"Sharda Cropchem Limited Q2 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Sharda Cropchem Q2 FY22 post results 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, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Binani of Antique Stock Broking. Thank you and over to you, Sir!

Himanshu Binani: Thank you Bikram. Good day everyone, and on behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Sharda Cropchem. From the management, we have Mr. R.V. Bubna – Chairman & Managing Director of the Company; Mr. Ashok Vashisht – the CFO of the Company; and Mr. Dinesh Nahar – the General Manager (Finance) on the call. Without any further ado, I would like to handover the call to Mr. Bubna for his opening remarks, post which we can open the floor for Q&A session. Thank you and over to you, Bubna Ji!

Ramprakash V. Bubna: Thank you Himanshu Ji. Good day ladies and gentlemen. A very warm welcome to everyone present here for the earnings call of Sharda Cropchem Limited for Q2 FY22. Sharda Cropchem is represented by myself, Ramprakash Bubna – Chairman & Managing Director; Mr. Ashok Vashisht - Chief Financial Officer; and Mr. Dinesh Nahar – General Manager (Finance). Talking briefly about our Q2 FY22 results:

Revenues grew by 51.3% YoY from Rs. 425 Crores in Q2 FY21 to Rs. 643 Crores in Q2 FY22 led by strong volume growth across geographies. Europe grew by 7.3% YoY, NAFTA grew 115.6% YoY, LATAM grew by 113.9% YoY, and the Rest of the World grew by 75.2% YoY.

During Q2 FY22, our Agrochemicals to Non-agrochemical mix stood at 78:22. The Agrochemical business grew by 46.1% YoY. Among agrochemicals, Europe business was almost flat, NAFTA grew by 124.4% YoY, LATAM grew by 134.8% YoY and the Rest of the World grew by 85.9% YoY. The formulation to AI mix stood at 94:6 in Q2 FY22.

The Non-agrochemicals business grew by 73.8% YoY during Q2 FY22. NAFTA grew by 95.9%, Europe grew by 64.7%, Rest of the World grew by 58.9% and LATAM grew by 17.5% YoY.

The Company continues to strengthen its product portfolio by prudently investing in new product registrations. Sharda Cropchem's total product registrations stood at 2,610 as on September 30, 2021. Additionally, 1,054 applications of product registrations globally are at different stages of approval. The capex stood at Rs. 153 Crores in H1 FY22 vis-à-vis Rs. 130 Crores in H1 FY21.

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

Ashok Vashisht: Thank you Mr. Bubna. A very good evening to all of you. I will give you a brief about the Q2 FY22 financial performance of the company.

During the quarter, our revenue surged by 51.3% YoY. This was mainly driven by strong volume growth of 60.8%, and favorable exchange gain of 1.1% whereas there was adverse impact of our product mix substantially because of the other geographies i.e North and Latam America to the tune of 10.6% during the quarter.

In terms of gross margins, we grew by 36.3% YoY basis from Rs. 132 Crores in Q2 last year to Rs. 180 Crores in Q2 FY22. The gross margins were at 28% in Q2 FY22, slightly lower as compared to the Q2 FY21 mainly because of the change in our product mix and some impact of inflation in the freight cost. On the geographical mix, Europe continues to be the highest contributor followed by NAFTA and Latin America. We could strengthen our footprints in NAFTA and Latin America during this quarter.

EBITDA registered a very strong growth of 76.8% on YoY basis from Rs. 59 Crores in Q2 last year to Rs. 103 Crores in Q2 FY22. The EBITDA margins expanded by 233 bps to 16.1% in Q2 FY22, mainly driven by volume growth and better cost management, partly impacted by the change in product mix and inflation in the freight cost.

Profit after tax grew by 67.9% on YoY from Rs. 19 Crores in Q2 FY21 to Rs. 32 Crores in Q2 FY22.

Our cash profit stood at Rs. 93 Crores in Q2 FY22 as against Rs.61 Crores in Q2 last year. The Cash and cash equivalents stood at Rs. 370 Crores in Q2 FY22 in comparison to Rs. 314 Crores in Q2 last year. There is a special focus in the working capital management so that working capital days have improved to 86 days as at September 30, 2021 in comparison to 98 days as at September 30, 2020.

With this, we open the floor for your specific questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Bharat Gupta from Edelweiss Securities. Please go ahead.

Bharat Gupta: Good morning. Congratulations on a good set of numbers. Sir my question pertains to the China front. So, what has been leading, there has been power crisis issue and is the facility impacting the overall agrochemical industry. So, just wanted to get a sense because our business is primarily driven from China, how secure are we in terms of procuring the finished products and what is kind of our inventory positions are we holding with respect to the coming quarter?

Ramprakash V. Bubna: Mr. Bharat, we have been doing fairly well in this financial year. China's situation has been alarming for many months, but somehow we have been able to sell through very comfortably. It is a true fact that the situation in China is not normal. The government has become very conscious about pollution control and the upcoming Olympics in February 2022. They are taking many strong measures to control pollution like stoppage of mining of yellow phosphorus and controlling the waste disposals by the industries, both air as well as water pollution. Another serious impact is the shortage of coal supply in China which is impacting electricity generation. The electric supply has also been curtailed for the industries by giving more preference to the residential consumer than industries. This will affect everybody, you have rightly said that we are mainly dependent upon our procurement from China but I want to tell you, Sir, China has become a factory to the world and everybody is directly or indirectly dependent upon China, if not the finished products, the semi products or the basic raw materials. Even multinational companies across the globe are dependent on China. So, our impact will not be very much out of the two compared to the rest of the players in the field.

Bharat Gupta: Sir, in terms of the inventory which we would be having primarily just wanted to get a sense because Q4 is one of the heaviest quarters for us so in terms of whatever supplies which we are having, are they good enough to meet the rise in demand which we are seeing from the European markets or to the North American markets?

Ramprakash V. Bubna: Mr. Bharat this is the period when we build up the inventory. We do not carry on the inventory for the complete year. We are finding some constraints in getting the shipments because of the lack of production and other things but as on date the level of inventory that we are holding is slightly better than what we were holding last year. Of course, the businesses start coming up during this period of time, but our customers are also very careful because the prices have gone up and they are not used to buying at higher prices. So, I would say that so far, our business is moving normally not a very serious impact including the inventory levels.

Bharat Gupta: Sir, if we look on the pricing front, so definitely there has been some sort of an impact due to the change in the product mix but going like what you have also been said in the opening remarks that there has been some issue in terms of the raw material side. So definitely there would have been some sort of an increase in the overall raw material prices. So, are you heavily taking up full price impact on the same or industry is still registering enough to pass on the increase in the raw material prices for the end products?

Ramprakash V. Bubna: No, Sir. The inventories have not much to do with the prices. It has gone up and the consumers are showing some resistance, but at the end, they do come around and absorb fairly good part of the increase in the prices.

Bharat Gupta: Have we taken prices increase or have we passed on the price increase in our raw materials to the end customers?

Ramprakash V. Bubna: We do that for every transaction. As you may be knowing about our business, we do not have any long-term contracts neither with our suppliers nor with our customers. Most of the time, every transaction has a fresh negotiation, so the prices that we are offering to our customers are by adding normal margins to our fresh prices. So, there is an increase in the prices which we are claiming from the customers and they are giving us.

Bharat Gupta: Sir, just what we are seeing is that there has been some sort of pressure in our margins here it is gross margins have come back to a 28% kind of a range so going forward do you expect it to change in the coming quarters or there can be some sort of an improvement if we have taken some pricing increase for the coming month as such?

Ramprakash V. Bubna: See Mr. Bharat, presently the margins are under stress and pressure. Going forward, I would feel that a similar situation will continue unless China becomes all of a sudden very open and they start increasing the productions and dispatches in a full swing. Till then it is going to be a little cautious game and we are prepared for it.

Bharat Gupta: Sir, just a bookkeeping question. Our other expenses as a percentage of sales have declined despite a spurt in the logistic cost around the globe. So, what is the key reason for the same?

Ramprakash V. Bubna: Can you repeat this question, please?

Bharat Gupta: I was just asking if you look at our other expenses as a percentage of sales so that has declined a bit. I was just asking that there has been a spurt in the logistic cost so what has been the key reason why you have been able to maintain our other expenses on a lower side?

Ramprakash V. Bubna: See, the other expenses are not impacted by the availability of raw materials of selling prices. They are more or less at the fixed level, but because the price levels are increasing. So proportionately they appear to be subdued, but this is the related equation. Our other expenses are fairly at the same level as last year.

Bharat Gupta: So there has not been any material impact on the logistic front like the freight cost which has increased a bit so that has not impacted us.

Ramprakash V. Bubna: The logistics cost is a totally different game. It is nothing to do with our other expenses. This logistics is a direct expenditure and there is a substantial increase in the cost of freight, sea freight as well as air freight and I do not think that the other expenses are connected with the logistics.

Bharat Gupta: So that has been a part of the cost of goods sold or it is taken separately?

Ramprakash V. Bubna: It is taken as the cost of goods sold.

Bharat Gupta: Sir, last question on the guidance front. Definitely we have driven out and we have even delivered of 50% kind of a growth in H1 FY22 and you were earlier maintaining a conservative target of delivering a 15% to 18% growth for the full year. So, now can we expect that there will be some like from the conservative and you want to increase the guidance on the sales front for the coming second half?

Ramprakash V. Bubna: Sir, I would prefer to be the conservative side we should be able to grow at 15% to 20%.

Bharat Gupta: For the full year?

Ramprakash V. Bubna: For the rest of the year.

Bharat Gupta: Thanks so much. I will come back in the question queue for any follow up. Thank you, Sir.

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

Vishnu Kumar: Congrats on a good set of numbers. Sir, just help me understand this Sir. Normally, the first half is something that you report like say Rs. 300 Crores, 400 Crores in your European business but this time are about Rs. 250 Crores and Rs. 500 Crores during the first six months. Similarly, in your US business also you have done pretty well. Is it because of some molecules or is it because of some real pricing that you have benefited from? Normally you used to say that MNCs are not taking price hikes or is it because inventory in the system has gone down if you could just help us understand structurally or let us say there are some near-term gains we are having?

Ramprakash V. Bubna: Sir, I will catch up on the second point of your suggested answer. In my opinion, the inventory in the system is getting dried down and it is not so difficult to claim a better price from the customers when our costs are going up. At the same time, I think we are still more competitive as compared to the competitors. Multinationals are also increasing their prices.

Vishnu Kumar: Inventories are low in the system that is helping you drive a disproportionate growth in the first half generally this quarter or even the six months you are saying?

Ramprakash V. Bubna: See in absolute terms all our inventories are higher this year compared to the last year but relatively compared to the volume it could be slightly on the lower side.

Vishnu Kumar: So, this situation of low inventory that you are seeing in the market do you think this will continue to the next year given that Chinese raw materials are not available how do you see that?

Ramprakash V. Bubna: The availability is the same. The Chinese are not able to ship the goods to us as per our requirements and because of our contacts and relationship with most of the manufacturers so far, we have been able to get our supplies sufficient enough enabling us to built-up a comfortable level of inventory. These efforts and business strategies will continue.

Vishnu Kumar: Sir for the fourth quarter last year, we did close to Rs. 1,100 Crores and I am sure you have good visibility as to whether you have enough material available or that is something that we go from China to US and Europe by the fourth quarter. If you could broadly tell us whether you are in a favorable position that you will be able to kind of whatever growth you think that can be done all the material is available or you will think there will be some shortfall?

Ramprakash V. Bubna: I do not think we are favorably covered. The situation is tough. It is for everybody and we are a part of it. So, but even last year we had not anticipated that we will do so well in Q4. This year also we feel that we should be able to do comfortably well but not as well as Q4 last year.

Vishnu Kumar: When you mean comfortably well, will still see growth by the fourth quarter or do you think it will be just about flat?

Ramprakash V. Bubna: There would be growth but not as much as we had last year, as the base is very big now.

Vishnu Kumar: Sir, my second question on this is that you have been highlighting that for quite some time that the MNCs have not passed on prices and now because of the low inventory situations they have taken a price hike. Now is the price hike commensurate for the technical prices that have gone up now, do you think further prices hikes are required because prices have gone up in the recent past and let us say once MNC increases the prices for generics may be prices corrects were bring it down or sustainably because it is a small product they will not bring the prices down what is your view on this? I am asking from both from a medium and a short-term perspective?

Ramprakash V. Bubna: Multinational companies have a very big advantage of fat inventories. I think their inventories are also shrinking now and they are also under pressure to increase the prices because they are paying higher prices for their sourcing. So, I think this situation also helps us to compete better in the market.

Vishnu Kumar: If the prices because for them these products are not big and you have highlighted that in the past if they take the price hikes it is more or less those prices can kind of hold on to so if prices come down do you think they will hold onto the prices because this is not a very big portfolio for them which could be a sustainable benefit for us that is the point I am trying to understand. Let us say one year from now when the prices come down again will they drop the prices or they will not drop the prices if the material prices come down?

Ramprakash V. Bubna: You think I am the right person to comment on how the multinational will behave in some imaginary situations. We can only predict. We can only make a guess and there is no reason, so they do not react so quickly to the fluctuations if the raw material prices are procurement prices. I have a feeling that this year there have been quick enough because their inventory levels are on the lower side. What will happen with the prices come down I am not the right person to comment if they may or may not.

Vishnu Kumar: In your US market are we introducing any new molecule that has given us some disproportionate benefit any specific molecules that we can say or any product, any particular categories that has done well for us in the last one year or so the US and Europe any particular category?

Ramprakash V. Bubna: We have been getting more registrations and product approvals. Our portfolio is enlarging and that is helping us to increase the volume.

Vishnu Kumar: Sir, any rough idea you can give us let us say the local distributors have gone up x% more states, more touch points, anything that you can say that since last two years it is now better something for us to get a more of a grip on?

Ramprakash V. Bubna: Our customer base is also increasing in the US. With the increase in portfolio, the acceptability of our products is increasing, the recognition of Sharda Cropchem is increasing and we are finding it easier to introduce our products in the market.

Vishnu Kumar: In customers how many distributors would probably we be having there I mean last two years to now?

Ramprakash V. Bubna: I do not have the figure readily available but the number of customers, maybe about 20%, 25% more compared to last year in the United States market.

Vishnu Kumar: I will get back in the queue. Thank you.

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

Chetan Thakkar: Good evening, Sir. I just wanted the volume numbers by region?

Ramprakash V. Bubna: For Q2 in Europe the volume is 3.61 million, NAFTA it is 2.74 million, Latin America is 1.46 million, Rest of the World is 1.10 million. Total 8.91 million as compared to 5.54 million in Q2 FY21. So in terms of volume we have grown by 60.9% in Q2 FY22 as compared to Q2 FY21.

Chetan Thakkar: This is very helpful. Thank you so much and all the best and wishing you a very happy Diwali. Thank you so much.

Moderator: Thank you, Sir. We have the next question from the line of Dhruv from HDFC AMC. Please go ahead.

Dhruv: Thank you. Sir one question was in the previous call earlier you had mentioned about there is some pre-stocking that also you are seeing at least for the last three, six months or nine odd months. Sir, where are we now in the pre-stocking cycle?

Ramprakash V. Bubna: You mean pre-season stocking?

Dhruv: Yes Sir.

Ramprakash V. Bubna: I do not know whether I have mentioned but we do not have the strategy of hedging very big stress on the pre-season stocking.

Dhruv: Not you Sir, but your customers are stocking ahead of the time because of the freight issue or non-availability issue that way?

Ramprakash V. Bubna: Sir, I think the customers are also not doing the pre-stocking because they are very much uncomfortable with the increase in the freight cost and total increase in the cost. In some of the products, the prices that they are paying us, is almost 80% to 90% more compared to the same products last year? So, they are also not very comfortable and happy to stock basis that the prices are already very high.

Dhruv: There is not much stocking that has happened in the last quarter.

Ramprakash V. Bubna: In my opinion no, because of the level of prices that are happening today.

Dhruv: Sir in that context the growth that we have including the volume growth if you can help us understand what is driving this growth?

Ramprakash V. Bubna: As I mentioned in my previous statements this is probably because of the drying of the inventories with the competition and our peers.

Dhruv: We are able to source the material much better than the competition and hence they are seeking to buy it from us.

Ramprakash V. Bubna: Probably yes.

Dhruv: Sir, do you look at it in this way say for example how much of the sales growth over a two year basis or a three year basis has come because of new product registration? Do you have that kind of data, say for example this year you have grown 51% how much of this growth is coming from new registrations that you have got say three years back so three years back you got this registration and today we tell this is an x percentage of your total sales. So, just trying to understand how much is driven by new sales, new product sales?

Ramprakash V. Bubna: Yes, I will ask Mr. Ashok Vashisht to reply to this.

Ashok Vashisht: This is a business dynamics, what we mean is that few new products come in because of new registrations and few product goes off due to molecules ban or expiry of registrations. We can discuss more on this offline.

Ramprakash V. Bubna: Sir, we have not done any detailed analysis on this front. We have been so much occupied with the normal things.

Dhruv: What I am trying to understand is you have done superbly even in terms of growth in the last three, four quarters and I understand part of this is because of the people stocking it ahead because your competitors do not have but I am just trying to understand how much of this can be dissected between the normal growth that you would have anyways achieved because of new product are getting registered, new penetrations happening and how much is if there is some qualitative way we can try to dissect that?

Ashok Vashisht: The major focus earlier was on Europe. Now we have been putting equal focus on NAFTA and Latin America regions as well. We have already seen growth in H1 FY22 in these geographies . Europe is at the number three in terms of growth, so we are getting high growth in the NAFTA region and Latin America region.

Dhruv: Is this growth coming because of new registrations as such particularly I mean a large part of the growth or is it because of penetration increase I mean I understand everything but the bigger part is because of what?

Ramprakash V. Bubna: Mr. Dhruv, it is both penetration as well as expansion of the portfolio.

Dhruv: Because your portfolio was expanding for quite some time but the acceleration in growth has happened in the last three, four quarters so I was just wondering what has happened now that this growth is happening?

Ramprakash V. Bubna: That we have now product nimble footing.

Ashok Vashisht: If you see half yearly, the Agrochemical growth in NAFTA region is 110%, Latin America is 120%; this has helping us in terms of giving this significant growth, Europe is 25% and Rest of the World is 45%. So basically, penetration of the existing portfolio and new molecules both are helping us in terms of getting the growth.

Dhruv: Sir, if I understand correctly your growth will be higher in NAFTA and LATAM going forward also. Historically you used to give this GM split and in that if I understand correctly Europe would be the highest margin then followed by NAFTA and then LATAM so can there be some impact on margins as with the share of NAFTA and LATAM continues to growth in our portfolio?

Ramprakash V. Bubna: Europe is continuing to be having the highest margins. The margins in NAFTA region is also improved considerably. Earlier, it was very nominal. This year it is respectable. So margins is competitively growing in NAFTA but Europe continues to be a region of best margins.

Dhruv: Because just from an incremental basis if the growth is higher from NAFTA and LATAM?

Ramprakash V. Bubna: I can give you a comparison. In Q2 FY21 Europe was 36.7%, which was 33.3% during Q2 FY22; NAFTA stood at 20.2% in Q2 FY21 and it is 28.3% in Q2 FY22, LATAM was 27.3% in Q2 FY21 and this year it is 15.3% and Rest of the World was 32.5% in Q2 FY21 and this year it stood at 20.7%. So, margins in LATAM and Rest of the

World have come down considerably. NAFTA has increased considerably and Europe has also subdued slightly. Overall, our margins have come down from 31.1% to 28%.

Dhruv: Sir my next question was more from an understanding of the near-term dynamics of our business. We understand quite fairly well now that the Chinese technical prices are rising because of the disruptions. Now, if I understand correctly, we do not contract either the supplier or the customer but some of the MNCs, I believe do contract their suppliers so they are costing will not probably change as much as your costing will change. So, Sir from a purely near-term perspective is this negative from the structure that we are in I understand this will all normalize say 6 months or 12 months down the line but just to understand the dynamics from a near-term perceptive?

Ramprakash V. Bubna: I see that you said that I will tell you more surprising thing. Now, we are supplying to many of the multinational companies also. They do have their offices in China but I do not know why they send the inquiries to us and buy from us in spite of all these things. I have not been able to get into details but it is happening and multinationals are paying us much better margins than the normal customers.

Dhruv: That is interesting. So, they source it from you rather than directly using it.

Ramprakash V. Bubna: I would not say that it is the same but it is starting from more or less zero to some small numbers and which is very encouraging for us and plus shipping by air to the multinational companies from China.

Dhruv: Is it possible to share what percentage of your sales will be left today?

Ramprakash V. Bubna: It will be a very small percentage. Nothing significant, but a few transactions are very encouraging for us.

Dhruv: Sir one last question before I join the queue, now given that the China issue that we see today I mean if you see the last four, five years it has been happening regularly some of the other events because of emission, because of some issues, production issues or something else, so how do you see this situation now in terms of your business trend are you thinking of diversifying more away from China in your sourcing to probably more of India are just to get your sales better or how are you looking at this situation?

Ramprakash V. Bubna: Mr. Dhruv that situation has not come to this level so far. Even today China happens to be the most reliable and most economical source. There could be some small sources all over available in India but again the Indian suppliers are also dependent upon China for the basic raw materials and Indian suppliers also try to keep pace with the Chinese it is not that if the Chinese are expensive and Indians will be cheaper. Indians will also come with a lot of to take advantage of the situation. So far, our presence is still with China unless we do not have availability of a particular product and it is available in India.

Dhruv: Sir I understand it is fair that they will also price it to China level but at least the volumes will be available so are you will be looking at that way because from just for example in the current situation China is not even able to supply volumes irrespective of the price that way that is what I was coming to?

Ramprakash V. Bubna: Sir in terms of volumes Indians are not very large volume manufacturers and suppliers. The volume of Chinese factories I mean all the Indian suppliers put together will not go for the 25% to 30% of Chinese production.

Dhruv: Great Sir. Thank you so much.

Moderator: Thank you. We have next question from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Good evening. Sir I have just a question on the growth part because you mentioned that the full year growth looks like 15% to 20% only and if I take that it seems that the second half could be flat and also whatever you have said in your commentary given the price increases and significantly lower inventory at the retailer level it seems that the full year number 15%, 20% seems to be significantly conservative?

Ramprakash V. Bubna: Resham bhai, I think I have not been able to explain myself or you have not understood me properly. I said that for the rest of the year, I am not increasing my expectations to more than 15% to 20% it may happen. That does not mean the full year this is although the second half that I am talking about and today we are almost end of October month so even October month for us has been much better than the October last year. It is only five months left, so five months I mean in the first 12 months you achieve more than around 15% growth I am not so optimistic to maintain the same pace in the next five months, the next five months will do 15% to 20%, it may happen more on conservative basis basically what we have even take.

Resham Jain: I understood it incorrectly, got it right. Thank you. Sir the second question is on depreciation, is that run rate which you are, or will you be able to guide for the rest of the year and going forward in terms of capex also what will be your capex for this year and for next year?

Ramprakash V. Bubna: As we see up till September 30, our capex has been higher compared to last year for six months end and this capex is going to increase at the same pace so our capex at the end of March 2022 will be higher by about maybe Rs. 40 to Rs 50 Crores last year. We may incur a capex of Rs 250 - 300 Crores.

Resham Jain: Sir lastly in terms of we have this line item which comes sometimes the impairment of some of the intangible assets. Is there anything which has come during the first half this year and anything which you are expecting in the second half?

Ramprakash V. Bubna: I think Ashok Ji will be able to reply to this question. But this impairment will be some part of the total capex.

Ashok Vashisht: During the Q2 FY22 the impairment is Rs. 87 Lakh and half year is Rs. 4.4 Crores and last year comparatively Q2 goes to Rs. 1.92 Crores and half year last year was Rs. 2.96 Crores. We are sourcing significant impairment in the second half but just there only we will be because every quarter we do have impairment exercise so whatever has we impaired that has been there as per the Ind-AS.

Resham Jain: Got it, Sir. All the best Sir. Thank you.

Moderator: Thank you. We have the next question from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: I have two questions. One was on the longer-term margin outlook for the NAFTA region. I am assuming, as we are gaining scale with double your topline in the region and I think you have just spoke about the NAFTA margins going up from 22% to 28% H1 to H1 just want to understand like if we zoom out one year, two years and compare you to your competition there. Do you see these margins converting to 30%, 32% or which is what is typically the margin profile for that particular region and the second question is you have spoken about Europe, being the better margin profile business? If we were to again look at Europe from a two, three year perspective do you see these margins recovering in Europe?

Ramprakash V. Bubna: Sir, I do see margins recovering in Europe and as far as the NAFTA region is concerned we have been able to understand the market better so and we feel that we will be able to maintain or improve the margins also in the NAFTA region.

Sonal Minhas: Sir second question just want to understand the success metrics of your filings in each geographies. Just want to understand how do you qualify filing in some molecule or let us say a product success and what gets defined basically so is there like internal metrics of return on capital or let us say expectation of so much topline and so much time for products to be successful or the product to be retired. Just want to understand how do you work because this is kind of a treadmill and would be as you increase your capex it is important to understand the capital allocation discipline around this exercise. So just if you can help us a little bit with that that will be helpful to understand this?

Ramprakash V. Bubna: Mr. Sonal we do not do so much of analysis from the feasibility front or return on capital because the final prices that we will get from the market or we will sell at are never defined that whenever fixed. Normally, as we are generic players entering that market, the prices start going down. Multinationals also in order to maintain their share sometimes they also start reducing the prices to maintain their share, so these things are not very firm. It is difficult to calculate the return on income, initially we mentioned the products are very attractive and lucrative. All we go and select the product after getting a feedback from our customers or distributors and the market as to which product has better future and which will have a longer life in the market. We also see the product is available in China and whether the quality is maintainable in China and if we have these factors then we take a plunge into the product.

Sonal Minhas: I understand that. Assuming all your products have basic assumptions as they are available in China is there a sustainable quality which you can meet and this is a follow on, on what I am just asking that and you would not be the only generic player in the market I am assuming will be more rule enter, price erosion will happen so if you see product margins deteriorating over let us say one year, two years, three years is there a cutoff point in this where you say I cannot do this business because margin erosion can be factored in roughly but it cannot be exact so where do you say that I will not sell this product going further I just want to understand that?

Ramprakash V. Bubna: No, we have not come across any situation where we find that the product is not giving us any margin or discouraging margin. To understand initially when we introduce a product probably, we are the second or third generic and another thing I wanted to let you know that there are not many generics who are competing with us in this market. They can be counted on fingertips and on that front. we are not so much worried and every generic, which comes from a limited number every generic has a comfortable place in the market to introduce their products and sell their products.

Sonal Minhas: Sir if I am an analyst who is trying to understand your business from outside from the margin front, if you enter geography do I see that your margins you model let us say x margins these margins will squeeze down as the competition intensify others also reduce their pricing and then overtime the discipline with whatever market share stabilizing the margins tend to expand a little bit so it is kind of a U curve on margin with maturity coming, your maturity coming in that particular market is that how I should model it or mentally align it to understand the business?

Ramprakash V. Bubna: Mr. Sonal please understand that the process of registrations requires a lot of patience and a heavy amount of capital and a lot of time. These three factors reduce the competition very considerably. Most of businessmen want to invest in tangible assets which they feel are very secure and easily they can get all profit by selling them out. The risk involved in the intangible asset registrations is very high and uncertainty of getting any value if they want to get out and this gives us very good room. We have got used to this kind of investments and we are seeing the fruits of this kind of investments this many people do not know so the manufacturers should be the right people to enter into the market with registrations but when we buy something from them we sell at the handsome market but still it does not attract them into this business.

Sonal Minhas: Sir, do not get me wrong I am just trying to understand the business from a margin perspective over a three, five year period especially your geographies where you have entered so that is why I was trying to ask?

Ramprakash V. Bubna: Our rough estimate is that the return on investment in this new registrations you can recover over a period of one to three years.

Sonal Minhas: Got it Sir. This helps thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Chirag from ASSPL. Please go ahead.

Chirag: Sir, I am tracking your company since the last few years. I just want to understand that how you are different from the other agrochemicals and for the side business also we are mostly backend driven and we outsource our manufacturing is my understanding correct Sir?

Ramprakash V. Bubna: Sir the biggest difference between us and other players is that most of the players start first was the manufacturing and then go to the marketing. We do not have any manufacturing we straightaway introduce ourselves into the market. We continue to do that and we find it very lucrative and attractive. We also source 100% market manufacturing then particularly these agrochemical products or most of the agricultural products are seasonal products. On the offseason, the manufacturers find it very painful to keep their plant running or either to build up the inventories for selling it at a very attractive prices. We are not affected by these adversities of these minus points of the manufacturers, we are very nimble-footed. If for some reason in some season we find that a particular product is an abundance and the prices are dropping down, moving little margins we do not deal in that product for that particular season or that period. A manufacturer does not have that choice. You understand that this is the big difference most of them are, there is hardly anybody I think you have a unique business model in India and no other company in the world who is not doing any manufacturing. There are some companies which have similar business models that maybe manufacturing 20% to 30% of their market. We have zero manufacturing compared to what we market and we do not find it very interesting to go into manufacturing because fortunately whenever there is a good product there are good margins there are many manufacturers which come up at very short notice that helps us to sort of derisk our business.

Chirag: So, for the product development we do in-house R&D or is that also we outsource?

Ramprakash V. Bubna: We outsource the R&D also.

Chirag: Like most of the manufacturers do in-house R&D similar to what pharma players plus they should get up on manufacturing. So, they have some patents and all with them so to portrait our business model comparison to them what extra edge we have?

Ramprakash V. Bubna: Sir we do not have any patents. The products that we are dealing with in the patents are held only by the multinational companies who have invested a huge amount of capital to invent this production. Our role comes only when the product goes off patenting and any manufacturer holding patent for their new product are only multinational companies having billions of dollars of turnover and big volume big budget.

Chirag: So, we persist writes off patent right?

Ramprakash V. Bubna: Pardon me.

Chirag: So, we persist those writes off patent which are going to expire in future or not used by MNC after a certain period of time?

Ashok Vashisht: I will explain to you Chirag. Actually, we are a different company as explained by Mr. Bubna, we are intangible assets driven agrochemicals company and like pharmaceutical it is controlled industry. The products cannot be sold freely. So, to enter into any country you have to register your products in that respective country. We have that capability and expertise and our cash flows allow us to register products which involves enormous capital, efforts and time. So, we get those registrations in the respective countries. A company can only sell their product if they have the license from the respective government, which is a major differentiator and entry barrier. There could be a situation - The manufacturer from whom I get my product manufactured, that manufacturer cannot sell directly in that country. So, there is a big entry barrier and it looks to be simple but it is highly dynamic complex business model. But it is highly flexible model.

Chirag: Thank you.

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

Somaiah V: Thank you for the opportunity. Can you just help us with the registration split across the regions which you generally use to give both from what is in pipeline and what we have?

Ramprakash V. Bubna: Out of the 2,610 registrations in H1 FY22, Europe have 1,370 registrations, NAFTA has 252, LATAM has 750, and Rest of the World has 238. Additionally, we have about 1,054 registrations in the pipeline which are at different stages of the approval.

Somaiah V: The split for that would be?

Ramprakash V. Bubna: Split for the registrations in pipeline.

Somaiah V: The breakup of the 1,054?

Ramprakash V. Bubna: Europe at 738, NAFTA at 88, LATAM at 138, Rest of the World at 90, as on H1 FY22.

Somaiah V: Sir if you could also give us both volume and gross margins you have given for Q2 FY22 if you can give the same for Q1 FY22 it should be helpful.

Ramprakash V. Bubna: You want Q1 FY22?

Somaiah V: Previous quarter, yes sir Q1 FY22.

Ramprakash V. Bubna: Sir your question was what margin?

Somaiah V: Yes, both volumes and margins Sir Q1 FY22.

Ramprakash V. Bubna: The volume in Q1 FY2022 was Europe 36,96,000, NAFTA 26,66,000, LATAM 15,99,000, and rest of the world 4,34,000, the total volume stands at 83,95,000 volume.

Somaiah V: Got it Sir and margins.

Ramprakash V. Bubna: Margin wise; Europe at 38.6%, NAFTA at 22.8%, LATAM at 17%, and rest of the world at 27.8%, total margins stand at 29.3% in Q1 FY21.

Somaiah V: Just one last question from my side Sir. So, based on the volume numbers you have given for this quarter and also your total revenue growth this kind of suggest that both in LATAM and Europe there has been an impact on either price of product mix specifically on LATAM front. Can you just help us with some color on there, I mean is it you have seen a price increase in North America whereas that has not been the case in Europe or LATAM or is it purely a function of product mix?

Ramprakash V. Bubna: Majorly product mix. It is mainly some sort of product mix.

Somaiah V: From a pricing standpoint there has been an increase both in Europe and LATAM would that be a right understanding Sir.

Ashok Vashisht: Majorly product mix and some impact of increased freight cost. The freight cost inflation has also impacted the margins a little bit.

Somaiah V: Thank you.

Moderator: Thank you. We have next question from the line of Dhruv from HDFC AMC. Please go ahead.

Dhruv: Just one question in case you have this data what would be the top three technicals for you on an overall basis and if you can name them and also if you can probably share what is that as a percentage of sales in the top five or top three level it will be also similar for last year same quarter?

Ramprakash V. Bubna: I am sorry but this is considered confidential information. I cannot share that.

Dhruv: But broadly what could be the share of sales for top three do you say that or not even that?

Ramprakash V. Bubna: Yes. For the H1 FY22 the top three molecule share is 24%, the top five molecules is 31% and the top ten molecules is 46%.

Dhruv: This is first half and Sir similarly last year?

Ramprakash V. Bubna: Last year the top three was 18%, the top five was 25% and the top ten was 40.3%.

Dhruv: This is the first half last year and the first half current year.

Ramprakash V. Bubna: Yes, Sir.

Dhruv: Thank you so much Sir.

Moderator: Thank you. We have next question from the line of Harsh Beria, an Investor. Please go ahead.

Harsh Beria: If I look at all your agrochemical registrations and the sales that you do from the agrochemical division, I will get the sales number per registration at the same time if I look at your intangible assets in your balance sheet and I normalize it by the number of registrations I will get a proxy to registration cost that you are paying which you are putting in your intangible assets. So if I look at the difference of these two it seems that this has gone down a lot in the last few years. Sir the difference of revenue per registration minus registration cost per registration this has gone down over a period of time. Is this a right way of looking at it or am I looking at it in a completely incorrect way?

Ramprakash V. Bubna: It is not the right way of looking at it because of prices of registration and the cost of registration that varies from country-to-country and product-to-product. In some countries I may get a registration in $100000, in other countries I may have to spend €5 million to get a registration. So, it varies so widely between product-to-product and country-to-country. You cannot make any such comparison or the ratio of valuation and also the time so suppose as I have to develop, get our businesses in a developing country or Latin America or Fareast the time is more smaller and the cost is not lesser. They are processing the same product, same concentration in lot of the cost can be ten times or 20 times more so you cannot get any such complements from the number of registrations.

Moderator: Thank you Sir. We have next question from the line of Jagdesh, an Investor. Please go ahead.

Jagdesh Vikas: The company is having cash in the books of more than Rs. 300 Crores. Why do not the company is rewarding the shareholders by giving dividends or buy backing the shares from the market?

Ramprakash V. Bubna: Mr. Jagdesh then you have not studied our company's financials very deeply. We cannot do any buyback. We are already holding the maximum amount that be allowed as per the law and we do not want to offload our shares in the market because that will be a very wrong signal to the market and we do not play into the prices of the share. As far as the rewards are concerned, if you have seen our company's financial structure, we are a debt free company we have not borrowed anything from the bank.

Jagdesh Vikas: The Company can do buyback and promoters can also surrender the shares, then the shareholding pattern will be same?

Ramprakash V. Bubna: No Sir. We do not like to look into those things. We would like to concentrate on our business rather than playing with the shares and market capital of the shares.

Jagdesh Vikas: But Sir you can reward the shareholders with special dividend?

Ramprakash V. Bubna: Mr. Jagdesh we will consider. We will look into this.

Jagdesh Vikas: Thank you Sir.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Over to you Sir!

Ramprakash V. Bubna: Ladies and gentlemen, it has been a pleasure to receive your questions and I hope we have been able to answer them to your satisfaction. The business is full of challenges and we have been spending a lot of time and efforts to stabilize our business and get the best out of the situation rather than complaining and giving up. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference call. Thank you for joining us. You may now disconnect your lines.