirag Dagli: And these will be first initial generics or the generic market is already formed Sir?

Ramprakash V. Bubna: They are initial generics. In one or two cases, we are first generic after the multinationals.



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- Chirag Dagli:** Right and will you be launching this across all markets in Europe or in this specific markets?
- Ramprakash V. Bubna:** Mr. Chirag it all depends upon the registrations that we have and whichever countries are giving us the registrations, we are making best efforts to launch them if the time permits.
- Chirag Dagli:** Okay so you still have hoped to get a few more approvals before you start this thing?
- Ramprakash V. Bubna:** Sir we already have few approvals in our pocket and will be launching these products in Q3 and Q4 and we are hopeful that they are going to contribute some good margins to us.
- Chirag Dagli:** Okay Sir. Thank you so much and best of luck.
- Moderator:** Thank you. We have the next question from the line of Prasant Tiwari from SBICAP Securities. Please go ahead.
- Prasant Tiwari:** Hello Sir. Sir just question on industry with all this consolidation going on among the innovators, generally the consolidation is good for industry as far as the pricing part is concerned, but I just was thinking can innovator companies if they actually gain some synergies by the mergers can they come and attack generic companies in terms of pricing like trying to gain their market share, can that happen, do you see such a scenario?
- Ramprakash V. Bubna:** See that situation is always there Mr. Prasant and whether consolidations or not consolidation, the innovators do not want to see the faces of the generic people. As far as consolidation is concerned, I think it will help the generic industries in general, because many of the players will be going out of some molecules after the consolidation. As per information available in public domain, many of these multinational companies will have to give up some molecules in the interest of some monopolies and trade restrictions act. So, this is going to help generic industries in general.
- Prasant Tiwari:** But Sir if you look at these mergers most of things that are getting spun off are not just molecules and registrations, they come with all R&D and people so whole businesses and divisions are being spun off. I do not think such a company like you would be interested in buying all the setups right?
- Ramprakash V. Bubna:** No it is not question of our buying those setups. If some of these multinational companies are going to be prevented by European Union who markets some molecules as a result of these mergers that is going to be a direct benefit to generic companies like us.
- Prasant Tiwari:** That business will come to generic company?
- Ramprakash V. Bubna:** Yes please.
- Prasant Tiwari:** Okay Sir. Thank you.



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Moderator: Thank you. We have the next question from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Hi Sir thanks for the opportunity most of the questions have been answered. Just a final thing on the working capital deterioration, was there any specific geography wise deterioration or it is only led by the inventory?

Ramprakash V. Bubna: I did not understand your question Sir.

Ranjit Cirumalla: Higher working capital days for this particular quarter for the first half from 61 to 69 days, I wanted to understand whether it was uniform across the geography or it was just due to the inventory that has led to this higher working capital days? Or really just geography specific issues?

Ramprakash V. Bubna: No, it is not geography specific. Working capital cycle is general across all the geographies.

Ranjit Cirumalla: Similar across all the regions?

Ramprakash V. Bubna: Yes.

Ranjit Cirumalla: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Basant Patil from HDFC Securities. Please go ahead.

Basant Patil: Hello very good afternoon Sir. Thanks for giving me an opportunity. Sir just wanted to understand about the raw material front actually what kind of percentage actually we source from china so couple of strong measures has been taken by Government of China to control the pollution, couple of plants have been checked, so that is the reason much of agrochemical industries are facing the pressure on raw material. So just wanted to understand more on this front Sir? Would we able to pass on entire the price hike? In future what would be our position down the line two years, three years if these kinds of measures continue to go strongly by the government? What is our view?

Ramprakash V. Bubna: Mr. Basant I think we have explained this before, but I will again put it, China has today affected the world even the innovators and multinationals are sourcing a lot of their production from china. Everybody across the board will be impacted by the situation in China. At the end of the day farmers will be forced to pay higher prices and the subsidies by the government will have to increase to help the agriculture industry.

Basant Patil: Sir but as of now there is no subsidy for this agrochemicals I think, is that true?



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Ramprakash V. Bubna: No Sir it is not true. Many countries are subsidizing the purchases of Agrochemicals to the farmers. Another way they are giving subsidy to the farmers to stay above the volume. Now this would definitely come to the agrochemicals also because the inputs in agriculture is mainly agrochemicals and fertilizers.

Basant Patil: Okay fine Sir so we would be able to pass on whatever the price hike happens consequently so that can be done in this industry?

Ramprakash V. Bubna: Yes please. Only difference would be gross margins in European Union are substantially high. They are not driven by the forces of natural demand and supply and this is because of the registration entry barrier.

Basant Patil: So what is the percentage of raw materials we import from China in our total raw material?

Ramprakash V. Bubna: In case of Sharda Cropchem, around 95% is from China.

Basant Patil: So the entire country imports largely from China is that true Sir?

Ramprakash V. Bubna: Pardon me.

Basant Patil: In India most of the agrochemical companies majorly dependent on China itself?

Ramprakash V. Bubna: Mr. Basant I said about Sharda Cropchem.

Basant Patil: Okay fine Sir. No worry Sir.

Ramprakash V. Bubna: Sharda Cropchem is not very strong in India. India situation is very much different from Sharda Cropchem as a company.

Basant Patil: Sure Sir and what is the capex for next two to three years, any capital expenditure plans are there?

Ramprakash V. Bubna: See I think last year we spend about \$22 million, this year we are anticipating almost the same or it could be more and I think it will increase in the days to come.

Basant Patil: Okay so FY2018 would be around \$22 million so that kind of amount will continue for next year?

Ramprakash V. Bubna: FY2017 was 22 million, FY2018 it could be 22-24 million.

Basant Patil: Okay fine Sir. So this is largely for expansion of capacities or for what?

Ramprakash V. Bubna: We are not having any manufacturing, Mr. Basant. This is intangible assets that we invest in.



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- Basant Patil:** Okay largely for intangible assets Sir?
- Ramprakash V. Bubna:** Yes that is registration.
- Basant Patil:** Only for registration kind of the work?
- Ramprakash V. Bubna:** Yes please.
- Basant Patil:** Okay Sir. That is all from my side.
- Moderator:** Thank you. Next, we have a follow up question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.
- Chetan Thacker:** Sir you have mentioned that capex going forward can be higher that is beyond FY2018 so just wanted to understand is that because of the number of higher registrations that we will do or is the cost of registration also continuing to increase or is it combination of both?
- Ramprakash V. Bubna:** A combination of both.
- Chetan Thacker:** Despite the cost increasing our strategy remains intact of payback as far as those investments are concerned?
- Ramprakash V. Bubna:** Yes Sir.
- Chetan Thacker:** Okay Sir.
- Ramprakash V. Bubna:** Higher the cost, lesser the competition and higher the margins for us.
- Chetan Thacker:** Sure I get it Sir and Sir, the European launches that are there for which we have received registrations so those are even margins which are probably higher than the current average gross margin of the region or they are similar?
- Ramprakash V. Bubna:** See they are unique molecules so there have to be definitely higher than average that we are having for a mixture of molecules.
- Chetan Thacker:** Okay Sir and in terms of the opportunity size can they eventually become 10%-20% of the Euro revenues that are there at some point in time?
- Ramprakash V. Bubna:** I do not have those figures right now. But we are trying to make entry and we are trying to get ourselves accepted by the market and so things are not very concrete, efforts are still going on to get the best prices, the distributors also to take big part of margin for them, so efforts are going on.



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Chetan Thacker: Sure and Sir have we added more distributors in Europe this year or that number remains the same?

Ramprakash V. Bubna: There is always an increase of number of distributors year after year that number is also increasing.

Chetan Thacker: So if you can just share that numbers or is it marked increase or is it rate at which you are increasing in any case?

Ramprakash V. Bubna: That information is not readily available with us Mr. Chetan.

Chetan Thacker: Sure Sir. Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity Sir. In one of your earlier comments you mentioned that you are confident of the current growth rate in NAFTA being maintained. Now second half of last year was a very large base for us in NAFTA Sir? Even on that base in the second half you think this kind of growth is possible to sustain Sir?

Ramprakash V. Bubna: We are looking forward to.

Chirag Dagli: And similarly for Europe Sir last year second half was a lower base and then on that how should we think about the growth in Europe especially given the context of these three to five new molecules that we are hoping to launch in the upcoming season?

Ramprakash V. Bubna: I think we should be doing reasonably better than last year.

Chirag Dagli: Sir then 15% growth, this is for the full year and in constant currencies?

Ramprakash V. Bubna: Yes please.

Chirag Dagli: Okay and Sir your depreciation is very volatile across quarters how should we think about this line item, any guidance on this?

Ramprakash V. Bubna: It is difficult to give any guidance Mr. Chirag because this depreciation is decided by the number of registrations we get. Before we get the registration all the expenses are blocked into working capital CWIP and the day we get the registration, the expenditure gets capitalized and then depreciated that is as uncertain as the number of registrations that people are asking me and the reply is uncertainty. If we get more registrations, then there will be more capitalizations and more depreciation.



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- Chirag Dagli:** Fair point Sir. And last point, earlier our thought was that some of these price increases in China are temporary in nature. Do you still hold that view or do you think that these guys have taken these price hikes and probably may not rollback?
- Ramprakash V. Bubna:** Chirag they have been proved wrong that they are temporary nature. Chinese Government is very stubborn this time and they are very serious.
- Chirag Dagli:** Ok fair point. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Hi Sir thanks for the opportunity again. Can you share the split of sales for 12.7% across currency price on volume?
- Ramprakash V. Bubna:** This 12.7% growth is driven by negative 2.7% growth in volume, negative 1.2% growth in currency and positive 16.6% growth in price.
- Ranjit Cirumalla:** Okay Sir. And Sir second question just to understand more on the depreciation part for which you said that you would be capitalizing the registration fees, so how many years do take that the depreciation capital to get spread over?
- Ramprakash V. Bubna:** We amortize it over a period of five years.
- Ranjit Cirumalla:** Over five years?
- Ramprakash V. Bubna:** Yes
- Ranjit Cirumalla:** Would it be safe to assume that this particular rate should be sustainable and if you get more registration then that base would not support or there would also be a case where you will be exhausting the...?
- Ramprakash V. Bubna:** I have not understood your question Sir. The depreciation has nothing to do with the number of registration that we get.
- Ranjit Cirumalla:** The capitalization of registrations that you are going to do it that would be further five years right?
- Ramprakash V. Bubna:** No we are going to amortize it over a period of five years. Capitalize it at the time when we receive that registration certificate in our hand and the expenditure incurred on the registration of that particular product or molecule, which was under capital work in progress gets clubbed as asset created and starts qualifying for depreciation.



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- Ranjit Cirumalla:** Okay Sir, thank you.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital.
- Vishnu Kumar:** Thanks again. Pardon my ignorance on the forex accounting Sir, Euro used be about 65 and 70 about nine months ago for INR and we would have taken adjust at Rs.70 for say second quarter so our revenues will get booked at 70 or the average actual Euro, how does it work?
- Ramprakash V. Bubna:** First of all, I don't think this Euro was 65-70 during last one year. It might have been much earlier than that. Now we are hedging, by booking forward contracts for Euro. There was a stage when Euro was \$1.04 and \$1.05, and all the experts were saying that it could go one to one. In that situation we were trying to book the Euro \$ forward contract if we get an opportunity to book it at 1.06 and 1.07 and it started going up then we are looking for targets of 1.08 and 1.09. Now these contracts that we have already booked had been utilized for a course of this last six months and then we stopped booking further when it reached 1.18 and 1.19. Now we will start getting advantage of the improved rate of Euro \$ exchange at 1.17 and 1.18 or 1.19 that is going on now. We still have some contracts which are to be delivered up to March, April and May also, but they are at a similar level of 1.16 and 1.17 and 1.18 so we will be getting advantage of the comfortable or better Euro \$ rate from this quarter onwards.
- Vishnu Kumar:** Essentially just trying to understand the accounting let us say 50% you had hedges for the current quarter revenues, I am just using some hypothetical number say if Euro INR was 70 for 50% you will use at 70, and the balance you will use at 75, Sir blended it will be 72 or 73. On that basis Euro INR for the current quarter booking how much will be the average rate that you had booked at?
- Ramprakash V. Bubna:** Sir we will look forward to about 76-77 now
- Vishnu Kumar:** No, I am asking only for Q2 what would have been the average booking rate for Euro INR for you, what we have taken as revenues?
- Ramprakash V. Bubna:** For Q2, it has been 75.52.
- Vishnu Kumar:** Okay so that is the number. Almost close to the current spot rate?
- Ramprakash V. Bubna:** Yes, a little above a rupee and a rupee and half lesser because I have seen some figures of 77 and above also, 76.5, today it is probably 76 only.
- Vishnu Kumar:** Okay which means essentially that during the quarter also you mostly had almost all your hedges also near to the current spot rates?
- Ramprakash V. Bubna:** Correct.



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- Vishnu Kumar:** Okay Sir. Thank you.
- Moderator:** Thank you. We have the next question from the line of Afshan Sayyad from Dolat Capital. Please go ahead.
- Afshan Sayyad:** Hi Sir, a couple of questions from my side. Sir just wanted to understand your gross margins in H1, is it possible to share the same across regions for the first half?
- Ramprakash V. Bubna:** Yes please. Agro chemical segment First half year 2017-2018 in Europe, the gross margin was 45.7%, NAFTA 29% LATAM 28% and rest of the world 24.6%. Average 36.3%.
- Afshan Sayyad:** Sir, do we have the number for 1H FY2017 Sir?
- Ramprakash V. Bubna:** Yes Madam. Europe it was 44.8%, NAFTA 34.4% and LATAM, it was 33.2% and rest of the world 34.2%, average 39.6%.
- Afshan Sayyad:** Okay and secondly Sir you mentioned that you will be adding a couple of molecules in Europe, so wanted to understand how is the market size for those molecules if you can throw some light on that that will be helpful?
- Ramprakash V. Bubna:** I do not have that information readily available and market size is one thing and what percentage of market size we can capture that is another factor. I do not have that figure readily available Madam.
- Afshan Sayyad:** Okay Sir and secondly you mentioned that you will be adding registrations in NAFTA, so we have around 169 in the pipeline coming from the region so how many would be the new molecules would be, from NAFTA?
- Ramprakash V. Bubna:** Molecule information I do not have.
- Afshan Sayyad:** Okay. So we will be adding new molecules plus the growth would be coming from the existing molecules, but new registrations?
- Ramprakash V. Bubna:** Yes please.
- Moderator:** Thank you very much. We have the next question from the line of Kushadra Bhattar from Ambit Capital. Please go ahead.
- Ritesh:** Hi Sir. This is Ritesh Sir from Ambit Capital. Sorry I joined the call a bit late, but just wanted to understand in terms of gross margins how should we think about it because of the increased prices etc., do you think will be able to recover back to your old margins in quarter or two or will it take longer than what where we are today.



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Ramprakash V. Bubna: There are a lot of uncertainties there and we can predict like this what I would say in the range we should still be there in the range of 34%-36%.

Ritesh: Okay but you are taking some bit of price hikes off late or is it that it is difficult to take price hikes in the current environment?

Ramprakash V. Bubna: See I am giving you my impression I do not have any calculation for that.

Ritesh: Okay Sir. Thanks so much Sir. Thank you.

Moderator: Thank you very much. As there are no further questions, I would like to hand the conference back to the management for any closing comments.

Ramprakash V. Bubna: Thank you all the participants for asking such intelligent questions and I am very happy that probably we have been able to answer most of them. Thank you.

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