RALLIS INDIA LIMITED

May 2, 2023

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: **500355**

National Stock Exchange of India Limited
Exchange Plaza
Bandra-Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol: **RALLIS**

Dear Sir,

Sub: Transcript of Analysts/Investors Call pertaining to the Financial Results for the quarter and financial year ended March 31, 2023

Further to our letter dated April 12, 2023, we enclose herewith a copy of the transcript of the Analyst/Investors Call on the Audited Financial Results of the Company for the quarter and financial year ended March 31, 2023 held on Wednesday, April 26, 2023.

The same is also being made available on the Company's website at:
https://www.rallis.com/investors/Financial-Performance

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For Rallis India Limited

SRIKANT NAIR Digitally signed by SRIKANT NAIR Date: 2023.05.02 16:49:42 +05'30'

Srikant Nair
Company Secretary

Rallis India Limited
Q4 FY '23 Earnings Conference Call
April 26, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Rallis India Limited Q4 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Suraj from CDR India. Thank you. Over to you.

Suraj Digawalekar: Thanks, Ryan. Good morning, everyone, and thank you for joining us on the Rallis India Limited's Q4 and FY '23 Earnings Call. We have with us today Mr. Sanjiv Lal, Managing Director and CEO, Mr. Nagarajan, Chief Operating Officer, and Ms. Subhra Gourisaria, Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation.

I now invite Mr. Lal to begin proceedings of the call. Thank you, and over to you, Sanjiv.

Sanjiv Lal: Thanks, Suraj. Good morning, everyone, and thank you for joining us today on our Q4 FY '23 Earnings Call. Nagarajan and Ms. Subhra Gourisaria are joining me on this call. I will begin the discussion by providing a brief overview of the industry, after which I will comment on Rallis specific developments during the quarter.

On an industry level, the demand environment remained relatively muted during Q4, which historically is a lean quarter. Higher carryover inventory from Kharif season, coupled with higher returns, especially in insecticides impacted volume growth during the period. Low pest pressure and erratic rainfall has resulted in lower liquidation. Having said that, the macroeconomic variables like soil moisture, reservoir level, crop prices remains positive. Rabi season has ended with a 3% higher crop acreage on a year-on-year basis as of early February '23. However, despite reasonable acreages, adverse weather conditions in the recent past could impact the yields for the Rabi season.

IMD forecast for a normal monsoon at around 96% of the LPA. And this is, of course, at the lower end of the normal band, which is between 96% and 104%. Skymet forecast is below normal monsoon at around 94% of the LPA, and there could be concerns regarding the monsoon rains this year. It is important to note that only the overall forecast numbers have so far been made available. Spatial and temporal distribution matters a lot for agriculture. Last year, despite rains being above normal at 106% of LPA, spatial distribution was sharply uneven affecting the sowing pattern in regions with deficit and delayed rains.

Therefore, should it rain on time, this is a good chance because the El Nino is expected to develop only later in the monsoon season. With a good spatial distribution, the overall effect on agriculture may still be positive, even if the overall seasonal rainfall is lower.

As mentioned in our earlier earnings calls, demand in the international market, on the other hand, is witnessing headwinds due to stocking levels in specific actives and countries despite remunerative commodity prices.

Moving on to Rallis' specific developments, starting with our headline numbers. Revenue grew 3% in Q4 over Q4 of FY '22, which is largely volume-led. Growth in the domestic market is soft, largely on expected lines owing to the factors I've just highlighted. International business reported growth even in these difficult conditions.

Margins, however, were low due to high stock levels globally as well as on pricing pressure. EBITDA loss for the quarter stood at Rs.65 crore. This has to be understood in the light of Rs.63 crore inventory provision and impairment of intangibles in the seeds part of our business during the quarter. As it had been mentioned in the previous calls as well, we undertook a detailed review of our seeds business and identified stocks which are higher than the future sales estimates. Additional provision of Rs.39.8 crore for slow-moving stock has been recognized for these stocks. Likewise, on the seed development technology, we reviewed the future economic benefit and recognized an impairment loss of Rs.23.6 crore. Gross margins remained lower due to high cost volatility, though mitigated through agile pricing and procurement decisions. Loss for the quarter stood at Rs.69 crore as against loss of Rs.14 crore reported during the corresponding period last year.

Moving on to individual businesses, starting with the domestic business. Q4 is seasonally a lean quarter for the business. As mentioned earlier and in our previous earnings calls as well, channel inventory levels were well above normal for the broader industry, and we expect it to have an impact on the volume growth and a rub-off effect on realization. Our focus was, therefore, to focus on revenues with greater diligence towards improving our collections during the quarter. And I'm happy to report that we have been reasonably successful in achieving the stated objective as can be seen from our balance sheet and cash flows.

Despite the external challenges during the quarter and the year, I'm happy to report that we have remained committed towards our objectives of improving product mix by launching minimum two new 9(3) products. As you know, we have introduced three new products under 9(3) and five new 9(4) products besides adding three new products in Crop Nutrition portfolio during the year. I'm pleased to share that we have introduced two 9(4) products during the quarter, that is Thermifit, F-Multiple Crop, and Mahat , H-Paddy.Further, during the quarter, we launched under the Crop Nutrition, one new product, GeoGreen P Plus GR.

Besides new product launches, we have also been working towards expanding our distribution network and working more with e-com channels. Our retail footprint increased to 60,000 for our Crop Care business compared to 55,000 in the previous year.

Moving on to the international business. While the commodity prices still remain encouraging, prices for some of our key products continue to trend lower, largely owing to excess inventory and input costs coming down. Utilization levels for our key plants, Pendimethalin, Kresoxim-methyl, Acephate continue to remain satisfactory. Metribuzin volumes continue to inch up steadily. Hexaconazole, which faced a low demand in China and Southeast Asia, in the previous quarter reported a slight pickup in Q4, and we expect the trend to continue in Q1 FY '24 as well. Also with the Metri and Pendi both having secured technical equivalence in EU, we expect to win more customers in the coming years.

In terms of Contract Manufacturing segment, I am pleased to share that we have once again after a gap of nearly two years started the shipments of PEKK during the quarter and expect to build up towards the later part of FY '24 as the inventory level of our customer declines. The quantum as you would expect is on the low end, but should pick up as I mentioned going forward. Metco sales remained steady during the year.

Besides, two of our recently won contract manufacturing opportunities awaiting regulatory approval in their respective markets prior to commercialization. We're also seeing a good number of visits from prospective customers and are hopeful of translating a few of them into a meaningful business. Our teams have also commenced one-on-one interactions with partners, including overseas visits, and we remain positive on those as well.

Moving to the seeds business, business has had a challenging couple of years, saddled with slow-moving inventory of legacy cotton hybrids. Vegetable seed sales got impacted owing to reorganization within the business. As guided in the previous earnings call, we reviewed the overall sales plan in light of the inventory levels and also our future development plan. We also look at the development plan for our future hybrids in light of our plan to focus on specific segments in the backdrop of changing market dynamics. After having provided Rs.19.8 crore during the nine-month period of FY '23, we had to make further provisions, including impairment of Rs.63.4 crore during the quarter towards inventory and seeds development technology. We did a comprehensive exercise in Q4, which has resulted in these numbers.

Our priority for the business would be profitability by focusing on our resources towards viable products and markets. We are also witnessing positive response to some of our newly launched hybrids for example, Diggaz, which is a cotton hybrid, has seen a sharp pickup in volumes on a year-on-year basis. We're optimistic about the upcoming season. Furthermore, we also received the regulatory approval from two states for BRL field trials for our GM events for cotton and maize, which are both herbicide-tolerant as well as insect-resistant.

To conclude, I would say, our Crop Care performance is competitive despite the challenges both on top line and bottom line. Our seeds business has faced headwinds, and I would like to reiterate that we are working towards reviving the business by sharpening our resource deployment to address viable opportunities. We are also undertaking steps towards strengthening and widening our distribution reach and lowering our dependence on China for key raw materials by identifying local suppliers.

Finally, I would like to highlight that this year marks the 75th anniversary of Rallis. We want to thank our shareholders and other stakeholders who have supported us in this journey. We have themed the milestone of our 75 years as “Rooted in Values, Seeding Growth” and we plan to continue working on these lines.

This concludes my opening remarks. I'll now hand it over to Subhra for a detailed analysis of the financials.

Subhra Gourisaria: Thank you, Sanjiv. Good morning, everyone, and thank you for joining us today for our Q4 earnings call. Let me quickly walk you through our financial performance for the quarter and the year, post which we shall commence the Q&A session.

Starting with the top line, our revenues for the quarter stood at Rs.523 crore as against Rs.508 crore generated during Q4 of FY '22, a growth of 3%. The growth has been largely volume-led with price increases now anniversarized, having completed one full year and raw material prices starting to come down. High channel inventory and steep cost volatility with costs receding down are our key challenges. Domestic revenues were flat. International revenue business reported a growth of 7%, driven by volume growth of 10% plus. Seeds business generated revenue worth Rs.25 crore during the quarter, largely in line with the previous year.

EBITDA loss for the quarter stood at Rs.65 crore as against a loss of Rs.3 crore generated during the corresponding period last year. Loss for the quarter stood at Rs.69 crore as against loss of Rs.14 crore garnered during Q4 of FY '22. I would spend some time to take you through the provisions and impairments recognized during the quarter. We had mentioned in the earlier calls that we would be reviewing the seeds inventory levels against the future sales potential. We launched Project “Fit” in the seeds business and recalibrated our long-term sales plan. As a result of this, we identified quite a few hybrids, especially in cotton, wherein stock levels are significantly higher than the future sales estimate.

Similarly for some of our tail hybrids, we realized that it is prudent to recognize the provision and optimize our team's focus on some of the winning hybrids. The total amount of inventory provisions recognized during the quarter on account of these aged and slow-moving hybrids is Rs.39.8 crore. As regards our research and development efforts are concerned, we reviewed these again in the light of historical success and our plan to focus our costs and resources on a few promising hybrids and segments. As a consequence of this, we identified projects worth Rs.23.6 crore, which had to be impaired during the quarter.

For the year, revenue stood at Rs.2,967 crore as against Rs.2,604 crore in FY '22, growth of 14% led by price growth of 8.5% and volume growth of 5.5%. Crop Care sales grew by 16.3% over FY '22 and seeds sales de-grew by 1%. EBITDA for the year stood at Rs.218 crore as against Rs.274 crore registered during FY '22. This is after recognizing provisions and impairments of Rs.83 crore during the year. Gross margins were lower due to high cost volatility, largely mitigated through agile pricing and procurement decisions. Crop Care EBITDA margins were maintained versus last year.

Moving on to business-wise performance, Domestic business operated under a challenging environment. Delayed sowing, extended monsoon and high channel inventories impacted volume growth during the year. However, despite the challenges, we have remained focused in the objective of improving mix by launching new and innovative products. These new products are targeted not only towards strengthening our existing position, but also helping plug the crop and regional gaps in our portfolio. The international business performed relatively well with a growth of 24.5% for the year, well balanced between price and volume. While utilization level for most of our key technicals remained elevated, excess inventory and temporary pullback in specific geographies resulted in lower profitability for the business.

Metribuzin volumes have started improving. Further with Metribuzin and Pendimethalin both having secured technical equivalence, we expect to win more customers in the coming years. Also with regards to contract manufacturing, we started the shipment of PEKK after a gap of almost two years during the quarter. Metco sales continue to remain steady, and we expect that the commissioning of two new recently won CRAMS contracts, will help us scale our business over the coming years.

The seeds business continue to face a difficult environment. To adapt to this challenging environment, the company has re-evaluated its strategy with a renewed focus on liquidation, cost reduction and a more rigorous evaluation of new product development. Our endeavour will be to improve the unit economics of this business.

A quick word on capex. We have spent approximately Rs.190 crore during the year, and we envisage that FY '24 spends would be in the range of Rs.150 crore to Rs.180 crore. We're in the last stage of commissioning the MPP plant and expect to get the first batch of Difenoconazole in the first half of the year.

Our cash flows have improved with significant focus on collections in the domestic and international markets. We were also able to get discounting on some of the international debtors at competitive rates to help improve cash levels. Inventory levels were also reduced with all-around focus from all the teams. Our effort on working capital optimization would further improve upon these levels.

To conclude, I would just like to iterate that we are focused towards building the growth of the business and are undertaking all the requisite steps towards achieving this target. We made significant investments in recent years towards plugging portfolio gaps, strengthening distribution reach and lowering our dependence on China for raw materials. We're confident that all these efforts will yield the desired result in the coming years.

That concludes the opening remarks. We can now commence the Q&A.

Moderator: Our first question comes from the line of Nikhil Rungta from Nippon India Mutual Fund.

Nikhil Rungta: Firstly, a question from my side, how much is the inventory issue still pending? And what is this impairment on hybrid development program which we have taken during the quarter?

Sanjiv Lal: See, there are certain segments for the field crops that we have discontinued, which are the more niche segments. So all the R&D development work for that account has been impaired. Likewise, for our vegetable seeds, we are now focusing only on two crops, which is tomato and gourds. So the work that was being done on vegetable crops that has also been impaired. So that is the second part.

Nikhil Rungta: Sir, how much inventory issue is still there in the books on the seed business or do you think everything is in the P&L?

Sanjiv Lal: No, we have done a fairly comprehensive exercise, Nikhil. We believe that whatever is the inventory which is not provided for is part of our sales plan

Nikhil Rungta: And my second question is, like you indicated last quarter, there was higher channel inventory. So how is the situation now in channel inventory? And do you expect higher sales return because of that? And to conclude this question, given these across-the-board issues, how do you see FY '24 overall?

Sanjiv Lal: So in terms of inventory level, our understanding about the inventory levels are still very high. As a company, we have taken back whatever we wanted to. So our inventory level in the market is fairly normal. But our understanding is that there is considerable inventory, which is still there in the market.

Nikhil Rungta: Okay, and given this how do you see FY '24?

Sanjiv Lal: So FY '24, the key challenges are going to be on our collections. That is certainly going to be one of the issues, with the monsoon expected to be on time, but maybe getting the El Nino effect late in the season, the Kharif is expected to take off in a nice manner. So we don't see any immediate issues. But we've also put together a small team, which is going to be closely looking at how the El Nino is playing out. We, of course, have our own Drishti application, which has got the weather and crop status, and going forward also, we have some insights on that with our own satellite forecasting and weather forecasting. So it is a process for that on how the season progresses. Nagarajan, would you like to add something?

Nagarajan: No, I think that is fine, Sanjiv.

Sanjiv Lal: Okay.

Moderator: Our next question comes from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: So the first question is what is the impact of China opening over the last 3-3.5 months that we have witnessed, both for the domestic market as well as for the international market?

Nagarajan: Yes. I think the biggest impact, I would say, has been the easing up of the supply lines. Certainly, I think we are finding that we are able to get a lot more material. Today, I wouldn't say that supply of raw material is such a large challenge. But having said that, while this has opened up on one side, we are not sure how the demand situation is moving, because as you know, there is a tremendous amount of inventory even globally, prices have actually come down substantially for many active ingredients. In fact, for certain ingredients, it is down by 50% if you do a Y-o-Y comparison, March '23 over March '22.And it is continuing to fall. In the last quarter, there are certain AIs and even raw materials, where the price drop is up to even 20%- 22%. So substantial drop in prices. So I guess the important point from our perspective is the way the demand side moves. China's opening has been, I think more supportive from a supply easing point of view.

Rohit Nagraj: The second question is during 2019, we had announced a mega capex of Rs.800 crore over '19 to '24. How much of that has been completely executed as of now? And how much of the effect is reflected in our revenues till now?

Subhra Gourisaria: So, Rohit, out of Rs.800 crore that we had outlined, there were some major projects around MPP, formulation plant and also augmenting capacities of some of our existing technicals. I would say we have spent close to Rs.550 crore to Rs.575 crore of cash flows already out of this Rs.800 crore. The balance, Rs.150 crore we should spend during the course of FY '24, which is largely towards completing MPP and the balance projects as well.

And the next leg, the bigger one, which is out of this Rs.800 crore is the R&D plant, for which also we have started the work. So that explains this Rs.800 crore of capex that we had planned during some time in FY '19.

Nagarajan: In terms of the growth projects, the formulation plant is fully operational, as you are aware, from last year onwards. And in the financial year FY '23, we had a pretty substantial portion of our formulation output coming from there. So that would be a reasonably large-sized investment out of that Rs.550 crore to Rs.575 crore of investment done.

The second, of course, is MPP, and MPP is on the threshold of commissioning. So we should see that contributing to revenues in this year. And then there are, of course, many of the debottlenecking projects, which we had undertaken, capacity increases for Pendimethalin, Acetamiprid, Lambda-Cyhalothrin. So these are all fully commissioned, and they are already contributing to the revenues. Of course, there are also, what we call a sustenance capex or maintenance capex, which is also sitting in this Rs.550 crore to Rs.575 crore.

Moderator: Our next question comes from the line of Tarang Agarwal from Oak Bridge Capital.

Tarang Agarwal: Three questions from my side the first is on the Crop Protection market. Just wanted to pick your brains. I mean, second consecutive year, we see acreages are moving up, both in Kharif and Rabi. But it seems like the on-the-ground development on the business is quite weak. So what is happening? I mean, is it lack of demand or are farmers down-trading or is there just too much supply in the market?

Sanjiv Lal: So actually, there are a couple of things that are contributing towards lower growth. Our estimate is that the market has grown at just about 5.5% during the FY '23. And largely, it has been a gain of pricing growth. And there are a couple of reasons for this. One, of course, is that there has certainly been less pest pressure on certain key crops. So therefore, there's been no consumption.

Second is the way the monsoon has played out and the rainfall has played out has also obviated the need for fungicides as a category, but herbicides overall for the industry has done well. So there have been pockets where there has been actually de-growth in the Crop Protection segment, while there has been growth in another segment. With that, Nagarajan, would you like to add something more to the question asked?

Nagarajan: Yes. I mean I would just say that you are right that the organic growth in the industry is not so much getting driven by increases in the sown acres. It is about a specific portfolio of organizations. If you take our example, I think we have certainly grown in the last couple of years in herbicides, for example, as a category substantially simply because I would say that we have had new products getting introduced into the herbicide category targeted at crops like soya bean and wheat which we had identified earlier as areas where we need to strengthen our portfolio.

So I would say that it is more at the level of the products, the portfolio and the distribution reach that we are able to see from different companies that is driving. So basically, idiosyncratic reasons rather than a general secular organic growth.

Tarang Agarwal: That's helpful. A couple of more. One on seeds. You spoke about sharpening your focus and focusing on products which are viable and not viable. I mean is there a certain category, like for instance, you made a comment that in vegetables perhaps, you'll just be focusing on tomato and gourds and you'll be probably exiting everything else. Is it limited only to vegetables or is that pervasive for some of your field crops portfolio as well?

Sanjiv Lal: No, even in the field crops, there are multiple segments because, for example, cotton goes into North, it goes into Maharashtra, it goes into South geographies. And therefore, segment which tend to be more niche, which are good segments to be in. But since we needed to just make sure that we are spending the money in a prudent manner, we said that we will curtail some of these segments, which we believe our programs are still quite far from getting success.

For example, in the case of maize, you know, we have always been working on improving our Rabi portfolio and therefore the Rabi maize was one of the important projects. But our own success in that area has been fairly limited. So for the time being, we have limited the work that we are doing there. So we've cut back on the spends that we are doing on that particular category.

So it is, even within the field crop, certain segments where our competitive position is weak, our R&D programs are running behind. So those are where we have said we will refocus.

Moderator: Our next question comes from the line of Viraj Kacharia from Securities Investment Manager.

Viraj Kacharia: Yes, so just two questions on the international business. If you can just talk about our top four, five molecules how is the overall demand supply situation, the price modulation that you talked about, before what kind of a fall we have seen versus Q3 and what will it be going forward?

Nagarajan: So I think at a broad level, one would say that if you take all the, let's say the top four products, four active ingredients, the prices have dropped over the last, let's say, January to April. So there is a difference in the extent of drop. One would think that the biggest drop, I would say, perhaps has been in Acephate.

And then it would probably be in, maybe Metribuzin, Hexaconazole, and then finally in Pendimethalin. But all of them have dropped. The biggest drop would have been probably in the range of about 20% or so. And the least drop would have probably been in the range of about 5% or so. So price-wise, there is a drop in all the products.

In some cases, there has been a corresponding drop in raw material prices as well, and to a similar extent. So effectively, what has happened is that you could say that the absolute margins have come down on these products, largely driven by an oversupply situation. The percentages may still be similar, but I think the absolute margins have come down, driven by an oversupply situation.

There are also some slightly different behavior in a few of the situations, which is that there is a unique demand-supply situation arising in particular AIs, where even without a corresponding drop in raw material prices, we have witnessed a significant drop in the end product prices and that is purely driven by whether there is a intermolecular competition, right? For example, between Hexaconazole and something like Tebuconazole, for instance. It is more driven by those factors, not just by the raw material price changes of Hexaconazole. So this is how the scenario is prevailing today, broadly two buckets we can put it into.

We think that this is something which will have to get stabilized on both the accounts. Certainly, I think as you know, the kind of price increases that were witnessed over the last couple of years in many of the active ingredients is not something which is expected going forward. So therefore, we will have to rely on volumes coming back. And the volumes are predicated on how the farmer finally behaves.

The good news, of course, is that the commodity prices in general have been reasonably good. So the farm economics are good, but I think it also depends on how the intermediaries are holding stocks and how that kind of plays out. So that is how we are looking at it. So it is actually a transitioning kind of situation, whether it will take 6 months, whether it will take a little longer than that, we will have to see.

Viraj Kacharia:: What is the extent of overcapacity you are seeing in the market, say, in these 4, 5 molecules? And the second question is, we talked about 2 new CMO which we are looking to commission. And in the past, we talked about having quite a sizable amount of molecules in an advanced pipeline. So, if I have to look at, say, '24 and '25. Can you just briefly talk about what kind of molecules we are looking to commission and what is the opportunity scale for us in each of those molecules?

Sanjiv Lal: So, we will be going ahead with the Difenoconazole this year, plus maybe there will be one more CM molecule, Contract Manufacturing molecule which will go into FY '24. And with the current pipeline of these off-patented molecules that we are working on, we expect to introduce every year at least one new molecule into our manufacturing plants.

Viraj Kacharia: And on the overcapacity for the existing molecules, any sense you would have on...

Nagarajan: I think the oversupply, yes, I think there is. And I guess how it might play out, if you think about it from an individual player and certainly from our point of view, we would obviously have to look for specific strengths that we have, like it was mentioned in the case of Pendimethalin, where we have got a technical equivalence in the European market that allows us a larger sales aperture compared to what it was, let's say, a year back. So that is one of the ways in which we would try to address a larger portion of the market.

The other, of course, is that while we would like to prioritize sales to the geographies which have better realizations, we may have to compromise a little bit on the geographies in order to secure volumes. Therefore, you could find some price pressures and margin pressures consequent to that. So that could perhaps be, for example, the Brazil market versus the US market when you think about from an Acephate AI point of view. So, I guess these are some of the approaches that we are contemplating or we are thinking of in terms of navigating through this phase.

Moderator: Our next question comes from the line of Siddharth Gadekar from Equirus.

Siddharth Gadekar: Sir first on Pendimethalin, now what we are understanding is that there is a shortage of the raw material in the global market. So, in terms of our raw material sourcing, are we secured for FY '24? And in terms of the demand, how should we look at the demand for that?

Nagarajan: Yes. I think from our point of view, we have certainly got a much, much better raw material position now on Pendimethalin. We have an Indian source also which we had developed. If you recall, in the first half of this year, H1 of this year, we did have some challenges when that Indian supplier was stabilizing its production. But, of course, in H2, things have greatly improved, and we are currently pretty well covered, both between the India source and the overseas source for the raw material of Pendimethalin.

Pendimethalin, I think we do have a positive outlook, largely driven by the fact that we have access to a larger market. We are finding more inquiries. Our capacities have also been increased. So Pendimethalin, we are optimistic of.

Siddharth Gadekar: Sir, and secondly, in Pendimethalin, will it be only a one-year opportunity given that BASF has shut down some plants in Europe and they are transferring it to China. So, will it be a 1-year opportunity or this could be a structural opportunity for us?

Nagarajan: Well, yes, certainly, there has been some benefit because of the competitive context in Pendimethalin. But I think if you really think about it in pre-emergent herbicides, this is actually a somewhat unique product. And secondly, our market share is not so high that we will have I think the headroom that we have from our capacity point of view is quite large. So we would expect Pendimethalin to be reasonably positive.

Of course, in EU market, it is a candidate for substitution as they call, CFS, which is something which is scheduled for next year. We are hopeful that we should be able to pass that phase successfully. Assuming that we do and the product gets reviewed in the EU market, we would expect Pendimethalin to be reasonably good.

Siddharth Gadekar: And secondly, in terms of like CTPR, we have seen a lot of competitors launching that product. Are we also looking at launching this AI in the domestic market or for export market?

Nagarajan: At the moment, for financial year FY '24, no, we are not looking at launching the AI. But, of course, as you rightly pointed out, there is enough supply of the products that are coming out, formulated products. So, we could have formulations which we might launch.

Moderator: Our next question comes from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Sir, just one clarification I was hoping to seek on your insights on the global market. This inventory oversupply and pricing pressure, in your view, is this more pronounced in the generic active ingredients where the Chinese are relatively stronger and more dominant or is this also starting to become visible in some of the more differentiated products across the globe, given just the inventory overhang across the channel? I'm talking about more about the innovator products and those sorts of things.

Nagarajan: Well, I guess, if you see many of the generic products, yes, I think the drop is substantial. Maybe some of the innovator or more differentiated products, yes, I guess what you're saying, Abhijit, is right, because if you really look at products like Glyphosate or if you think about Tebuconazole or if you think about Mancozeb, for these kind of products the drop is quite substantial if you compare it with some of the more differentiated products.

Abhijit Akella: Okay, and you expect that sort of difference or dichotomy to continue over the next year, sir, or could there be some pressure creeping into the broader industry as well?

Nagarajan: Well, I guess it all depends on how the crop acreages and the farm economics actually move. And at this point in time, the signs are reasonably positive. The commodity prices are holding up, the reports that are coming in are talking about good acreages in many of the markets.

But I think it is going to purely depend on farm economics. And therefore, it might depend on the shift between highly differentiated products versus genericized products that the farmers might undertake in some of these geographies. Sometimes if that were to sort of overplay, you might find more pressure on the differentiated products as well. It's a little bit difficult to read at this point in time, Abhijit.

Abhijit Akella: I understand. Thank you so much and I wish you all the best.

Moderator: Our next question comes from the line of Archit Joshi from B&K Securities.

Archit Joshi: Sir First, a clarification on the comment that you made about genetically modified seeds in cotton and maize. I couldn't hear that properly, so if you could just elaborate on what we are planning to do on that end? And how is the industry dynamic vis-à-vis the conventional seed market that we have already experienced compared to what we are planning in the genetically modified space?

Sanjiv Lal: So just to clarify, we've got a couple of events that our R&D team, our biotech team has been working on. This is for herbicide-tolerant and insect-resistant cotton as well as HT and IR for maize. So, we had applied for biosafety regulatory trials, and we have got approval from two states for both these crops. So I was alluding to the work on the BRL trials progressing. As far as genetically modified is concerned, 99% of the hybrid seeds sold for cotton are actually GM.

So that is the only crop currently approved by the regulator for commercial cultivation. There are some approvals which are available for mustard and more recently for a couple of other crops for some field review work. So, I think it's still early days for anything further on GM because I think the regulation is still evolving for fast-tracking some of these technologies.

Archit Joshi: Understood, sir. I was actually wanting to understand what are we seeing in this as an opportunity? Is this like a mid to long-term kind of a project currently in incubation or there are chances of this getting fast-tracked in the nearer term?

Sanjiv Lal: No, certainly, these are technologies which are helpful for the farmer. So, I guess sooner than later, these will get deregulated at a faster rate in India. And certainly, as far as Rallis is concerned, we have also been partnering with a couple of international organizations for things like drought-tolerant maize for which we have a very good event that has been successfully tested at our own R&D center.

Unfortunately, it is going to be too early in the day for the Indian market for this technology. So, we are working with some of the international organizations, so that this particular gene for drought-tolerant maize, can get incorporated into maize in other countries, not specifically in India as of now.

Archit Joshi: Understood, sir. . Sir, I think we have mentioned in the past that we have done quite a lot of debottlenecking in some of the individual AIs that we sell in the international markets. Some of them you mentioned earlier, like Lambda-Cyhalothrin, Pendimethalin, etc. And now we have an MPP plant under deliberation which will soon get commissioned.

What are our plans within the MPP plant? Will it be more of different active ingredients other than what we manufacture? How are we planning to ramp it up? And we can also give out what kind of potential we are looking at from this plant or this is for the contract manufacturing piece that we are trying to re-enter again?

Sanjiv Lal: So this plant is really intended for commercializing some of our new pipeline products as well as for commercializing some of the contract manufacturing opportunities, both for actives as well as for intermediates. So, in terms of the utilization of the plant, this is going to be the first year of its utilization. So, we don't expect very high utilization during this year.

But from next year onwards, with the plans that we have, we should pretty much be upwards of 70% - 75% in terms of capacity utilization and maybe three years from now, we will be pretty much needing to have additional capacity for some of the pipeline products.

Moderator: Our next question comes from the line of Darshita Shah from Antique Broking.

Darshita Shah: The first question was with regards to the demand in agro. So, in the primary sale perspective, we understand that the channel inventory is high and that's why the demand is lower. But I want to understand the secondary sale, how is the demand from farmer end? What I'm trying to understand is how long will it take for the channel inventory situation to dial down?

Sanjiv Lal: So a very quick and simple answer to this is that the crops really needs to have a need for application of some of these agrochemicals, because as I mentioned earlier, what we have seen is that the pest pressure has been on the lower side, even during FY '23 on many of the crops. So that has also led to an inventory build-up. So we need a good offtake.

From the Rallis side, what we are doing is that, for our category of products, our sales teams and our market development teams are working closely with the farmers on package of practice, the right set of inputs to be used for them to get good outcomes. So, we are doing what we do best in terms of communication, demand-generating activities at the farmer level as well as trade engagement.

Darshita Shah: If you could throw some light on the export market situation as well from the technical perspective?

Nagarajan: Yes. I mean I think even in the global market, it is the secondary demand, I guess would be a result or would be dependent on both the farm economics as well as the need to apply a particular chemical. So, at the moment, farm economics are looking still positive. The need to spray a chemical would depend, of course, on the level of infestation that is witnessed.

In India, for example, last year, you are aware that black thrips was a fairly high problem, large problem, which led to farmers trying to figure out what is the solution. What is the insecticidal solution for that? They experimented with a lot of things, but maybe the solution is still elusive. But in the process, of course, agrochemical companies did manage to benefit from the demand for insecticides. So, I guess, it would be a combination of the same two factors, whether it is in India or globally.

Moderator: Our next question comes from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: My first thought is if you're looking at the declining price trend across the value chain, what's the kind of volume growth you should expect? And what are the margins you can sustain, say, in FY '24, assuming normal monsoon and normal distribution as you were saying? How do you see the outlook for FY '24 in terms of your broad thoughts?

Nagarajan: So, without actually giving forward guidance in terms of margins and volume growth, we can probably share with you what actions that we are taking. And those actions are predicated on a few things. One is, of course, on the introduction of new products. Like what Sanjiv already mentioned, we have a portfolio of products, which we are expecting to introduce in Q1, Q2 and so on. Much above our committed level of two 9(3) products that we have indicated will be the minimum for every year.

And the second is, of course, to scale up some of the products that we have launched in the last few years. As you may have seen in the investor deck, what we call as the ITI, the Innovation Turnover Index, in FY '23 was 13%. It was a couple of percentage points higher than the previous year. We are seeing this as a result of some specific work that we have undertaken to promote more actively some of the products that were introduced in the prior years and which could not get the benefit of strong field level marketing support because of COVID and other factors.

Now that is something which is behind us. And therefore, we think that increasing the new products contribution will be one important area that we will focus on. The second is, of course, in terms of improved market efficiencies. There are a number of actions that we are taking. We have identified a set of products in line with the overall principle that was also mentioned in the opening remarks of supporting the most viable products and most viable market opportunities with the best resourcing, whether it is in terms of capex or even in terms of opex.

So, we would be focusing very strongly on a set of products. And we have through the digitalization efforts that we have undertaken now have a good monitoring mechanism, we think to see ground-level field marketing activities, how effectively they are directed towards the opportunities that we want them to be directed at.

We've got an app, which is fully now working for the last six months, which links back with the IT systems for our supervisors to be able to very granularly guide our crop advisors and MDRs in the case of seeds, basically our field marketing people. So that would be the important area, improving the marketing effectiveness in order to achieve the volume growth what you're talking about.

And the third pillar is, of course, retail distribution strength. As you may have noticed, when Sanjiv mentioned it, we have reached about 60,000 retail outlets in the case of Crop Care and over 40,000 in the case of seeds. It was 55,000 the year before in case of crop care. This is an intense area of focus. And here, again, we are bringing in a lot of digitalization to be able to drive throughput through the different retail channels, provide some good incentive programs.

So, I would say our focus is on these three areas, NPD, new product development and focus, marketing efficiency improvement and distribution reach to achieve the volume growth when the prices are actually dropping.

S. Ramesh: Sir, as a follow-up, can you share your thoughts on to what extent the new products can help you grow faster? And what is the delta in margins in percentage points one can expect from these products based on your reading of the market?

Nagarajan: Well, the new products that we are introducing are targeted towards important crops. But I think to give some background, maybe we can say that 13% of our revenues this year in FY '23 came from the products that we had launched in the previous four years, three years plus the year FY '23. That was 11% the year before. So, that's the kind of a 2% increase on the increased revenue. So that's the indication of the gain that we got last year. Maybe that could be an indication of what could be in FY '24.

Moderator: Our next question comes from the line of Himanshu Binani from Prabhudas Lilladher.

Himanshu Binani: Sir, my question was largely towards the Crop Care raw material side. So, we have been seeing a gradual decrease into the RM pricing. So, have we taken any sort of provisions in the Crop Care segment? And secondly, on how is the final product prices likely to be going forward?

Subhra Gourisaria: So, there's no provision which has been taken on the Crop Care side. We have spoken about saying that there was only an impact in Q3 on the additional demands served by BPT. But apart from that, there's no specific provision taken in Crop Care.

Nagarajan: And what was your second question? If you can.

Himanshu Binani: So, sir, how do we actually intend to pass on these price benefits, the RM price benefits to the final consumers?

Nagarajan: Well, I think our pricing approach is purely portfolio-led. So, depending on the competitive context in each of the formulations that we are selling in the domestic market. We assess the kind of price levels that we will be able to sustain. In some cases, we do enjoy a brand premium. We do look at the level of premium that we can sustain. We look at the cost of treatment per acre that the farmer will incur in the light of his overall economics. So, it would be different for different products. In some cases, we may pass on the benefits, raw material reduction. In some other cases, may not necessarily pass on fully. So, it's actually a portfolio approach that we adopt.

Moderator: Our next question comes from the line of Dhavan Shah from AlfAccurate Advisors.

Dhavan Shah: Yes. So, I have a question on the backward integration part. So out of the Rs.800-odd crore of capex, I think we were planning to do roughly Rs.150-odd crore capex for the backward integration. So how much part of that is utilized at the moment and by when we are expecting for the captive requirement?

Sanjiv Lal: For our securitization of key starting materials, one, of course, is the backward integration. And the other approach is also to do the localization of finding local vendors for certain products. So, in a way, what we have done is try to develop local vendors for some of our key starting materials. We have not made any significant investment yet on the backward integration for some of our key imported materials.

Dhavan Shah: So, if you were to compare it with the local sourcing prices versus the China prices, is there any differentiation? If you can share, what is the delta saving you are gaining in terms of the raw material procurement from the domestic side?

Sanjiv Lal: There may be no significant difference in terms of the procurement price, but it certainly de-risks the supply chain and also helps in reducing our lead time for the supplies. So, we are getting those advantages as well.

Moderator: Our next question comes from the line of Yogesh Tiwari from Arihant Capital Markets Limited.

Yogesh Tiwari: Sir, my first question is on Metconazole. So, if, it would be helpful if you can share some details on it. So, what would be our capacity, the utilization and the pricing trend? And how is the global demand supply for Metconazole?

Sanjiv Lal: Yes, Yogesh, this is a product that we do as a contract manufacturing for one of our Japanese partners. And it will be incorrect for us to disclose the numbers that you are seeking, except to say that the business is running steady, and we don't see any immediate issues in the coming years on this business.

Yogesh Tiwari: So this is as per order-based, like do we get an order every year for this?

Sanjiv Lal: Yes. Typically, there is an annual requirement, which is indicated for the re-capacity planning purpose and the procurement of raw material planning purpose. So it's typically year-to-year, and that's how we've been working with our partner.

Moderator: Our next question comes from the line of Nitin Awasthi from InCred Equities.

Nitin Awasthi: I would like to understand whether there are other participants or other competitors that have received permissions for GM Maize trials in India or is it just Rallis that has permissions right now as you mentioned in the 2 states?

Sanjiv Lal: No, there are other companies also, which have gotten approvals as well. That is for maybe some other events, not necessarily the same event that we are working on.

Nitin Awasthi: Okay. And the gene that you're working on, is it developed by the company or is it in collaboration with a partner?

Sanjiv Lal: No, for the work that we are doing for maize and cotton, herbicide-tolerant and insect-resistant, this is work which is being done by us, but the gene has not been discovered by us. But the work that we are doing with the Israeli company, which I had mentioned for drought-tolerant maize, this is their intellectual property, and we are their partners in progressing and developing the hybrid for maize.

Moderator: Our next question comes from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Sir, one thing on the pricing front from an FY '24 perspective. Could you share like for average, say, domestic formulation as well as AI, what was our average price for FY '23? And how much would be the drop at the exit of March '23? So if you can just highlight the drop

Sanjiv Lal: Subhra, is there some number that you can share if you readily have?

Subhra Gourisaria: So, Chintan, I can say that in Q4, a large part of the growth was volume-driven. And hence, the price increase, as I said, has plateaued out. On a full year basis, the growth was 8.5% in terms of price. So I don't know whether that helps. We don't have a ready number in terms of how the exit prices are towards full year. But largely, as I mentioned in my opening remarks as well, the price increases have now anniversarized, so 1 year has happened and now you will see more decline only going forward.

Chintan Modi: Okay. So basically, the 5% to 20% drop that you mentioned is more specific to active ingredients on a Y-o-Y basis?

Subhra Gourisaria: Yes. And that's not the average, by the way, that's on some specific.

Nagarajan: Yes. And it is on active ingredients, not on the formulations.

Chintan Modi: Correct. But do you think that on the formulation side only similar kind of a drop would have been there or it would be levelled?

Nagarajan: Like I explained to you a little earlier back, it depends on the competitive context of that formulation, because as you know, the strength of the brand and the ability to withstand a brand premium or to command a brand premium is also another influencing variable, which comes into the equation beyond just the raw material prices in the case of formulation pricing. So therefore, it could be different. And it differs from product to product. That's why I think we are not having a ready or a single easy figure to share with you.

Moderator: Our next question comes from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Just a couple of questions sir, So we had built some capacities of intermediates and some technical manufacturing plants and also commissioning our MPP going to first half of next year. All of this has come in the last stage 2 years, which was really, in a very supply constrained environment, especially from China. So I think our cost dynamics at that time was different. Now we have seen that the China has completely opened up. They have already started reducing the prices in the global market and the supplies are not only just in doubt, but also has, I mean gone up significantly from China.

So now when we have built up the capacities in last 3.5 years and going to commission our MPP next year, do you feel that in the current environment, we still are competitive? And what is the capex we have made in the last 3 years to 4 years in building these intermediates and manufacturing? Will we be using them or will we be having them for cost efficiency? I understand that a lot of investments have gone into raw material security arrangement that's not dependent on China. But over the next 2 years to 3 years, if we see that the pricing scenario remains so competitive and the supplies are coming from China, will we be really using our capacities in certainty and if the competitive will be enough compared to China?

Sanjiv Lal: See, Rohan, the pricing, of course, will always be very competitive because of the nature of some of the molecules that we are in. In terms of capacity utilization, we are not seeing any challenge for our Pendimethalin, we are not seeing any challenge for Acephate. Metribuzin capacity utilization is expected to keep increasing during the course of the year. So our key products seem to be okay. Hexaconazole which had become a serious issue for us during FY '23 is also coming back in small steps. So there will be challenges on pricing. But in terms of our capacity utilization, we have modelled fairly high capacity utilization during the course of the year.

Rohan Gupta: But the profitability and the margin profile remain very, very subdued, right, we may be able to run the plant, but will you be justifying the investment which you have made in the current tightened scenario? And we are going to commission our MPP plant in first half next year by commissioning of Difenoconazole. So, all these kind of products, I'm not expecting you to comment on exact margin, but will it be remunerative enough to recover the cost or what according to you would be the IRR from all these investments which we are making. If you can just comment something on the financial numbers and some more analytical number?

Sanjiv Lal: So, Rohan, just one product you're rightly pointing out will not help us in getting the kind of outcomes from our investment. And we have mentioned earlier also that our capital investment program is typically modelled on the project, we take the working the weighted average cost of capital, right? So it is going to take at least 2 years, 3 years before we get the 100% utilization of the plant and to get the IRR over a slightly longer period. So 1 or 2-year period, the point that you're making is very valid, but in a longer-term period of 3 years to 5 years, we don't see any issue.

Nagarajan: Yes. I think that is actually the point that I would like to additionally reinforce because if you see over the last couple of years, the kind of high prices that prevailed in Pendimethalin, for example, we had not expected when we did the debottlenecking of the Pendimethalin plant few years back, a couple of years back when we had done the modelling in terms of IRR and that kind of working. So there was actually a favourable turn of events that happened.

Now what you're pointing out is absolutely correct. Right now, the turn of events is a bit unfavourable. But when you think about a longer term, let's say, 10-year kind of period, which is how we actually evaluate our investment plan, we actually think that it would not follow the trajectory that we have outlined in our modelling. There will be ups and downs. From our point of view, what we will focus on, of course, is to try and load up the plant as much as possible profitably, given the kind of price levels prevailing at that point in time and also focus on try and improve the consumption norms so that we can try and reduce our costs as much as we can. So these are the actions that we would be taking. But we think that over a long period of time, these investments are good.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. And I now hand the conference over to the management for closing remarks.

Sanjiv Lal: Thank you, Ryan, and thank you all for participating in this call. I hope that we've been able to provide necessary clarity on our results. Our focus now is on planning for the upcoming Kharif season, and we continue to monitor the international business for all the issues that we have discussed in terms of inventory and pricing. We aim to continue to pursue all efforts to drive maximum utilization of our plants and get volume-led growth with pricing coming under pressure as we talked about.

We expect volume-led growth to continue with pressure on margins due to high inventory levels in the domestic and global markets, which would lead to pricing pressures. And as I mentioned, our theme for 75th year anniversary, “Rooted in Values and Seeding Growth”. Our long-term strategy to drive competitive growth remains on track, and we will keep reviewing all opportunities as relevant.

With that, I hand it back to the moderator till we meet 3 months from now. Thank you very much.