"Sharda Cropchem Limited

Q4 FY'24 Earnings Conference Call"

May 14, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th May, 2024 will prevail

Management

- **Mr. R. V. Bubna – Chairman & Managing Director – Sharda Cropchem Limited**
- **Mr. Shailesh Mehendale – Chief Financial Officer – Sharda Cropchem Limited**
- **Mr. Dinesh Nahar – General Manager Finance – Sharda Cropchem Limited**
- **SGA – Investor Relations**

Moderator - Mr. Manish Mahawar – Antique Stock Broking

Moderator: Ladies and gentlemen, good day, and welcome to Sharda Cropchem Q4 FY '24 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you, and over to you, sir.

Manish Mahawar: Thank you Steve. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Sharda Cropchem. From the management, we've Mr. R.V. Bubna, Chairman and Managing Director; Mr. Shailesh Mehendale, CFO; and Mr. Dinesh Nahar, GM Finance on the call.

Without any delay, I would like to hand over the call to Mr. Bubna for opening remarks, post which we will open the floor for Q&A. Thank you. Over to Mr. Bubna.

R.V. Bubna: Thank you, Manishji. Good afternoon, and a very warm welcome to everyone present on this call. Along with me, I have Mr. Shailesh Mehendale our CFO; and Mr. Dinesh Nahar, General Manager Finance; and SGA, our Investor Relations advisors are on the con call.

Hope you all have received our investor deck by now. For those who have not, you can view them on the stock exchanges and the company website.

As you are aware, we are engaged in marketing and distribution, a wide range of agrochemical products, which means herbicides, insecticides, fungicides and biocides, catering to diverse global customer base. We prepare comprehensive dossiers and seek registrations in our own name. We allocate substantial resources and establish a good hold in the market. Our total product registration stood at 2,918 as on 31st March 2024. Additionally, 1,095 applications for product registrations globally are at different stages of approval. The capex for FY '24 stood at INR 420 crores. Going ahead in FY '25, we expect the capex in the range of INR400 crores to INR450 crores.

For Q4 FY '24, revenues have decreased by 11% from INR 1,482 crores to INR 1,312 crores, but we have seen a volume growth of approximately 25% year-on-year in our products. Volumes from agrochemicals increased by 28% Y-o-Y and for nonagrochemicals decreased by 42% Y-o-Y. Revenues have decreased due to lower product price realizations across all regions.

Gross margins have increased during the quarter by 300 basis points from 31.6% in Q4 FY '23 to 34.6% in Q4 FY '24. This clearly shows that the company is getting back on track after a challenging year mainly due to external factors.

Going ahead for FY '25, we expect revenues to grow by 12% to 15%. We see our EBITDA margins to increase and be in the range of 15% to 18% in this year.

With this brief review, I now I would now like to hand over the call to our CFO, Mr. Shailesh Mehendale for discussing our financial performance. Thank you, everybody. Thank you, Mr. Shailesh.

Shailesh Mehendale: Thank you, sir. Good evening, everyone. Coming to Q4FY'24 performance. Revenue stood at INR1,312 crores in Q4 FY '24 versus INR1,482 crores in Q4FY '23, reduction of 11% year-on-year. Coming to the split, agrochemical business reduced by 8% year-on-year to INR 1,215 crores, whereas the non-agrochemical business reduced by 42% year-on-year to INR 97 crores.

Gross margin stood at 34.6% in Q4FY '24 as against 31.6% in Q4FY '23 an increase by 300 basis points. EBITDA stood at INR 303 crores in Q4 FY '24. PAT for the quarter stood at INR 144 crores.

Coming to the FY'24 performance revenue stood at INR 3,163 crores in FY '24 versus INR 4,045 crores in FY '23, a reduction of 22% year-on-year. Coming to the split, agrochemicals business reduced by 21% year-on-year to INR 2,639 crores, whereas the non-agrochemical business reduced by 25% year-on-year to INR 524 crores.

Gross margins stood at 25.9% in FY '24 as against 29.3% in FY '23. We have done stock revaluation as per accounting policy, and that has impacted our GP and profitability to the tune of INR 91 crores in FY '24. EBITDA stood at INR 318 crores, where a PAT for the full year stood at INR 32 crores.

Working capital days as on 31st March, 2024, stands at 158 days. We remain net debt-free company and have cash and liquid investment of INR 375 crores as on 31st March 2024.

The Board of Directors have recommended dividend of INR 3 for the financial year 2023-2024.

We can now open the floor for the questions and answers. Thank you.

Moderator: Thank you very much sir. We will now begin with the question-and-answer session. The first question is from the line of Soham Joshi from ESB. Please go ahead.

Soham Joshi: Congratulations sir for these numbers. My first question is, when you said that we will be growing with 12% to 15%. Does it mean that you will be growing at 12% to 15%, keeping the last year as is, I mean, the 20232024. And when we will see the realizations coming to 2022 level?

R.V. Bubna: No, '23 level.

Soham Joshi: '23 levels. So it will take some time for the realization to come up to '21, '22 levels, right?

R.V. Bubna: Yes.

Moderator: The next question is from the line of Ankur Kumar from Alpha Capital.

Ankur Kumar: Sir, I was listening to your CNBC interview in that you were guiding for 5% to 10% of volume growth for this year. But now you are saying in terms of revenue, 12% to 13%. So is it like pricing, we expect pricing to recover sir?

R.V. Bubna: Yes.

Ankur Kumar: Got it, sir. And sir, like last 2 years, we have a lot of issues in terms of foreign exchange loss, inventory losses, demand slowdown. So how are we looking in terms of things now?

R.V. Bubna: See the foreign exchange loss was in the year before last, and that was a temporary phenomenon, and it got recovered by the end of that year itself. Now these are all factors which are due to external factors, universal factors, Ukraine-Russia war and many factors which you cannot predict in advance.

So I suppose, in spite of the wars in Middle East now, the cross currency exchange rates will be more or less steady, but it can go any way which we cannot predict at this stage.

Ankur Kumar: Got it, sir. And sir, in terms of margins, you're saying 15% to 18%. But if I look at our history we have never done lower than 16% margin. So any comment on why are we seeing 15% and not say, 17%, 18%, 20% margin?

R.V. Bubna: Mr. Ankur Kumar, I mean, I'm not having any 100% calculations. We are talking about future. And nobody can say for sure. And I don't rule out it is going to 15% and I also don't rule out going up to 18%. It's just the range that I have stated. Now I shouldn't take it very seriously that why I say 15%. It can happen.

Ankur Kumar: Okay, sir. And sir, in our CNBC interview you said demand pricing is better than RM pricing right now. So can you expect some inventory gains in the first quarter or second quarter?

R.V. Bubna: Not much because the increase is not so abrupt. It is very gradual.

Ankur Kumar: Okay. But there will not be any inventory losses and all those stuff, sir?

R.V. Bubna: No, not that we can predict as on today.

Ankur Kumar: Got it, sir. And sir, our balance sheet our receivable and inventory absolute number is down. So is it like because the pricing is down. So those numbers are down or like volumes also we have reduced.

R.V. Bubna: Mainly because of the prices.

Ankur Kumar: Got it sir. I will join back the queue.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking Limited. Please go ahead.

Rohit Nagraj: Good to see the recovery. Sir, first question is during this Q4 we have done agrochemicals volumes growth of almost 29%. So what is your perception of this? Is it primarily because of the Red Sea and logistics and supply chain challenges that the volumes have gone up because what we hear from the industry participants is that there is still a good amount of inventory in the global system. So just your thoughts on this?

R.V. Bubna: Sir, first of all, quarter 4 our business is seasonal business. And quarter 4 is the best business among all the 4 quarters that we have. So in this quarter the demand has been better than what it was in the first 3 quarters.

And we were also having availability of the product. We didn't have to wait for long distance transportation and other things. So some of these factors have helped us. We were able to meet the demand of the customers very promptly. So these have helped us to increase the volume.

Rohit Nagraj: Sure. Sir, second question is in terms of working capital. So the inventory days and receivable days have increased on a year-on-year basis. So do we think that probably this would be the normal working capital incrementally or we expect that over the course of FY '25, the working capital days would come down?

R.V. Bubna: See, this working capital has gone up , mainly because of the receivable days. The receivables have been slow. Many of our customers have not been able to receive the payments from their customers and they have been requesting us for extension of the credit period which we have to do in the interest of long-term business relationship. But I'm sure all these things will get, but these are not a very regular feature and I'm sure they are going to be corrected and these figures will come down.

Rohit Nagraj: Sure. Thanks for answering the questions and all the best.

R.V. Bubna: Thank you Mr. Nagraj.

Moderator: The next question is from the line of from Tanish Mehta from ithought. Please go ahead.

Tanish Mehta: So my first question with regards to what has been driving the decline in the non-agrochemical segment?

R.V. Bubna: So the main factor responsible is the freight charges which have increased extra-ordinary high and much more after the disturbance in the Red Sea area and also the time of travel from the source to the destination.

And because of the increased cost the natural impact has been on the demand somebody who would replace a belt after 6 months till wait for 1 or 2 more months waiting for the things to come to normal. So this is a very natural phenomena mainly because of the freight and time of travel and resultant higher cost.

Tanish Mehta: My second question is with regards to the cost and time of registering new products. So, we have noticed that it's increasing significantly over the past few years. So your commentary has been that it's a good thing because obviously competition will be lesser and we will get better margins also.

But another way to look at it is that over the past year or past 6 years, 7 years, our ability to generate new revenue is directly proportionate with our ability to get new registrations. Like over the past 5 years, 6 years we'll be able to have registration at it increasingly like high rate. But this is going to decrease in the future because obviously cost and time is increasing. So, will the revenue growth also be affected. So I just wanted some clarity on that like is my understanding wrong or what?

R.V. Bubna: You see you have first said that the costs are going up, we have said it is better. Now let me tell you, we have no control on the cost of registrations. The cost of registration are going up because the authorities want to be more and more sure about the compatibility of the product, the effectiveness of the product and harmfulness of the product to the human and animal life and flowers.

So, these are the factors which are leading to the increase in the cost of registration. Now I have told you that it is better as far as Sharda is concerned because Sharda has registered many products, maybe 10 years back or 8 years back where the cost was much lesser maybe less than 50% which a new entrant has to spend now. So that push the new entrant to a small disadvantage compared to Sharda who have already recovered all the investment or the registration cost of these products over the last 8 years to 10 years.

And that is the only thing I can comment and these costs will keep on going up, but we have to flow with the stream, and we are still able to recover the investment in these registrations in a period of about 2 years to 3 years in general. So our business is not adversely affected because of the increase in the cost because we are able to also recover our investments in the same way.

Tanish Mehta: Great. Okay. Sir, what is the reregistration period for these molecules like in different markets?

R.V. Bubna: Mr. Tanish, there is no period for reregistration. Every product has -- the registration has a validity. This is normally five years, it can be seven years and can be three years in some cases. So after the period of product registration-- when that period passes, you have to reregister the product. And while you are reregistering you continue to use that registration, the registration is not expiring. So, you continue to sell your products with -- under that registration and the business is not getting impacted.

So, the reregistration period is just bureaucratic and additional information, which goes side by side to the sales. And it is increasing because the authorities need more sophisticated data, more detailed information to make sure that the product continues to be harmless and no harmful product gets into the fields or gets in touch with the human beings. So there's nothing like reregistration period because that reregistration period is just on paper. It does not impact our sales and ability to sell.

Moderator: The next question is from the line of Yash Dedhia from Maximal Capital.

Yash Dedhia: So sir, I just wanted to know how the supply side is facing with respect to this lower realization and demand fluctuations. So is the industry moving from stocking the supply to using the product and ordering the product before just before the consumption or the normalization is there in terms of stocking the products just like it to happen earlier.

R.V. Bubna: What I'm saying is this problem had happened in the last one year or more because of excess supply, excess production in the factories in China, which the world markets could not absorb. So, the availability of the product was very easy and the prices were going down for every next purchase because the demand was lesser than the production. So that situation is getting improved now.

The Chinese have controlled their production. Some of them have cut down or shut down their extra capacities, and the demand is coming closer to the production. But the product has still to be ordered. The waiting period for the shipments is much lesser because most of the factories are carrying inventory this situation may change in the next four to six months when the stocks of the manufacturing factories go down to the normal level. That was the next part of your question.

Yash Dedhia: So now the supply side is recalibrating with the demand forecast, which is there?

R.V. Bubna: Now the supplier side is having -- it is sort of not take, take, give it. We're going to some take, give.

Yash Dedhia: Yes. So it is recalibrating with the demand forecast if the demand is there right now, then the supply will happen right now. And if the demand is there after say, after two months, then the stock will be there, stock will be created after…?

R.V. Bubna: I think this situation will take about four to six months ahead for it to come down to a normal when the inventory has to be produced after simple order and not available waiting for the order.

Yash Dedhia: Okay. And the realization are stabilized, have been stabilized now at a bottom level and at the bottom level? Or it is still yet to now go down or the recovery is in near future?

R.V. Bubna: No, you are saying realization and recovery. These are two separate things.

Yash Dedhia: The recovery in the realization.

R.V. Bubna: Price realization again, depends upon the availability and the price at the source. Now the prices at the source have not started going up because the products are available waiting for the demand. So, when the source prices are not going up, the price realizations cannot go up independent of the source price. And this process will take still some more time when the manufacturers will be starting production of the goods after receipt of the order. Until then, we are passing through the intermediate stage.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: And thank you very much Bubnaji So if I may ask you, you mentioned about China shutting down production and reducing the supply. We also see that they are adding a lot of capacity. So, do you see supply from China from now at least getting stabilized at where they are and a further reduction in production and on of capacities? Or will the new supplies again put some pressure? What is your reading of the situation?

R.V. Bubna: Rameshji, I have never said that they're adding to the capacities. They had done a lot of addition to the capacities almost two years back and the world and industry is suffering for that. So on the contrary, Chinese are cutting down on the capacities so that they can sell the product and not sit on the inventories. This situation is getting slowly towards normality.

And nobody is keen because they have to pay for the inventory, they have to pay for the storage and they have to pay the finance cost for the inventories which the Chinese have realized it is very painful. So they are only trying to run and manage whatever minimum capacities they can run to recover the normal maintenance costs. This was situation today.

S. Ramesh: Yes. I was not referring to your mentioning capacity decision. I was talking about what I have read. So if you see the news on Chinese capacity addition they're adding a lot of new capacity. So I was just wondering whether that incremental capacity will again lead to oversupply. So you are saying that right now, they are reducing capacity, that's okay. Second thing is...

R.V. Bubna: To my knowledge, no new capacities are being added I don't know from where have you read it, and everybody is worried about the capacities today. But if you read it somewhere, I have no means to dispute it.

S. Ramesh: Okay. Second thing is, when you look at your expectation for future on your 15% to 17% EBITDA margin will you be able to go back to, say, 15% to 18% ROCE, what is the kind of expectation you have in terms of your normalized ROCE level, say, over the next two years?.

R.V. Bubna: Sir, we should be able to. Today, I'm hopeful we should be able to go back to those levels.

S. Ramesh: So if you're looking at that expectation, would it be possible to do that with just volume growth that prices or volatile not in your control? So we are able to do this volume growth of, say, 5% to 10% and normal price increases over a period of two years. Will you be able to achieve that ROCE?

R.V. Bubna: Sir, this becomes a very theoretical question. As I'm saying, along with the -- I mean, reduction in the inventories, the prices are also picking up, or they have started to pick up, and they will pick up because this is a normal flow of business.

S. Ramesh: So you're saying that the combination of volume growth and some pricing power will help you achieve your overall revenue and margins and that will help you sustain your ROCE.

R.V. Bubna: Yes, you have given a very appropriate word to what I was trying to say. That is a combination.

Moderator: The next question is from the line of Shubham Sehgal from SIMPL.

Shubham Sehgal: So my first question was, how the primary sales has been in Q4FY24 in our Asia market recently, North America and Europe? And what is the communication we are getting from our distributors in terms of liquidation for the upcoming season in June and September quarter?

R.V. Bubna: Mr. Shubham, we are in touch with our markets and we are in regular and daily touch in the markets. So this is our observation and understanding of the market that the demands are picking up and the prices should be slowly start increasing.

Shubham Sehgal: And so what about the liquidation of the inventory we're having.

R.V. Bubna: So the inventory is getting liquidated over a period of time, and the inventory was there speak about a year back, or even more. Now the inventories are going down, both at the consumer level as well as the production level. And in the pipeline, it's a slow but continuous process.

Shubham Sehgal: Okay. Got it. And my next question is, so our volumes are strongly grown in Q4FY24 and FY '24 as a whole. So how much is this led by new product registrations for which we have been investing in the last 3, 4 years versus the existing molecule registration.

R.V. Bubna: Sir, I would say it's both -- new registrations versus our ability to convince the customers, market our products and the customers accepting our goods and our supplies.

Shubham Sehgal: Okay. And just a follow-up on this. So we have seen a positive growth in our North American market. So what is that driven by? Like any new products we have introduced there or like what exactly are you driving that?

R.V. Bubna: I think broadly speaking, there's not many new products. It's mainly the existing products, but we are adding the products which are new to us like for different kind of vegetable various kinds of crops. The products are same, but they are being used for different crops. So we're adding these crops to our registrations and that is also helping us.

Shubham Sehgal: Okay. And so like our channel -- what is the channel inventory right not a distributor level at the end of Q4 if I must ask. And do you see any risk to our current high receivables or inventory.

R.V. Bubna: Again, 2 parts. We don't see much of a risk to our current receivables. And about considering the channel inventory I do not know how to keep track of this channel inventory. It's -- there's nothing like a channel in my thinking, people buy the goods when they need it when they have demand. And the manufacturers to deliver the goods, if some demand comes, they start producing when they find that the levels have gone down and if they have to keep their factory running.

Shubham Sehgal: So in Q4FY24, we saw a sizable expansion in gross margins. So what was that led by? Was there any one-offs present.

R.V. Bubna: No, there was not like any one-off. And there's not been a very sizeable gain in the gross margins. There has been a reasonable gain in the gross margins. Earlier, the trend was that if I'm selling somebody product at $90. He will come back to me, but sorry, the prices have gone down to $75.

So either you take back the goods or give a discount. And since I had to look at the long-term business, I don't want to lose my customer, I accept that demand because I have to stay in the market. This process was going on from $75 to $50, $50 to $35. And we have borne all that depreciation in the prices and not the customer. Now that process is getting stopped for us. Now the customer is buying and is able to sell at the price that is buying from us, that makes us very comfortable.

Moderator: The next question is from the line of from Darshita from Antique Stock Broking. Please go ahead.

Darshita: My first question was regarding --any significant sales returns that we have seen in the month of April and May after the fourth quarter volume growth that we hade seen last year.

R.V. Bubna: Almost 0. There's no sales returns in the first 1.5 months of this quarter. It was in abundance during the same period last year as amount of sales returns. And this year, there's no sales returns.

Darshita: Yes. That's what I was trying to understand. Okay, got it. I had a couple of bookkeeping questions. If you could give the volume, price and exchange contribution to overall sales for fourth quarter and full year FY '24?

R.V. Bubna: One minute. For the Q4FY24, volume growth has been 25%. Foreign exchange impact has been plus 3.2%, but price and product mix impact has been almost minus 40%. So this has led to a total growth of minus 11.5%.

Darshita: And the same for FY '24?

R.V. Bubna: FY '24, the volume growth has been 4%. Foreign exchange impact has been also plus 4%, but product and price mix has had an impact of minus 30%. And total growth is minus 22%.

Darshita: Got it. Could we get the volumes for agrochemicals for Q4 FY24 region wise volumes

R.V. Bubna: In Europe, the volume has been some 9,958,000 and odd units, which is a growth of 24.4% over the previous year Q4. In Latin America, there is a degrowth of 23% in the same quarter this year compared to last year. In NAFTA region, the volume has increased to 52.5%. And in the rest of the world, the volume has increased by 12%. Overall, an increase of 28% in the period of , Q4 '24.

Darshita: Okay. Perfect. And region wise gross margins?

R.V. Bubna: Region wise Europe has been 36%. Latin America, also 36%; NAFTA, 31% and Rest of the World, 36%. Average 34.6%.

Darshita: Perfect. And just 1 last question is region wise registration if you can give us?

R.V. Bubna: One minute. Region-wise registrations. As on March 24, Europe is 1,617; Latin America 756; NAFTA 300 and Rest of the World, 246.

Darshita: And same for the pipeline?

R.V. Bubna: Pipeline, Europe is 680, Latin America 204, NAFTA 125, and Rest of the World 90.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC Asset Management.

Dhruv Muchhal: Sir, we are seeing the technical prices from China and others have already fallen and probably stabilized also to some degree. So have the innovators also have taken this similar price correction for the end market formulation production or they are not cutting their prices as much, which can then benefit us to earn better margins.

R.V. Bubna: They are not living in a different world. Innovators are at the end of the day, operating in the same market and the customer base is the same for them as well as for us. So innovator have no other choice if they want to have a market share to fall in line with the rest of the things. And I want to tell you 1 thing. In this period, probably innovators have cut down their own production substantially.

And they've also started sourcing from China because they find it that their own cost of manufacturing is much higher than what the Chinese can provide them. So they're also stay in the market, they have to go bring down their prices.

Dhruv Muchhal: So they're already cutting prices in the final market.

R.V. Bubna: They have cut. I'm not saying cutting because now may be that period is not there, they may be getting the opportunity to increasing the prices.

Moderator: The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: One is a bookkeeping question. When it is a write-off on intangibles of INR35 crores, which we have taken. If you can just elaborate a little bit more on this? And secondly, on the depreciation, we also saw a drop in Q4, so what is the sustainable rate of depreciation?

R.V. Bubna: Your first question was write-off in the intangible. Am I right?

Nikhil: Correct sir.

R.V. Bubna: These things happens when the registrations are no longer yielding any benefit or sales. when the registration becomes old or outdated. Then as per the accounting guidelines and as per the auditors, they advise and we also agree with them and we write-off the intangible assets. sometimes the products get banned because of many reasons. So in that case, the registrations that we are holding and the product is banned, then that register is not giving us any value and they write it off.

Nikhil: Okay. So what was this number for the full year?

R.V. Bubna: Yes, for the full year, this write off was INR35 crores.

Nikhil: And secondly, on the depreciation, there is a drop.

R.V. Bubna: My colleague tell me that there is no drop. There's an increase in the depreciation.

Nikhil: No. On the fourth quarter, our run rate of depreciation was INR70 crores, which came down to INR54 crores this quarter. So just asking on that aspect.

R.V. Bubna: See, this is a question of mathematics because the depreciation is decided by many factors, including the use of their worthwhileness of the depreciation and useful life of the product.

Nikhil: Okay. So we should continue the full year number as the run rate to continue?

R.V. Bubna: Yes, please.

Nikhil: Okay. And just 2 more questions. One is, what would be your capex guidance for '25?

R.V. Bubna: I have given already. The capex guidance is about INR400 crores-INR450 crores.

Nikhil: Okay. And lastly, sir, you mentioned at the beginning of the call, the guidance you gave of around 10%-12% sales growth I was a little bit confused because somewhere you said it's on a base of 23. If you can just reiterate the guidance and what is it on a base of? Is it on '24 sales base or '23 sales base?

R.V. Bubna: No, this is for FY '25, based on '24 sales.

Moderator: The next question is from the line of from Bhavya Gandhi Dalal & Broacha Stock Broking. Please go ahead.

Bhavya Gandhi: Thank for the opportunity. I just wanted to understand we get our products manufactured from China. So if you can share what will be capacity utilization through across the plants over there, if you can give some broad assessment?

R.V. Bubna: See, it's very difficult to get into those details with the Chinese manufacturers because Chinese manufacturers are not so transparent and it doesn't help us. All we come to know from them is that they're sitting with - when we go there, meet them in the exhibitions or any occasions.

They only say that they are sitting on a huge inventory and they want to get it off it. And they have reduced their production capacity in terms of - I mean, 1 manufacturer was telling me he has 7 plants. Now he shutdown 3 plants and is running only 4 plants. So these are all here, say, there's no return or concrete information. These are just guidelines.

Bhavya Gandhi: Right. Got it. And another with respect to volume growth post the destocking. So I understand now again, there would be a scenario for 2, 3 quarters where restocking will happen. Post that, maybe 1 or 2, 3 years down the line, what would be the sustainable volume growth? Because I understand the industry is nearly growing at 3%, 4%. So I mean, on a longer-term basis, what would drive volume growth and revenue?

R.V. Bubna: Sir, I would say about 5%-10%.

Bhavya Gandhi: Yes. I mean what helps us assess that number? I mean what gives us that belief of 5%-7% volume growth in the longer run?

R.V. Bubna: Sir, our exposure to the industry and our experience over so many years, and what we see, we get the feedback from our customers, manufacturers, competitors, it's a general information.

Bhavya Gandhi: Okay. And just if you can share what was the absolute sales return amount for FY '24?

R.V. Bubna: Sir, I don't have that figure ready. But when you say sales return, yes, 1 month 1 customer returns to us and we get back to a warehouse. But then the same product is taken by some other customer who is in need of that product.

Bhavya Gandhi: Right. Right. Got it. And last thing on the succession planning, if I may ask, I mean we see your sons in the PPT, but we don't hear them on the call. So if you can throw some light on that as well?

R.V. Bubna: They are more busy than me. They are contributing to the business. They are driving the business. They're pushing the sales, and they're doing all the things too much occupied, but fully occupied in the business, but different field of business.

Moderator: The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta: Sir, I was just asking that, first of all, congratulations on a sequential recovery seen in the current quarter. I think that after 3-4 quarters of dull period, we are seeing some recovery, sir. Sir first of all, that what we wanted to understand that this global competition and with the innovator competitive scenario still remains challenging. And probably, as you actually mentioned that they are also able to purchase the material from China. And that reduces their cost and probably reduces the gap between the generic players like you or the branded players like the innovator. So in this kind of scenario, do you see that with the lower prices, a company like our -- you face some risk of losing volume or market share.

R.V. Bubna: Sure. I didn't understand this part of the question. See, generic players, they had their own space and the different customers, different style of marketing and innovators have a different style of marketing. And I can only tell you one thing. Rohanji that sometimes these innovators are buying from us a generic product for their own sales. Probably because, they didn't have the sufficient inventory at that time and things like that. There are not that has invited from China. And we are also supplying the Chinese product to meet their demand. Sometimes they don't have the registration of that product, which we have.

Rohan Gupta: But sir, in the current scenario, the pricing difference between the branded players and you would have come down, right, could have narrowed down?

R.V. Bubna: To some extent, yes.

Rohan Gupta: Okay. And the farmers, if they have a choice of buying a brand product that maybe at a gap of only 10% versus earlier 20%. Isn't it a risk that he will prefer buying a bar or a bunch of product at a 10% difference, which earlier about the difference was 20%, and that is a risk I was talking about.

R.V. Bubna: Guptaji the farmers have also become businessmen. This 10% margin also, they find it very difficult to afford. They pay the 10% extra to them. because they are dealing with a supplier who has a wider product mix, along with the generic common product, they can also get some special product.

So they're all having their own calculations. Nobody is paying them a higher price just because they are innovators. Some of them do. But I mean, everybody knows and our distributors are the biggest good salesperson for us if some farmer comes to them for a product they say this product not available, but you can buy these products Sharda. The natural question, will it work? And the answer is yes, definitely work because it is certified by the government, and the label, the government certification is there.

So these things work in our favour on the long run. And when they do not have any bad experience with our product, they slowly get the confidence that it's better to buy it 10% cheaper from generic because at the end of the day, both the products are working and giving similar results, which is a fact.

Rohan Gupta: Right, sir. The second question is that in last two to three quarters, we had incurred losses not only on a high cost inventory but also we have to offer higher rebates and discounts to our customers and distributors for the collection. In this quarter, sir, in the current quarter, Q4, your gross margin has improved significantly, actually at almost all-time high at 35% plus. So in the current quarter, we did not offer any discounts rebate to the customer, there is no mention of that in the penetration or any commentary. Just wanted to hear your thoughts on that.

R.V. Bubna: Rohanji, in the previous quarters, margins were much lesser or negative because the cost of purchase was much higher -- and we didn't purchase it for that market, that situation. We had bought it when the prices were at the peak. Then we are sitting with those products, and we are selling them even if the prices are going down.

To give you an example, some products we sold at a peak at USD90 per gallon. Finally, the prices came down to about USD18 per gallon. So we also sold the product at USD18. Today, that product is selling at USD16 per gallon. So the erosion in the margins was because of higher cost and the market prices shrinking and dumping down. That situation has improved now. I'm not sitting with a very high-cost inventories, and my inventory cost is also much more competitive compared to what it was in the first 2, 3 quarters.

Rohan Gupta: Sir. So that is a high-cost inventory liquidation is almost over that is also roughly INR 90 crores?

R.V. Bubna: That is true.

Rohan Gupta: Yes. So that is INR 90 crores impact you have mentioned in the presentation. I was asking that along with the high cost inventory liquidation, that point to explain and understood. We were also in the last two con-call was making a comment that you have to offer higher discounts for the collection -- is that scenario is no more, I mean, for the collecting the payment from the customers, now you need not to offer them any rebate or discount? That's what my question was.

R.V. Bubna: Rohan, I think there is some misunderstanding here. In our market, we have never offered 3 bids or high amount of rebates for recoveries -- the rebates or anything is decided at the time of closing the deal at the time of when I'm supplying. He will ask me for a rebate because he says he's getting a similar product of these rates from somebody else -- if my selling price is $30 and he says, I'm getting for $24, then I may reduce my price from $30 to maybe $25 or $26. Now you can call it a rebate…

Rohan Gupta: Actually, it was -- okay. So actually for you, it was a high cost inventory where you have where you have to match the customer asking prices…

R.V. Bubna: And we had to reluctantly come down to those levels. To we didn't want to sit on the inventory. We were afraid will down to $24 or $23.

Rohan Gupta: Got it, sir. So now that all the high cost inventory liquidated, that's where we are seeing the improvement in margins in the gross margin in the current quarter?

R.V. Bubna: And we are nimble footed asset-light company we can switch over from 1 product to the other product without any cost, which manufacturing cannot do.

Rohan Gupta: Right. Sir, in the last 3 to 4 quarters, we have heard that many distributors, dealers have gone through the tough times, the high-cost inventory liquidation that has not only impacted you but many dealers also. Do you see that some of the dealers have gone off the business or who has gone through a huge losses in last 1 year and many of the whole dealer distributor you are doing the business, they are not able to do the on the business now and or ask them as the market?

R.V. Bubna: No, sir, Rohan, that kind of situation has not happened because they were very conveniently be able to transfer that depreciation the price to their suppliers because they are buying them credit. They are not buying an advanced payment of cash against delivery. And they say that -- sorry, I cannot give you either to take the goods back or give a discount. So I would tell you in this entire process, intermediate is like us suffered not the actual distributors. Actual distributors have probably made good margins have taken undue advantage of the situation.

Rohan Gupta: Right. Sir, the Gross margin in the current quarter, which are roughly 35%, do you see that these are the sustainable margins? Or they will once again come back going forward because raw material prices still remains very low, right? So we should be able to improve on margins further from here. So just comment on gross margin, sir.

R.V. Bubna: I don't think that they'll go down. They will stay.

Rohan Gupta: For the entire year next year, I mean FY '25.

R.V. Bubna: Entire year, you're heading the word, I'm not astrologer. I hope so from what I see the picture today, there is no reason for the gross margins to go down because at the end of the day, our margins are very reasonable. There have been some products where the innovators are selling at about 300% margin. They have to worry about it. not companies like Sharda.

Moderator: Sorry to interrupt, sir. Ladies and gentlemen, due to time constraint, that was the last question for today's call. I now hand the conference over to management for closing comments.

R.V. Bubna: Okay. Thank you, everyone, for joining us for this con call. I hope we have been able to answer all your queries. We look forward to such interactions in the future. We hope to meet your expectations in the future, too. In case you require any further details, you may contact us or Mr. Deven Dhruva from SGA our Investor Relations partner. We are available for answering all your questions and thank you so much. We also learned a lot from your questions. This also helps us. Thank you very much.

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