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SCIL/SEC/2023
3rd November, 2023

To,

BSE Limited,	The National Stock Exchange of
Listing Department,	India Listing Department,
Phiroze Jeejeebhoy Towers,	Exchange Plaza,
Dalal Street,	Bandra Kurla Complex
Mumbai-400001	Bandra East,
	Mumbai - 400 051

Sub: Written Transcript of Earnings Call held on 30th October, 2023

Dear Sirs,

This has reference to our letter, intimating about the earnings call on 30th October, 2023 with Investors/Analysts to discuss financial performance of the Company for the quarter and half year ended 30th September, 2023, and weblink for the audio-recording of the call submitted to you on 30th October, 2023.

Please find enclosed herewith written transcript of the aforesaid earnings call.

The said transcript will also be available on the Company's website: https://sumichem.co.in/investors-relations.php#Announcements.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Sumitomo Chemical India Limited

Deepika Trivedi
Digitally signed by: Deepika Trivedi
DN: CN = Deepika Trivedi C = IN O = Personal
Date: 2023.11.03 19:45:14 +05'30'

Deepika Trivedi
Company Secretary & Compliance

Encl: a/a

"Sumitomo Chemical India Limited

Q2 and FY24 Earnings Conference Call"

October 30, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 30th October 2023 will prevail.

MANAGEMENT: **MR. CHETAN SHAH – MANAGING DIRECTOR**
MR. SUSHIL MARFATIA – EXECUTIVE DIRECTOR
DR. SURESH RAMACHANDRAN – WHOLE TIME DIRECTOR AND CHIEF COMMERCIAL OFFICER
MR. MASANORI UZAWA – NON-EXECUTIVE DIRECTOR
MR. KUNAL MITTAL – SENIOR VICE PRESIDENT, PLANNING AND COORDINATION OFFICE
MR. ANIL NAWAL – CHIEF FINANCIAL OFFICER
MRS. DEEPIKA TRIVEDI – COMPANY SECRETARY AND COMPLIANCE OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to Sumitomo Chemical India Limited Q2 and H1 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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.

From the management, today we have on the call Mr. Chetan Shah, Managing Director, Mr. Masanori Uzawa, Non-Executive Director, Mr. Sushil Marfatia, Executive Director, Dr. Suresh Ramachandran, Whole Time Director and Chief Commercial Officer, Mr. Kunal Mittal, Senior Vice President, Planning and Coordination Office, Mr. Anil Nawal, Chief Financial Officer, Mrs. Deepika Trivedi, Company Secretary and Compliance Officer, and colleagues from SGA, their Investor Relations Advisors.

Now I hand over the conference to Mr. Chetan Shah, Managing Director of Sumitomo Chemical India Limited. Thank you, and over to you, sir.

Chetan Shah: Thank you. Ladies and gentlemen, a very good afternoon to all of you, and welcome to the conference call to discuss the Q2 financial year '23-'24 performance of our company, SCIL.

Since end of the year '22, the agrochemical sector is navigating through a challenging phase characterized by an elevated buildup of inventory throughout various distribution channels and reduction in demand due to erratic weather conditions and reduction in prices.

The domestic agrochemical industry was unable to maintain the demand momentum it typically exhibits during the second quarter. This can be attributed primarily to dynamic and varying weather patterns that were prevalent across the country. The untimely arrival of the monsoon towards the conclusion of June had unfavourably disrupted the customary agriculture timetable, consequently resulting into postponement of crop planting.

Subsequently, the dry spell experienced in August had an adverse effect on crop yields, resulting in reduction of both pest and fungal infestations. Therefore, there has been a noticeable decrease in pesticide consumptions -- applications and consumption. If you recall, the monsoon did not start in June at all, and we got some showers at the fag-end of the month of June. July, it picked up and everyone, including us, were hopeful that the season will go okay. However, we experienced an unbelievable dry spell in the month of August, which ruined the entire planning and entire agrochemical consumption.

Coupled with erratic monsoons, the El Nino contributed conditions led to long dry spells and distribution of rainfall, which in turn impacted an overall volume sales growth of agrochemical in domestic market. The agrochemical industry also experienced pricing pressure in case of generics as a result of declining prices in China, which happens to be the largest supplier of raw materials.

Due to unstable inflationary environment, unfavourable weather condition and channel inventory pile up in Latin America and across the globe, oversupply situation caused by China, the global crop protection chemical market also experienced a spell of uncertainty. Supply uncertainties in last two years and increased supplies of low-priced products from China led to global agrochemical companies and channel partners increasing inventory levels. The subsequent destocking amid the slowing global economy led up to slump in exports from Indian agrochemical companies in the first half of the financial year.

On a brighter side, I would like to say that our company was able to consume all the high-cost inventory that we were carrying as of 31, March 2023 by the month of July. And we are back to our normal profits or normal profit lines or normal bottom line from the month of August. This is a satisfactory situation for us. And going forward, we feel strongly that we'll keep up the momentum to maintain our profit margins.

Specialty products portfolio of our company were less impacted by price variations. And in spite of almost 15%, 20% price drops across the board, we could manage to drive our specialty product portfolio at only 3% lower prices as compared to the financial year '22-'23.

We perceive that this short-term challenging situation as a brief interval that shall allow us to introspect on our strengths and business fundamentals, guided by our strategic theme of Back to Core, that is back to going to the fields of the farmers and meeting the farmers.

While we continue to take best efforts to minimize adverse impact of this current short-term challenging situation, we are also working on various growth strategies for medium to long term, including expansion of product portfolio for distribution as well as manufacturing at our manufacturing sites.

I firmly believe that our fundamentals are strong. They will remain strong, and we will certainly bounce back in a normal year of '24-'25.

With this, I'll now hand over the call to Mr. Anil Nawal, our CFO, to run through Q2 financial year '24 consolidated financial performance. Thank you so much.

Anil Nawal: Our consolidated Q2 FY '23-'24 financial performance. We recorded revenue of INR903 crores in Q2 FY '24, as compared to INR1,121 crores in Q2 of FY '23. Gross margin in Q2 FY '23-'24 are 38.4%, as compared to 31.1% in Q1 FY '23-'24. This is showing sequential improvement and recovery.

EBITDA came at INR188 crores in Q2 FY '24, as compared to INR278 crores in the same period last year. EBITDA margin in the current quarter stood at 20.8%, as compared to 24.8% in Q2 FY '23. The reduction in EBITDA margin was primarily on account of decline in operating leverage.

Profit after tax stood at INR143 crores in Q2 FY '24, as compared to INR201 crores in the same period, same quarter last year. Profit after tax margin stood at 15.9% vis-a-vis 18% in Q2 FY '23. For the period, our operations team demonstrated a steadfast commitment to a strategic cost optimization initiative in light of prevailing tricky industry circumstances.

Now coming to our consolidated performance for H1 FY '23-'24. Revenue from operations in H1 FY '24 stood at INR1,628 crores, as compared to INR2,106 crores in H1 FY '23. In H1 FY '24, domestic agrochemical revenue contributed about 89% of overall revenues, with export contributing the rest. In H1 FY '24, insecticides contributed about 40% of total revenue, while herbicides, plant growth regulator and fungicides contributed about 29%, 10% and 7% of total revenue, respectively.

The proportion of export earnings as a percent of the total revenue has experienced a notable decrease, dropping from approximately 19% in H1 FY '23 to around 11% in H1 FY '24. The export endured headwinds as a result of elevated inventory levels, destocking by global manufacturers and significant price pressures.

EBITDA stood at INR269 crores in H1 FY '24, compared to INR466 crores in H1 FY '23. Our EBITDA margin stood at 16.5% in H1 FY '24, as compared to 22.1% in the same period last year. The profit after tax for the H1 FY '24 amounted to INR205 crores, reflecting a decrease from the previous year's figure of INR340 crores as a result of dynamic and complex market conditions.

Now with that, I will now hand over the call to Mr. Sushil Marfatia.

Sushil Marfatia: Good afternoon, everyone. In continuation of Mr. Nawal, I state that we maintained the significant lower inventory level as compared to previous quarters in view of challenging situation in the market in short term. In terms of overall net working capital cycle, it stood at 70 days, recording a deduction of 24 days as on September '23 as compared to that of June '23 as well as compared to September '22.

During H1 '24, our collections were INR2,000 crores against sales of INR1,628 crores during H1 2024. Such a good level of collections demonstrate company's strong focus on discipline even in such a challenging environment. This also indicates our team's ability to generate ground-level demand and liquidation followed by actual collections. No sales in our sector should be considered final till the material is consumed and collections are realized. And our team continues to keep this in mind and follow disciplined practices irrespective of these circumstances.

Our projects team expanded our manufacturing capacities in line with the 'Make in India' initiative. In FY '21, we had announced plans to invest INR1.2 billion in two Make in India initiative to develop five proprietary products for our parent company, SCC Japan, and our global affiliates. This represented supplementary capital expenditures beyond our customary allocation for maintenance and capacity improvements in our current product line.

The first project at Bhavnagar facility has commenced production for a global proprietary product. The second project at Tarapur facility involving multiple EHD products has started commercial production recently. Both these projects are expected to generate some revenue in current fiscal year FY '23-'24. However, due to destocking in international markets, major ramp-up in the revenue from these products are expected from FY '24-'25. The aforementioned projects are being implemented in our current facilities and the expected operating margins are in line with SCIL's current margin for similar products.

The management team is actively exploring the potential for diversification by considering a range of an additional products offering that could be produced within the Indian market. These opportunities are currently undergoing thorough evaluation and are subject to ongoing discussions at different stages of decision-making process. Following the endorsement of the project and products by the Board of Directors, we'll provide you with comprehensive information pertaining to our capital expenditure strategies.

Our R&D team is presently engaged in production of diverse range of products and premixture combination products with the aim of catering to both the Indian domestic market and lucrative export market. These export markets situated in high-growth regions like Latin America, Africa and the Asia-Pacific regions, all remains potential for our organization. We would like to second what Shah san mentioned, we are proud of all our teams who work together in this challenging situation. As one of the most diversified platform in Indian agrochemical sector, we continue on the path towards our strategic ambition of taking leadership position in Indian agrochemical market.

I now request my colleague, Dr. Suresh Ramachandran to give more information on our business and strategies.

Suresh Ramachandran: Thank you. Thank you, Mr. Marfatia. Good afternoon, everyone.

Talking about the business. The overall unfavourable domestic conditions, as explained by Shah san in domestic as well as export markets have led to negative impact on demand as well as consumption during the quarter that just ended. We believe our quarterly performance is reflective of the challenging environment the industry is currently facing. High channel inventory at the beginning of the year, slowly coming down, elevated costs, coupled with negative sentiments, apart from erratic weather patterns, really put a negative sentiment at the trade channel level that has impacted our sales. We also faced pricing pressure in case of generic due to falling prices.

Revenue declined owing to subdued performance of our export business, which witnessed a significant year-on-year decline compared to previous year same quarter. Domestic business performed relatively better with a degrowth of just about 10% in quarter 2 that just concluded compared to the corresponding quarter of last year. Product in Specialty segment also faced relatively a little bit higher degrowth as compared to those in Generic segment because of the overall reduced consumption of agrochemicals in quarter 2. Long dry spell in key regions of India had adverse effect on the -- impact on the sales of our products.

Given the aforementioned background, it is evident that our year-over-year revenue as well as EBITDA growth experienced a subdued quarter primarily due to the challenges faced in terms of both top line performance and margins. However, we focused on reducing overall overhead costs. An ongoing pressure on pricing as well as the continuing stock overhang is expected to persist a little bit with a potentially less severe impact.

Demand momentum both in India and abroad, weather conditions in the key export markets and prices of key products and raw materials, especially Chinese, will be the key factors to watch out for in the coming quarters.

In domestic business, we launched three herbicides, one insecticide and two fungicides in the first half of this financial year. We are receiving positive feedback from the trade and farmers on our recently launched products like Korko, Ambit, Derecho, CuFlow, Rumpus, etcetera. Our focus will remain to ramp-up the sales of our new products in the coming quarters.

Our new products have been successfully launched to our channel partners and farmers through both physical and digital meetings. Our company's robust field promotion initiatives have enabled us to establish direct connection with the farmers, thereby facilitating their access to optimal farm management techniques. This, in turn, empowers them to enhance productivity and operate more efficient agribusiness.

By leveraging real-time feedback, we have the opportunity to enhance our relationships with farmers, gain valuable insights into their needs and drive growth as an organization. We have directly reached out to approximately 4.4-plus million farmers and 40,000 dealers. We are also gearing up to launch a few more new products in the near future, which are expected to ramp-up over the next few years.

Our portfolio comprises of 200-plus agrochemical brands across the entire value chain, including 20-plus mega brands with strong brand recall. Our distribution network comprises of 15,000 direct distributors and 60 depots across the country, making it one of the most extensive distribution networks in the country.

Going forward, we plan to optimize the utilization of our marketing and selling tools to enhance our trade partners engagement. Our key focus is on driving volume growth by implementing ground-level demand generation strategies for our products. We especially intend to adopt a more proactive approach on our interactions with top distributors, aiming to strengthen relationships and enhance collaboration. Additionally, a vigilant focus will be maintained on monitoring the performance of the most significant product offerings.

We'll take a pass now from our side and request moderator to open the floor for questions one-by-one.

Moderator: The first question is from the line of Viraj K from SiMPL. Please go ahead.

Viraj K: Congratulations for a decent performance in such a challenging environment. I just had a couple of questions in a -- from a historical annual perspective, just to get a better bind on the business. First is on the domestic. On the overall business, for example, so if you look at overall sales performance, say, between 2019 and 2023, the sales growth has been roughly around 13%-14%. So, if one were to kind of just understand better in terms of, say, the price volume trend, especially in the domestic piece, how would that have been for us?

And a related question is, if I look at last three years, four years, we have launched more than 25, 30 new products. And if I look at the share of specialty or the 9(3) in these, these have been quite high in categories like PGR, fungicides, herbicides, which -- the high margin, high growth which we talk about. But when you look at the revenue contribution from these segments or the absolute growth also, we have not really scaled-up to what we were thinking it to be, despite the investments in sales, marketing, digital, which we talk about.

So, what has been the limitation in terms of scale up? Is it more due to the pricing discipline or the tight credit terms which you always had in the market that is leading to an impact in terms of scale up to the potential? Anything you can give a colour on? Thank you.

Chetan Shah: See basically, whatever products we have introduced are very, very good products and very, very prospective products. Whatever, we have not been able to do justice to these products, I mean I don't want to be repetitive to say, I blame everything on the weather conditions, on the market conditions in this year. But it is a slight awkward comparison of any of the successes of these products to the current year.

If you ask me, we are very, very confident about these products. And I mean just to give you an example. We had recently a meeting down South, and the feedback that we received from the distributors and the farmers was overwhelming on this new introduction. They say that these products are absolutely fantastic and it can become a very, very big product in terms of volumes, which was a very encouraging thing for us to learn.

As I said, we are not -- we have not been able to do justice to these products because of the overall conditions. I think the volumes have dropped almost -- volumes and value, both have dropped during the current H1. I think that the value would have dropped between -- anywhere between product-to-product on a -- I mean, 12% to 20%. And as I said that our specialty product portfolio, the value has dropped only by 3%. However, the volumes have dropped in domestic markets to (to be read as 'by') around 10% to 11% combined in between specialty and generic products.

Having said that, our main brand of Glyphosate, which is Glycel, volume of that product has increased during the year by 5%. However, the prices of Glyphosate dropped 23% from the previous year's level. So, there has been a lot of permutation and combination between the products. Some products going up, some products going down. Some products going down drastically in value, some products going down not that much in value. So, it has been a very, very sort of a mixed basket for us to handle this year in these challenging times. But the bottom line is that we are confident about our product portfolio, especially the ones which we have introduced currently.

And to add. I mean, if we see the overall percentage of our fungicides or herbicides or insecticides or bio products, we have maintained the same percentage of all these segments in the current year. So, it is not that one segment has gone up and another segment has come down drastically. I mean, overall, in a balanced position, our entire product portfolio has remained in terms of percentage unchanged. That should give a very good confidence to us and as well to the market.

Viraj K: The question was largely in terms of performance between 2019 and 2023, because I understand currently there are a lot many external factors which is way beyond our or anyone's control. So just to kind of dwell a little bit on this. We always talked about mega brands of, say, 20-plus. And so, to give a perspective, if you can, on the new product, how many of the current mega brands we have are more -- so what is the share of new products in these mega brands, say, versus 2019?

And when we say a mega brand, typically, is it more than INR100 crores or INR50 crores? So, what's typically our definition of mega brands? So that is one, yes.

Suresh Ramachandran: Yes. First, coming to new launches, if you look at all the new products that we have launched, maybe seven or eight we would have launched in the last 12 months, 14 months, between 2019 and 2022, let's say, January, February, there were not many introductions, except all the registrations and launches happened in the last 12 months to 18 months or 14 months.

However, these new brands got into a situation where right from last Rabi season, from last September time frame onwards, the season and weather has not been supporting. And that's a reflection why these new products have not been really picked up. Especially this year, we were hoping better performance. But unfortunately, the overall consumption itself has come down, and that's the reason. But our focus continues to be on new product ramp-up and ensure that the farmers get the best out of these kind of new products.

Now in terms of mega brands, yes, we do have mega brands like Lano or Danitol, of course, Glyphosate, Glycel, Mera 71 and all these products. Anything that ranges about INR50 crores, INR60 crores, we call it as a mega brand.

Viraj K: Okay. And just one last question, if I can ask. On the margins front, again, if I look at the five-year history, we have seen a significant improvement in our operating margins. And that slightly benefited from the operating cost level. So, in the past, we used to talk about benefits in terms of merger synergies or operating leverage. What will be the major factor driving this improvement for us? If you can probably quantify or give us more details colour in terms of the improvement in margin and sustainability.

Kunal Mittal: So, see, I think, overall, if you look at the last four, five years' history, our margins before integration of two entities, if you see, both of these entities were earning about 12% to 13% EBITDA level margins. And in both the entities, the fixed cost, if you look at it, it was about 19%, 20%. Then we integrated the entities, started the process in 2017, '18 and completed in 2019-'20. So over that two years, three-years period and two, three years after that, we have been able to maintain our fixed cost, which has come down to (to be read as 'from') about 19%, 20% of revenue to about 12%, 13% of revenue. So that has added to the profitability.

In addition to this, all our specialty segments, the product portfolio even in the off-patented segment, the focus on the premium branded business, instead of the low end of the generics and the off-patented products, we have been able to improve our gross margins. So, to combine, I think over last four, five years, we have been able to improve our margin profile at a EBITDA level from 13% to about 19%, 20%.

We continue to be confident about this kind of profitability levels in the medium to long term. But in the current year, because of challenging environment and situation, we have taken a little bit of a hit. And as our CFO, Mr. Anil Nawal, also mentioned, I think in the Q1, we had a kind of a very low margin at a gross profit level. But if you look at the Q2, our margins at a gross profit level is much better as compared to Q1. It is still not at the historical levels of last year, but I think on a sequential basis, we have made improvement in the margins in last few months.

Chetan Shah: Also, as I mentioned in my opening remarks, we have exhausted our high-cost inventories altogether. And now the prices of inputs have stabilized over a period of time in the last few -- couple of months. And we see that these prices will remain stable till the month of January. On the other side, the prices of the finished products, which dropped drastically during the year, has also stabilized. So, we are very confident that we'll be able to not only maintain our margin, but maybe we can even improve a little bit.

Moderator: Thank you. The next question is from the line of Swati Hiroo from Ratnabali Investment. Please go ahead.

Swati Hiroo: Sir, my first question is that we've recently made this acquisition of a company, like Barrix. I just wanted to understand that given our scale and size and given how much our parent company spends on R&D in a year, what need or requirement did we have for a company this size? What are they doing that is so innovative? And how do we plan to scale that up?

Chetan Shah: Okay. So, you're right, this is a small company. And that is why the acquisition cost is also smaller. We found this company very interesting from two points of view. One is the green technology and second is their capability of R&D in this segment, in this -- what they are making and what product lines they have got in the pipeline and what can be done with these products not only in Indian market, but even in the global market.

So, it was a very interesting opportunity for us to get into it. Yes, in terms of revenue or in terms of bottom line, it may not be so exciting for our size of company. But I think it was important for us to get into this new technology field with green label. And also, if you have read through last 1.5 years, two years, there is a barrage of articles and the wish of the government of India to use more-and-more green technology in the agricultural field. So, we thought that it would be a very -- we found it a very opportune time to get into this greenfield business and see what can be done with this technology, which this company had, especially they have the expertise in.

Our R&D does not do this kind of R&D or even our parent company would do R&D in a large manner with the existing chemistry on the chemical products. And even if you see, SCC is buying green technology companies around the globe. I think it is even their priority.

So even though it is a very strong company, let me tell you that the interest was -- from the parent company was so high that people from every corner of the globe had come down to India to visit this company, to see this R&D, what they are doing. And everybody was -- they were astonished to see the type of work this company is doing. So, we find in future this will be a very, very appropriate acquisition.

Kunal Mittal: And just to add to Mr. Shah, I think so this is a very, very niche kind of a R&D and the technology which we have got access to through this acquisition, which we did not have in-house. And some of these technologies are very complementary to our existing businesses. And we believe that the technology is world-class. It has a lot of, I think, working potential both in India and globally.

And as Mr. Shah mentioned, I think this is very much in line with the integrated pest management and integrated plant nutrition management proposals and initiatives by government in India and across the globe. And we are very, very bullish and confident that this company, with this core, niche R&D technologies, can scale it up very, very fast the business potential.

Swati Hiroo: My second question is that in a conference call like I think a year or 1.5 years back, we had spoken about being in conversation with our parent company to bring, say, the IT chemicals, the pharmaceuticals and these other business divisions into India. So, I just wanted to check if there's any progress or update on that front?

Chetan Shah: The talks are on. This year I think everybody, including the parent company or the associate companies across the world and including us, we are sort of bogged down to look at our own house first, rather than have a very, very forceful push for these new initiatives. They have not stopped. The talks have not stopped. But I think we'll take it up once we have got the Barrix and -- of completing this year.

Swati Hiroo: Okay. And so, on the last few quarters, like since the last one year or two years, I actually have noticed this Animal Nutrition & Environment Health business has not really grown very much. So, I just wanted to understand like where do we see this heading in terms of revenue and profit potential?

Chetan Shah: So, I think Animal Nutrition is a very, very good business for us in a sense. And of course, the pricing, if you see, you are seeing the value drop or not increasing that much. But during the year, as compared to the previous year, the prices of this product have gone down by 38%. And we have maintained almost a similar kind of volume (to be read as ‘revenue’) because we have increased the volume by almost 31%. So, the price reduction impact is not seen that much.

But the fact that we have increased the volume by 31% during this current year in this first six months is speaking of the goodness of the products for the industry which they are using in. And I think that overall, we feel that the eggs consumption and the chicken consumption and all that is likely to go up as the price income -- or the income levels go -- keep on increasing. And it's a very, very uninterrupted business for us. And we are confident that we'll keep on increasing the volume of this product.

EHD, you have rightly observed, it has gone down this year. This was basically, again, due to the stock levels of the products at our B2B customers, like Godrej or Johnson & Johnson that keep that kind of -- I mean, everybody has a lot of stocks, and we have not been able to sell as much as the volumes as was given to us by them in the beginning of the year.

However, I think the situation is slightly improving. We are going to see, I mean, we have the plans from the month of November till March. I think we will be in a position to revamp the sales of these EHD products. Again, this is also an important sector for us. We are also going to launch one or two new products in this EHD business. And it is looking good for the future.

Moderator: Thank you. The next question is from the line of Anandha Padmanabhan from PGIM India. Well, Mr. Padmanabhan has dropped from the question queue. So, we'll take the next question from the line of Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: Sir, how are you seeing the demand environment globally from your affiliate companies and also from third party for second half?

Chetan Shah: If I talk about the indications, they are extremely good for the second half. However, I'm sitting in Indian market. So really speaking, I don't know what is the market conditions over there. It can change. I think the indications are very, very positive for the second half. But what really will transpire into actual business, we'll take it up month-by-month.

We are prepared for the production. We have procured the raw materials or contracted the raw materials at very competitive prices. And we stand equal chance to get this business with Chinese competition for the second half. I think things are slightly looking better from the perspective of global markets as compared to the first half.

Prashant Biyani: Right. Sir, on the expenses side, I think we had initiated cost reduction exercise somewhere around Q4. Q4 and Q1 were fine, but this quarter again other expenses has gone up on an absolute amount as well as a percent of sales despite a good decline in sales. Is there anything one-off? Or if you can explain on your cost reduction efforts, why it has not reflected in other expenses?

Chetan Shah: No, I think the cost reduction is definitely on, and we have achieved also cost reduction. We had ERE cost always -- I mean, you take -- I think in our case also it has gone up by 7% or so. However, the major cost which went up during this year was due to drastic revision of wages in -- by the Gujarat state government. I think the increase was almost 25% of -- as compared to the previous year.

And this was across the state of Gujarat. And we have four plants in Gujarat, only one plant in Maharashtra. So, the cost of wages went up drastically during this year. Now this is -- you may call it one-off in the first year, but it will continue to be there forever. And if you see, I think we have reduced -- apart from ERE cost, we have reduced the cost by almost INR15 crores in the first half of other fixed expenses. So, our attempt to reduce the cost is absolute and very, very serious.

I mean even the marketing cost or marketing efforts or marketing cost has been reduced. Out of this INR15 crores, INR4.5 crores to INR5 crores is only reduction in marketing cost. So, traveling or such things, all the areas we have covered in cost reduction.

Prashant Biyani: Sir, wage cost would come ideally in employee cost or -- it shouldn't reflect in other expenses, if I'm not wrong?

Chetan Shah: No. So other expenses has gone down by INR50 crores. And if I leave alone the ERE cost, which includes all salaries and wages, then it would be -- the other costs have been reduced.

Kunal Mittal: Our request is to always look at the performance over a longer period. Like if you look at the six months number, then they look more clear and accurate. Quarter-to-quarter, sometimes there is a variation of 1% or 2% in the other costs because of the provisioning and a lot of other factors which affect it. But as Mr. Shah mentioned, there are very conscious efforts since beginning of the year, and we feel that -- I think the same kind of trend continues because we are still not back to the normal level of business at this point of time. So, our cost reduction efforts continue for this full year.

Prashant Biyani: Sure. Sir, on this Barrix acquisition, if you can elaborate on the plan to take the company's product global, because while the technology is not that new, the acceptance in the Indian market is also not that much. So, on the global demand side, how do you plan to cash in on the same and by when?

Kunal Mittal: So, Prashant, I think globally this is a very large and, I think, a growing business. And the pheromone segment, which we talk about the niche technology. So, in the global market, we believe that the overall potential is very, very large. However, there are regulatory challenges because these products in some of the global markets need registration. So, we have started talks and discussions internally that how we will be taking the products globally. And we believe that some of the products which are not requiring registration can be capitalized very, very quickly and other products which may require registration in some other geographies may take a little longer period.

So, we believe that in next two years to three years, we should start seeing a lot of movement in that, and the same kind of movement can continue in the longer period of time. However, exports growth will not be like so immediate that it can just start in next quarter or six months or so. It is going to take some time, as I mentioned that we have to secure the regulatory approvals and also the suitability of the product in each market, the testing, the trials, sort of those things are required. While bit of that work has been done, but we will be accelerating that investment into that front.

If we talk about the Indian domestic market, we believe that company has a very small market share today in this particular segment. And this market particularly is growing very large. And as per our estimates, whatever we have calculated internally, this is approximately INR400 crores to INR500 crores market today, which is spread across several unorganized players and there is no single large player who is having a very good national level presence, having very good technology.

With the technology, this company has access to -- and a lot of good work they have done, they have the potential to take a leadership position into this segment. And that segment is also expected to grow to, say, double or triple in next four years to five years as per our estimates.

So, we believe that, that company is at a right point of time. Their size might be smaller at this point of time, but company has ability both from a technology point of view, from a market point of view. in Indian market and global market to grow at a much, much faster pace. And that is what our belief is and that is what the rationale for this acquisition is.

Suresh Ramachandran: Yes. Just to add, as Shah san mentioned earlier, this is a technology where we do not have presence now, the green technology. I mean, if you look at mid-term, long-term, this is going to be a nice complementary portfolio for our existing chemical portfolio, and that's the whole purpose of this acquisition, not only for domestic market, for the international markets as well. It's more -- we look at it as a complementary portfolio to our existing portfolio and to put resources to ramp-up that business.

Prashant Biyani: Sure. Sir, what would be your capex plan for next year?

Kunal Mittal: So, Prashant, right now I think we would stick to the normalized capex, which we say about 15% of EBITDA. Any incremental and additional capex for any specific projects will be announced as and when we approve. But as Mr. Shah mentioned, in the current times I think the most important factor is to see the right growth and get back to the normalized level of business.

And talks on the further projects to be approved are on. So, R&D teams from India side, the projects team, they are doing calculation. We already have the land available. All the initial approval for the land and the new site at Dahej are under process. So hopefully, in 2024, we can get the approvals from the government side in terms of environment. And then our Board will consider various projects in discussion with our parent company, SCC.

So as and when more-and-more projects are approved, we will announce further capex. But at this point of time, 15% of EBITDA. And the applications and all these things for the initial approval for that site in terms of the environmental clearances and all other basic approvals are already under process.

So once depending upon the approvals from the government and also depending upon approval from our Board and parent company on various specific projects, we will announce the capex in further next year.

Prashant Biyani: Sure. Just lastly, one data-related question. This specialty and generic business mix that we shared in PPT is relating to domestic brand business or full domestic business, or if you can clarify that?

Kunal Mittal: No, it's the total ASB business.

Prashant Biyani: Which business?

Kunal Mittal: The total business of the company.

Kunal Mittal: I mean, total company level.

Prashant Biyani: Total sales, including export domestic, all?

Kunal Mittal: Yes, yes. And including the Animal Nutrition and the Environment business.

Moderator: Thank you. The next question is from the line of Anandha Padmanabhan from PGIM India Asset Management Company Limited. Please go ahead.

Anandha Padmanabhan: So, for the first half, your domestic revenues have declined by around 15%. So how much of this would have been because of Glyphosate? And if you could just give some colour on -- in terms of volume or value growth or how much has been because of the fallenrealization and how much would have been the volume growth for on an H1 basis?

Kunal Mittal: So, I think Mr. Shah covered this point briefly. Approximately 15% degrowth in the business in first half. Approximately, overall, say, 3% could be attributed to the price and approximately, 12% could be due to the volumes. And if we look at the overall Glyphosate business, I think while prices have suffered 25%, 30% kind of a reduction, but our volumes grew by approximately 5%.

So, while there is an impact. But basically, to some extent, we can call that the last year's extraordinary prices have corrected. The prices still continue to be higher as compared to the last five years average, and we continue to be, I think, having good, I think, situation in Glyphosate and all, several molecules in terms of the current cost, current selling prices, the margins level. And but as compared to last year, which was extraordinary profitable, extraordinary high price levels, we are down as compared to that.

Anandha Padmanabhan: Okay. And so, the -- on a H1 basis, the kind of fall in gross margin that we are seeing, is it fully attributable to the Glyphosate or even ex of Glypho? Or is there any other moving parts to the overall gross margin fall that we are looking at it?

Kunal Mittal: To a large extent, this attributes to the high-cost inventory which we were carrying at the beginning of the year. And in Q1 if you see, the gross margins were several -- very, very adversely hit. In the Q2, we have improved the gross margin. The overall gross margin reduction is not very, very high, between 1% to 2% overall if you look at the full H1.

And also, I think what we believe is, see, even in the COGS, it is the total cost of raw materials, they are always fixed cost. So, what we believe is the -- in terms of the parity between the raw material and the intermediates purchase prices versus selling prices, overall, we are at par now as compared to historical levels. But the fixed overhead going up with the inflation rate and the lower level of sales, all of that has also contributed to the increase in the COGS and the fall in the gross margin level by 1% or 2% overall on a first half basis. So, we are -- I think that way, we are a little bit in a better situation as compared to Q1 in Q2.

Chetan Shah: And to add, it is not only Glyphosate which has contributed to this. I mean, all the products, like if you see generic products like Chlorpyriphos, where our volumes are high, Profenofos, where our volumes are high. Also, some adverse effect on our one plant which manufactures Quinalphos and Tebuconazole was non-operative from the month of April to almost August end. And really speaking, there was no production and we had to spend extra amount of money to get this -- our requirements from outside on a jump-up basis or anything. So that cost also has increased substantially.

So, in the first half, there were as I said, there were many, many factors that attributed. And all these products -- raw materials which we were carrying, Chlorpyriphos or Profenofos or anything, that also impacted because the selling prices of -- or the prices of these products came down drastically in the marketplace, and we had to consume a high-cost inventory. But as I mentioned earlier, thankfully, we have now -- since the end of July and beginning of August, we have no such high-cost inventory and we are back to our normal margins.

Anandha Padmanabhan: And the second query was regard to the upcoming Rabi season. So, while you have mentioned in the call that you have substantially reduced your working capital and the inventory. But if I look from a channel inventory perspective, in the market, we are entering into Rabi season. How do you see the on-ground situation with regard to inventory with the few thousand distributors?

Suresh Ramachandran: See, more than the channel inventory, there's a concern in terms of cropping condition. If you look at all the data indicates that the reservoirs are just about 70%. And there is a question of second crop coming in a few places. If for example, the second monsoon goes well, especially in South India if the crop acreage comes, especially paddy, and the irrigation is -- water is available for key crops, I think demand will pick-up.

At least for our products, we don't see much of a channel inventory, because we were selling -- we did not sell aggressively in the first half of the year or more so in the second quarter. So, our products are not there. It should pick up. Demand should pick up if the cropping area comes to normalcy.

Anandha Padmanabhan: Okay. And how should we look at exports? Exports have seen a very sharp decline in the first half, close to more than 50% decline, if we just compute the numbers. So, what are the key drivers for this decline in exports? And how should we look at it going forward?

Suresh Ramachandran: Yes. It's a combination of factors. One is obviously the LatAm demand, where we export quite a bit of our products. The price has come down for products like Chlorpyriphos, Difenoconazole. For all these products, prices have come down. So, a combination of both volume decline as well as price decline.

There is no demand in LatAm. As an industry, all the companies are going through that. Now the indications are positive. Like Shah san mentioned a few minutes back, the indications are positive. Of course, we need to wait and watch how this is all going to translate into sales in the coming few weeks and few months.

Chetan Shah: Let me add. Actually, in any country, including LatAm, there is no issue on the product demand. So, it is not that we are not selling the products. The only correction is inventory levels -- high-cost inventory levels, which has to be disposed of. All this has forced the global companies into controlling their inventories to such a large extent.

And it is not only LatAm or anything. I mean, I'll give you a recent example. We sell a huge quantity of Profenophos to Syngenta for global market. And what we were told that there is a full stop, to not increasing 1 kilo of inventory till 31st December, which is their year ending. So, they've postponed the entire purchase from November, December to January, February.

So it is across the board, across the countries, that the inventory control of the companies have become so stringent that there is no scope of selling any extra quantity to any of these countries. And unless their own inventory levels are disposed of -- they face two challenges. One is to dispose of the inventory and another is to dispose of the high-cost inventory. So, all the companies are taking a lot of losses in taking out the high-cost inventory and liquidating it. And that is why the first half you are seeing such a drop.

I mean, it was a shock to us as well, I mean, learning as to what are the reasons behind that -- behind this. I mean, we are okay. I mean, it's a postponement. The normalcy will be there in coming months. As I said, there is no problem of demand of products in any of the markets.

Anandha Padmanabhan: Okay. But if we look at the recent commentary or guidance downgrade by a couple of the global agrochemical majors, it appears that at least even in the near term the situation does not seem to be abating. So, should we take -- at least for the next one quarter or two quarters, we should take this as the normalized run rate before we see a sharp recovery in FY '25?

Kunal Mittal: So, sir, we will not be able to comment very specific on the...

Chetan Shah: I would say that cautiously if one wants to approach this subject, I think up to Q4 we may see better prospect than the Q1 and Q2. But a real normalcy should come by the first quarter of '24-'25.

Anandha Padmanabhan: Okay. And export also, would Glyphosate have played a role in overall scheme of things? Glyphosate was not there, it's a big...

Chetan Shah: No. Glyphosate is a second half export for us, which we feel it will still happen. See, we don't export any Glyphosate in H1.

Kunal Mittal: And even from H2 point of view, from export point of view, Glyphosate is not a very, very big molecule for us.

Anandha Padmanabhan Okay. And what would have been the volume decline in exports for this year, if you could share that number for H1?

Kunal Mittal: As you rightly mentioned, the total decline in export is approximately 45%, 50%. And roughly equal amount -- I think about 25%, 30% in volumes and 25%, 30% in pricing.

Anandha Padmanabhan: Okay. The pricing impact has been much more severe in export vis-a-vis domestic?

Kunal Mittal: I think pricing would be about 20%, 25%, but the volume impact is higher than the pricing impact overall.

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

Bhavya Gandhi: Just wanted to understand the China scenario, because three quarters, four quarters back, there was China Plus One narrative, which all the companies, agrochemical companies were saying. And is China opening up affecting our prices? Is it affecting your raw mat prices or these finished goods prices. If you can just throw light on that? Yes, that's the first question.

Chetan Shah: No, the China situation is a normal situation according to me. You never know when the prices will go up, neither you will know when the prices are going down. And if you see, as I said, 2022 end onwards, the prices just spiked up in China for no reason or no apparent reasons. And it just kept on and on and on going up. And when it started falling, it fell again at a similar rate and similar speed, again, without any rhyme or reason.

So, China situation is like this. But as I said, the prices have stabled. Now it has stabilized to a great, great extent. We are not seeing any upheaval in the pricing. The availability of materials, there is no problem. And I think the prices have bottomed out in my personal opinion. And it will remain stable for next -- or at least till next three months, four months. That is what our opinion is.

Bhavya Gandhi: Okay. So basically, we do not see any fear from China opening up. I mean, they will not affect the generic prices. It's more of a domestic phenomena and inventory stocking, which is sort of weighing on the prices, I mean, domestic generic prices, right? That's the broader -- and also, just wanted to understand. Because in Glyphosate, there are hardly 2, 3 major players, if I may not name the companies. So, what has led to the price correction over there? I mean, all are using *[not clearly audible]* and everybody knows that if prices go beyond a point, you start stopping manufacturing. I mean I don't understand like what has led to the price decline.

Chetan Shah: So, what happened in Glyphosate was, I mean, somehow the decision was taken not to stop production in China in those times when the prices are very high. And even when prices started coming down, the production was on, both for raw materials and finished products. And they stocked up huge volumes, huge means huge volumes of both raw materials and finished goods. But prices did not improve.

Coupled with the global phenomena of high-cost inventory, the new product even at a lower price did not find a market. And that is why the prices have bottomed out and stable. However, I don't see prices going up because there is a huge level of inventories in China for Glyphosate, both for the finished product as well as for the inventory.

Kunal Mittal: And as you mentioned that -- see, in Indian market, there might be only, say, limited players. But see, in today's world, all the products -- the pricing and all specifically for this kind of competitive, off-patented product is global linked. So, I think globally whatever happens in the prices -- as we see across our products and businesses, if the global prices go up and down, the impact in the Indian market is quite early. We cannot say that even if we are only two, three limited players in India market, we should be able to hold on the prices. And those things does not happen and the information, the trend, the sentiments pass on globally very, very quickly.

Bhavya Gandhi: And any thoughts on further acquisition, because we have INR1,400 crores? Because our ROCE will start getting affected because we are a good ROCE generating company, I mean, going forward if we don't deploy. I mean, if you can throw some light on that?

Kunal Mittal: So, I think we are looking at opportunities, I think, as we have mentioned this Barrix that we've announced. So, our preference will be for smaller and niche segments instead of acquiring a very, very large company and at a very, very high valuation. So that is not the immediate priority. If something comes up, we can look at it.

But we continue to look at opportunities, both inorganic acquisitions and organic, setting up new plants, new projects, new products and new sites. So, both these things are, I think on a regularly basis we keep evaluating. And whenever we find something which is meeting our requirements in terms of scale up and even if the business or the technology might be small, but if they have potential to scale up in next five years to 10 years, we will be very happy to look at that. And any large-sized acquisitions could be considered only if the valuation is really attractive.

Bhavya Gandhi: Fair enough. And also in the last three years, FY '22, '23, we've seen very good growth. And we've told in the past con calls, we'll try to maintain those levels of growth. So, after normalizing, can we assume that those kind of levels could be seen again? Or this is the new normal going forward? I mean, if you can throw some light on that as well.

Kunal Mittal: So see, I think in the past also, we have also mentioned like, if you look at the last 10 years history, whatever we have achieved in Sumitomo Chemical India Private Limited and then Public Limited and also Excel Crop Care since 2017 when we acquired the business at INR900 crores and scaled that business to even INR2,000 crores-plus level. So, we have shown and demonstrated a significantly high growth, as compared to the industry in Indian market and globally. And we continue to be confident that our medium-term to long-term strategies, our growth plan remain intact.

And sometimes this kind of, I think, situations can come in short term, which can have a lot of challenges. And we will try to, I think, recover and then again go back to our drawing board in achieving our medium- to long-term growth strategies.

Bhavya Gandhi: Just one last question with respect to EBITDA, because this year our EBITDA would be on a lower side. So, 15% on that EBITDA is the capex that we are looking for the next year?

Kunal Mittal: Yes, 15% of the EBITDA for -- correct, for the normally correct.

Bhavya Gandhi: And that includes your Japan capex as well, supply to Japan capex as well. That we need to minus. That would be the incremental number that we're looking up, right?

Kunal Mittal: It will be the incremental capex over and above this, but that will depend upon when we approve the projects and we take them on the ground, depending upon the approval from the government authorities for the new site at Dahej and also the approvals from our parent company and Board for further investments in those projects.

Because we have just completed, I think, 2 large projects and -- I mean, not very, very large, but like say, whatever, two projects we've completed. And we are expecting some revenue from this projects in current year. Next year, we will try to ramp up the revenues from these projects. We will try to ramp up the businesses, which we have the distribution business. I think someone also talked about the new products which we have launched in Indian market, many new good 9(3) molecules which we have launched, as Dr. Suresh talked about.

So, I think our prime focus will be to focus on the current businesses which we have, and then we will look to expand and then make further investment for the growth also for the long term.

Bhavya Gandhi: Fair enough. And also, one last thing, if I can squeeze in. 7th December is the Glyphosate hearing. So, any update from your end or any take that you want to say?

Kunal Mittal: I think from our side and industry side it is very clear. I think we have been objecting to this proposal from government basically because fundamentally it is very, very difficult to implement this kind of proposal. And we wait to see what government is going to come up with in this hearing, because in last three year to four-year hearings, government or the other side has not come up with any concrete proposals. So, let's see if government has any concrete proposals to take this matter forward.

Chetan Shah: I think governments has been trying to do something, small steps and all that, which is not enough or which are not enough to have the total infrastructure of what they are proposing. So, we are quite ready to -- or prepared to argue those points. And I think the situation is such that even government hopes that it dies down on its own. Or it will remain on a -- it's like putting that proposal on emergency bed and put support system, and let the patient remain there. It is something of that sort.

So, I don't think anything is likely to happen. And nowadays, I think a lot of positive news about Glyphosate has been coming from across the globe, including the renewal of Glyphosate for 10 years in EU. And also, a lot of other positive news coming down, even the case in Australia, which is unfounded with the claim.

So, I think with all those things, positive things happening and Glyphosate being an important input for Indian farmer, I don't think there will be too much of tinkering around this molecule.

Kunal Mittal: And also, the proposal from the government on Glyphosate was objected not just by our industry, but also by the farmer community at large, several, I think, representations made by the farmer community. So, with 2024 being a very critical year politically, I think what kind of decisions are being made, I think that is yet to be seen.

Bhavya Gandhi: Fair enough. And I just have read somewhere that EU majority countries have not passed the Glyphosate extension approval, I mean. So, I mean, what makes you so positive when it comes to -- yes.

Chetan Shah: No. So, it works like this. It was part -- it was renewed in the meeting. Then there is a process of this voting and all that. And if the voting is neither for nor against, then the committee originally which decided, that decision will hold. So, we are very sure that it will go back to the committee and whatever committee has decided will remain.

Kunal Mittal: So there -- again, I think, there is no voting which supports any regulatory restrictions on Glyphosate, so to say. You are right that they could not get a very clear consensus either way. And then as Shah san was mentioning, that it will go to the technical committee based on the scientific arguments and those will prevail over.

Moderator: Thank you so much. The next question is from the line of Dhavan Shah from AlfAccurate Advisors. Please go ahead.

Dhavan Shah: Yes. So, sir, first thing, like as we indicated that there are a couple of growth triggers which we are aligning. So first is this five-product contribution, INR120 crores capex which we did. What was the contribution in the first half?

Kunal Mittal: So currently, as we have mentioned, we have not generated any revenue. We have started the commercial level production. But in the current situation, where all across the world already inventories are there, we have not started revenues and shippings -- shipments. And hopefully, we should be able to do some shipments and some revenue in the second half of the current year.

Dhavan Shah: Okay. And we expect that, let's say, FY '25, we can operate this plant at a reasonable utilization level?

Kunal Mittal: Yes. We would like to believe that. And hopefully, the recovery in the global market should help us there.

Dhavan Shah: Okay. And sir, Dahej capex, any tentative finalization we can see in FY '24?

Chetan Shah: No, in '24, we are expecting our environment clearance will come through. And we have listed out many projects and many plants over there. And as Kunal san earlier mentioned, we are just waiting for the final product list from SCC, our parent company, as to what priorities and what products we should start manufacturing as one, two, three, four. And over and above that, whatever other -- some other molecules for Indian market or for the global market, apart from SCC products, also will be manufactured there.

So, we are quite ready with our product list, but we have to discuss the priority of which products to start manufacturing first, which should happen during this financial year. By the time we'll get the environment clearance, we should be -- much before that, we should be ready with our product list. And then the work on the plant design and everything will start.

Dhavan Shah: Okay. And sir, let's say, what would be the tentative initial capex, like first phase capex for Dahej, because Dahej, the land is very big? But at least, let's say, what would be the starting capex for Dahej, whenever we do?

Chetan Shah: We are talking about around INR300 crores

Kunal Mittal: Over next two years to three years to be spent.

Dhavan Shah: Okay. And sir, lastly, the export recovery, like if I see FY '23, the export was around about INR900 crores. And this year, the significant reduction has happened, obviously bit, because of the volume and pricing, both. But do we expect that all these things -- at least the recovery should happen by second half, I mean? And how should we see the export?

Chetan Shah: Second half, we'll recover, but not fully in my opinion. As I said, the indications are very good, but we have to see the ground reality. From our side, we are prepared to execute the indicated numbers. And I think it will take some time. I think it will take -- we'll definitely see the improvement in the third quarter and fourth quarter, right? No doubt about that. But I think the real -- coming back to that earlier '22-'23 volumes, I think we'll go into the next financial year.

Dhavan Shah: Okay. So, sir, trigger for domestic growth would be like, if I divide this whole piece of domestic business into, let's say, specialty and the generics. So, generics then you have Glyphosate also, which is a large portion and it is growing despite all sort of pricing environment. So how should we see the domestic growth for next year or so?

Suresh Ramachandran: Yes. See, we expect that consumption -- the season to be normal next year and the consumption levels coming back to normalcy. Now by and large, the prices are stable for last couple of months. Assuming the same price level continues into the next quarter also -- or, sorry, next year also, the overall consumption in terms of cropping area, right monsoon and, of course, our newly launched products should help us in our growth coming back to normalcy.

Kunal Mittal: Also, Glyphosate has been about 20%, 22%. So, it is not that only Glyphosate is the thing. Because even in the off-patented segment and the generic segment, there are several premium brands which we have across many, many products, maybe 10 to 12 technicals which we make in-house, about 40, 50 products we market and distribute in Indian market, about 15, 20 specialty products from SCC, VBC. So, it's a very wide range of products. And yes, one product is very, very important, about 20%, 22% of the revenues.

Suresh Ramachandran: There are other products which contribute. And one more thing we need to look at is, is this year trade sentiment, overall trade sentiment has been low. Traditionally, trade would buy and stock a material generally in the month of April, May itself, okay. But now if you look at this year, that does not happen to a great extent. And trade was also not sure with the drop in prices every week or every month. Trade was also cautious in buying the material. And we expect the trade to come back to normal behaviour as soon as possible. That should help us in coming back to normal business.

Dhavan Shah: Sir, one last is PGR. We had launched this Promalin, right, the plant growth regulator in the market?

Chetan Shah: Yes.

Suresh Ramachandran: See, whatever -- we launched sometime in the month of March.

Dhavan Shah: It is a very unique product for us, right?

Suresh Ramachandran: Yes, it is a very unique product launched in apple. Just for -- this product is only for apple at this point of time. We launched towards the fag-end of the season, sometime in March, I think, March third week or so, which was almost -- the season would get over by April 15. So, we got towards the end of the season. And whatever we planned for last financial year and a little bit in early April, we could sell and liquidate that whole, almost 95% of the quantity.

Now the next season will start towards the Q4 of this year, and we have good plans and execution plans. You would see that sale happening from Q4 onwards.

Dhavan Shah: How big, sir, this molecule would be, let's say, in India?

Suresh Ramachandran: It's a difficult question to quantify. See, we have just learned by launching this product probably about 30 days. That's all the usage thus far. And unfortunately, what happened during the last apple season was the weather was so bad. There was excess rains in Himachal Pradesh and Jammu and Kashmir. So, the farmers and our own team were not able to see the actual delivery of this performance of this product, which we hope the season will come back to normalcy in apple this year and the farmers and our team would be able to see and really ramp-up the product.

Kunal Mittal: See again, these are like a transformative kind of a product. So, we will not be able to really give you like amount wise and what is the target for this product. But what we have shown in the ProGibb, in the grape segment like, when we launched the product, over next three years to four years, we could take a majority market share, 60%, 70% market in the grapes in the gibberellic acid segment with our product ProGibb.

So similar kind of -- I think our ambitions are there to take majority of -- the Indian apple farmers and the growers should be using this product. And our efforts are on working with the farmers in the field, demonstration, extensive marketing and campaigns, a lot of activities. And these are very, very difficult geographies, both Jammu and Kashmir and Himachal. And our teams are doing a lot of work. And we are very confident that in the next one year or two years or three years maybe, we should have a majority of the apple farmers in India getting the benefit of this product. And that should transform how the apple farming happens in India. And hopefully, it should generate good revenues and potential for our company also. So, we'll not be able to quantify the absolute amount, but that should transform, I think, the apple segment for us in a big way.

Dhavan Shah: And sir, lastly, any update on Tembotrione, which we launched against Bayer?

Suresh Ramachandran: Tembotrione. Sorry, I'm not able to remember the numbers. Yes, we launched in a small way, just towards July, I believe. And this is the first season. And it's a corn herbicide. We really need to scale it up next year only. Again, corn season did not go well, herbicide season. So, at this point of time, it's a small, I would say, pilot introduction, pilot launch.

Dhavan Shah: But it's a very big product for Bayer, right?

Suresh Ramachandran: I mean, it's not only for Bayer. This product is being offered by a few other players also. Bayer has been selling it for almost, what, five years or six years now. So obviously, their brand will be much, much larger than what we can think of for ourselves.

Moderator: Thank you. The next question is from the line of Namit Arora from IndGrowth Capital. Please go ahead.

Namit Arora: Sir, my question was regarding the six products that you launched in the first half. If you could give us a colour about are you fulfilling a specific crop or pest mapping gap? And what's the competitive landscape for those products? And based on the initial response, do you think some of them could be blockbuster products for you?

Suresh Ramachandran: I can respond to that. Yes. These five products, the first product is a rice herbicide which we launched, and unfortunately, we did not get the necessary permissions for North India in time. So, it got launched only in South India. The product acceptance is very good. Unfortunately, the second season crop acreage is going to be less than the normal. So that may put a little bit of pressure on the volume. But the product acceptance is very good.

Now if I look at the other product, Rumpus or CuFlow, which is a fungicide, which we launched only -- I think in the month of August just with a limited launch. And the product -- that's what Shah san was mentioning. Myself personally interacted with a few distributors, and the product acceptance is very good. And there is a large scope for this product to be scaled up very quickly, okay?

Now if I look at the other two herbicides, Tembotrione that I think I answered a little bit, it was a pilot launch. Glufosinate, we launched it in one of the specific geographies where Glyphosate is not being allowed to sell, like on Andhra Pradesh, because Glyphosate is not being allowed to sell. And again, it's only a small geography, because we don't want to cannibalize or compete with our major brand, mega brand Glyphosate, whether it is Mera 71 or Glycel.

Yunico is similar to Chlorantraniliprole / , Rynaxypyr of another leading MNC player, which we launched. And this product is getting traction and we should be able to sell a good quantity of this product in the coming months. And the other products are like, which we launched last year, Promalin, I think I already answered that. Sumi Blue Diamond is another product which has got Gibrallic Acid which is a unique PGR product. It's a patented product for rice, which has got a very good traction, especially in South India. This product is also likely to become a blockbuster.

Promalin, I talked about. Korko is another unique product, a combination mixture of Profenofos and Emamectin Benzoate. This product is also -- has got a very good feedback from the farmers. So at least out of these seven or eight products that I just mentioned, at least four of them have good potential to become a good sales contributors to our company in the coming quarters -- coming quarters and years.

Moderator: Thank you. The next question is from the line of from S Ramesh from Nirmal Bang Securities. Please go ahead.

S Ramesh: So, if you had to look at normal pricing and going back to the normal volume in FY '23, if you had to ignore the new products, what is the kind of normal volume growth we can see? And if you were to add the new products, what is the kind of actual volume growth one can expect in FY '25?

Suresh Ramachandran: See, the normal industry average growth in a normal year if you look at historically is somewhere between 8% to 10%, okay? And if the prices are stable -- and Glyphosate, still there is -- probably it can go down a little bit in the coming months depending on how China is going to react. So probably we should cross somewhere around 8% to 10% at the existing price level. If the price goes down, then the overall growth will go down.

S Ramesh: And if you were to add the contribution of new products, what is the additional growth you can get?

Suresh Ramachandran: See again, new products will be -- this will be -- next year would be probably the first full year of utilization for these products. So, I will say, in an initial year generally these products needs to be demonstrated to the farmers for the demand to be picking up. So probably in the first year, it will not be a big contribution. But for sure, it may be 1% or 2% in the first year. And then over a period of time, it will pick up depending on the product and which crop it fits into, which geography it fits into, whether it's multiple crops, multiple segments, year around the product. So overall, all these things -- all these factors play a role in the growth. But I would say in the first year of full year, probably 1% to 2% maximum.

S Ramesh: One last thought. I just missed the discussion on the volume growth. Can you split the overall revenue decline in the second quarter between volume decline and price decline?

Kunal Mittal: Sir, as we, I think, already explained, we look at it more or less a season. And that is why we do not do the quarterly calls because that is something which is not so relevant in our view. And for the first half, we have already explained the number. In the domestic market, approximately 15% drop, 3% could be attributed to prices, about 12% coming from the volumes. And in the exports market, about 45%, 50% kind of a thing. And yes -- so in the domestic market, 12% I think volumes -- sorry, 12% was the price and 3% was the volume growth.

S Ramesh: In the domestic 12% was due to price, 3% was...

Kunal Mittal: 15% was the total fall in the domestic market, out of which approximately 3% could be volumes and about 12% is the price drop. And in the exports market, out of the total decline of 45%, 50%, roughly 20% could be attributed to price and about 25%, 30% to volumes.

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

Manish Mahawar: Yes, sir. I just wanted to know what is the high-cost inventory impact in the 1H, if you can quantify?

Kunal Mittal: So, I think Mr. Shah already addressed this. I think at the beginning of the year, we were getting certain products inventories in view of a good season in a normalized situation, and many of these inventories were at a high cost because they were accumulated over last 6 months also. And we believe that in first half -- especially, in Q1 current year, I think we have liquidated a large part of this high-cost inventories. And that is where we had to compromise a little bit in terms of the gross margin.

Still, we could at least achieve profitability because many of the companies in the world, in India, across the world globally have also not been able to generate because they had to then liquidate this high-cost inventory at even lower prices. So, we could at least achieve some margins. We had to compromise in our gross margins in first quarter specifically and overall, first half.

But at this point of time, we believe that the inventory level at our company level and also with the trade partners and the channel partners, the negative sentiment in the first half which we saw, which Dr. Suresh explained, I think which -- also we believe that now situation should be improving both at company's level and also at the trade partners level. The overall level of inventories should not be more than required.

Manish Mahawar: No, but -- can it be possible to quantify the numbers in the first half?

Chetan Shah: So, in the first quarter, I think, due to high-cost inventory we lost out the profit margin of almost 12% to 15%, which came down in the month of July to around 8%, which came down in August to almost around 5%. And at the end of September, it is only around 1.5%. So that is how the impact of high-cost inventory has been for us.

Manish Mahawar: Okay. And sir, can we expect around 19%, 20% of EBITDA, what we have historically done, right, in the year FY '25?

Chetan Shah: Yes, that is what our aim is, that we want to bring the entire situation to normalcy. And we don't want to go back to the EBITDA margins which were there in earlier times prior to 2019. We have substantially increased the EBITDA margins as compared to that. And we -- our endeavour will be to maintain or improve.

Manish Mahawar: Okay. And sir, in terms of these 5 molecules to the parent, right, you already reiterated that it will be -- contribute significant or -- contributor to revenue in the next year, FY '25. Can it possible -- you have already said, I think, peak potential of that molecule will be INR200 crores to INR220 crores, right? Can it possible it will be around -- INR100 crores, INR150 crores odd will be next year contribution? Or it will be less number for this?

Kunal Mittal: No, I think whatever we have mentioned, the potential of these products in the past, I think that is what we will try to achieve in next financial year.

Manish Mahawar: Okay. So basically, the full peak optimal utilization will happen in the next year, right, for this 5 molecule?

Kunal Mittal: We're not targeting like a 50%, 60%. At least we will try to be between 80% to 100% of the potential in the next year.

Manish Mahawar: Okay. Understood. And just 2 data points, sir. Kunal, you highlighted, I think, domestic growth decline around 15% in the first half. You said volume decline is 3% and the realization drop is 12%. That's right?

Kunal Mittal: Yes.

Manish Mahawar: Okay. And one more question. Glyphosate contribution in the 1H, what is the number?

Kunal Mittal: So, amount -- anyway, we do not discuss any product specific. But as we have discussed, I think, Mr. Shah also mentioned, in the Glyphosate situation, in current first half versus last financial year first half, the volumes have gone up by 5%, but the prices have gone down by 25%.

Manish Mahawar: Okay. But just an easy confirmation. Last year, FY '23, it was 18%, right, Glyphosate? I think last call we have highlighted that. So, whether it is...

Kunal Mittal: In the first half, it is always higher. On a full year basis, you are right, it is about 17%, 18%. But in the first half in the domestic market because there are large sales, so the contribution of the Glyphosate in the overall revenues goes between, say, 20%, 22% in first half. But on a full year basis, it remains to be 17%, 18%.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Kunal Mittal for closing comments.

Kunal Mittal: Okay. Thank you, everyone, for asking some very interesting questions and our colleagues for applying the same. We hope that we could address your queries.

Based on our analysis -- while we have already explained during Q&A that we anticipate that the global manufacturers will start engaging into normalized level of activities in India as well as globally, and export from India to the key markets like Latin America and also to other global markets should resume to a normalized level very soon in the next few quarters.

It is also expected to, I think, have very good, I think, recovery from the current very, very challenging situation towards end of the current financial year and also next financial year. Furthermore, I think even in the domestic market, we see that the price stability is coming back to the normal, which we have already explained during the call. And all of these things give us a hope that, hopefully, the next year should be in a very, very good situation. And whatever sequential improvement we have seen in terms of the profitability levels in Q2 current financial year versus Q1 of the current financial year, that kind of sequential improvement should be able to be maintained in the future.

We will continue to monitor the current challenging situation, and all of us in the company will take best possible measures to achieve the profitable growth and the journey of the long-term to medium-term growth, which we have delivered in the past.

We would also like to take this opportunity to wish you happy Diwali and prosperous New Year. Thank you very much for taking out time and participating in our conference call.

Chetan Shah: Thank you. Thank you very much, everyone, and wish you a very happy Diwali and a prosperous New Year. See you next time around. Thank you.

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