RALLIS INDIA LIMITED

January 27, 2022

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 third quarter and nine months ended December 31, 2021

Further to our letter dated January 10, 2022, we enclose herewith a copy of the transcript of the Analyst/Investors Call on the Unaudited Standalone and Consolidated Financial Results of the Company for the third quarter and nine months ended December 31, 2021 held on Thursday, January 20, 2022.

The same is also being made available on the Company's website at: https://www.rallis.co.in/Analyst_Investor_Call_Transcript-Q3_FY_21-22

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For Rallis India Limited

Yash Sheth
Company Secretary

Rallis India Limited
Q3 FY22 Earning Conference Call Transcript
January 20, 2022

Moderator: Ladies and gentlemen, Good day and welcome to Rallis India Limited Q3 FY '22 Earnings Conference Call. Please note, that this conference is being recorded.

I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you, guys. Good day, everyone and thank you for joining us on Rallis India Limited's Q3 and nine-month FY '22 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 statements in this regard is available in the result presentation.

I now invite Mr. Lal to begin proceedings of the call.

Sanjiv Lal: Thanks, Gavin. And good morning, everyone and wish you all a very Happy New Year. As mentioned, I am joined in this call, along with my colleagues Mr. Nagarajan and Subhra Gourisaria.

A quick word on the industry before I move on to Rallis specific developments for the quarter and year-to-date. For the industry as a whole, after having grown in mid-single digits during the first half of the fiscal, Q3 has been somewhat challenging for the domestic market. While Rabi sowing area has seen about a 1% improvement over the previous year on account of healthy water reservoir levels and better northeast monsoon. Factors such as unseasonal rain, pest attack in chilli owing to black thrips, ban on hybrid paddy crop in Andhra and Telangana, etc., resulted in lower domestic demand especially in the southern region.

The situation was further compounded by high input costs. Prices of certain input materials have seen an increase in excess of 50% on account of tight supplies from China during the month of October and November. However, over the long-term, we believe the China plus one strategy adopted globally across sectors provides a long growth runway for the industry.

Moving on to Rally specific developments,we delivered a revenue growth of 10% during the quarter. If one was to split the performance between international and domestic, our international business grew by 19%. Domestic crop care business owing to be challenges I referred earlier, had a growth of about 9%. Ban in states like Andhra and Telangana, as well as hybrid level challenges in our portfolio led to a decline in seeds of 31% year-on-year although on a small base.

Exports business has been fairly steady supported in part by favorable agronomic conditions, especially in Europe and Brazil, and higher crop prices as well. EBIT for the quarter was maintained at last year's level. Despite higher raw material prices and competitive intensity resulting from varying opening stock levels across companies our timely and frequent pricing actions have enabled keeping EBITDA margins at similar levels to last year. We're hopeful that the input prices should soften on the supply chain side as they start normalizing. We're also quite satisfied with our channel stocks at the end of Q3.

Moving on to the operational performance, I'm pleased to report that despite the challenging external environment, we have maintained focus and committed to our target of improving our product mix by introducing newer 9(3) products in the crop protection segment. After having added six and four products during FY '20 and FY '21 respectively, we have added two 9(3) products, two 9(4) products and two co-marketing products in the nine months of this financial year.

We're working towards launching environmentally sustainable products by leveraging our expertise in science and understanding of customers' requirements. We have also undertaken steps towards developing innovative and research-based crop nutrition products focused on the water-soluble fertilizers.

During the quarter, we launched a potash product, GeoGreen K Plus derived from agro waste, as well as a biological nematicide. As we have been indicating our efforts towards widening our product range to plug the gaps in our existing portfolio in crop protection, we are also introducing crop nutrition products to widen our category of offerings. We are hopeful that the portfolio augmentation should help us improve our market share in underserved regions like Madhya Pradesh, UP, and Rajasthan, and in select crops like soybean, wheat and certain crop pest segments in paddy. In addition to refreshing our portfolio, we are also working towards expanding our network by adding distributors and retailers to expand the domestic business.

Moving on to the seeds business. Performance during the quarter was impacted on account of state level actions on banning hybrid paddy in southern states and new requirements for maize sales in Bihar. It is now clear that the seeds industry has had a challenging few quarters. Overall, revenue from the business was lower by 31% for us in Q3. Despite the headwinds though, we continue to make progress towards improving our product mix by targeting new segments.

You will recall that we had indicated in the last quarter investor call that we are undertaking a detailed review of our seeds business. This exercise is now complete. While calibrating our growth plans, we have also sharpened the R&D focus areas on the key crop segments. Our portfolio development has taken longer than we had anticipated in delivering competitive hybrids. We are also adjusting our expenditure in line with our competitive position across key crops and geographies. We expect these actions to contribute meaningfully in the next couple of years.

As far as international business is concerned, we registered revenue growth of 19% during the quarter, demand continues to remain encouraging for most of our products with Metribuzin as well showing early signs of reviving. We expect demand for Metribuzin as well to be picking up in the coming year.

As mentioned in the earlier call, we have completed reorganization of Metribuzin production in a single location and expect the plant to be fully utilized by Q2 of FY ‘23. Besides Metribuzin demand for other key products, namely Pendimethalin and Hexaconazole continue to remain strong. Capacity expansion undertaken in other key AIs has also started contributing to the overall growth of the business. We will be commercializing one new active ingredient from the MultiPurpose plant next year. Besides expanding capacities for existing AIs and introducing newer AIs, we’re also working towards improving the mix by increasing the share of formulations in our international business, which should result in further margin expansion for the business.

As mentioned in the previous call, we have been successful in registering formulation for Acephate in Brazil and the recurring variants of the virus continue to pose challenges to the aviation industry in turn, which is affecting the performance of our PEKK business. This is part of our contract manufacturing business that we do.

As far as the overall contract manufacturing business is concerned as we have indicated in the past, it's an important area for us. We have taken steps towards building a separate dedicated team and scaling up the business and we are hopeful that the division will start contributing to the overall growth of the business over the next two years. We are in advanced stage of finalizing two contracts during Q4. While these are small contracts, they are important from our perspective, as we build our order book in this category.

Quick word on Capex, before Subhra gives an analysis of the financial performance, I'm pleased to announce that we have commissioned the first phase of our plant in Dahej, CZ and dispatches have commenced from the plant towards the end of December. Our revamped pilot plant has also been commissioned for the piloting of the first products in early January and construction activities for MultiPurpose plant are on track for commissioning during FY '23.

With that may I request Subhra to give us an overview of the financial performance. Over to you, Subhra.

Subhra Gourisaria: Thank you, Sanjiv. And good morning, everyone. Thank you for joining us today in our Q3 earnings call. Let me quickly walk you through our financial performance for the quarter post which we will commence the Q&A session.

Starting with the top-line. Our revenues for the quarter stood at Rs. 628 crore as against Rs. 570 crore which we generated during Q3 of FY '21. This is a growth of 10.1%, the growth could have been higher, but for the challenges in the domestic market, as we all have seen. This growth is split between 13.3% growth in crop care business and 31% de-growth in seeds business. Even within the crop care business, our growth is 12% YTD December. Domestic business grew by 9%, international business actually grew by 19%. And our international business growth will be 23% for the nine months ended 31st December '21 without considering the spillover impact, which we had spoken of earlier.

While EBIT margins have remained flat over the previous year, PBT margins before exceptional items have seen a compression of 140 bps owing to higher input costs, and also lower export incentives and investment income, which have impacted our other income. We have undertaken calibrated price increase to achieve the dual objective of protecting our margins, while at the same time ensuring that there is no demand disruption and the price value equation is maintained. Hence, PAT for the quarter stood at Rs. 40 crore at against Rs.46 crore in the previous year.

Moving on to business wise performance, domestic business performed well and faced lot of challenges in the wake of rising input prices. Despite the headwinds, though, we have been able to deliver growth of 9% on the back of improved product mix and wider distribution network. We introduced two new crop nutrition products in the quarter, taking the overall count to 10 products during the nine months ended FY '22, six crop protection and four crop nutrition.

While introducing newer products was one of our stated objectives, our efforts are equally directed towards ramping up sales and marketing efforts to help them achieve their true sales potential. Higher sales for these products will help improve the sales and margin profile and also help in increasing the innovation turnover index for the business.

Moving on to the seeds business. FY '22 has been a challenging year for us, muted performance as alluded by Sanjiv was largely due to illegal cultivation of herbicide tolerant seeds, government bans etc. We are confident that many other steps which we are taking will help us in reviving our business.

Moving on to international business, demand momentum continues to remain good for most of our products. Metribuzin as well has started showing early signs of improvement. We continue to work towards introducing new products and registering them across our new geographies. Furthermore, we are also focusing on improving the share of formulation in the overall product mix.

As far as contract manufacturing business is concerned, performance during the quarter was lower as expected with the sales of PEKK continuing to remaining soft. We're however undertaking necessary investments with the dedicated team for the business making encouraging progress. We're hopeful that efforts with start producing the desired results over the coming years.

A quick word on Capex, before I hand it back to the Moderator. Our overall Capex for the year should be in the region of Rs. 250 crore and we're happy that we commenced dispatches from our new formulation facility Dahej, CZ during the quarter.

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

Questions and Answers

Moderator: Thank you very much. We take the first question from the line of Prashant Biyani from Elara Capital.

Prashant Biyani: Sir, what has been the breakup of volume and price increase in the domestic business?

Subhra Gourisaria: Yes, thanks, Prashant. So, Prashant, as you know, that we spoke about there has been a challenging context and it was imperative for us to pass on the cost increases in the form of pricing. And we also spoke about the challenges across the industry in terms of driving growth. Hence on a summary what I can say large part of the growth has been driven through pricing with volumes coming under pressure during the quarter for the industry as a whole.

Prashant Biyani: And ma'am for us have we seen any decline in volume or still we have managed to grow?

Subhra Gourisaria: No. There has been no decline in the volume. As I said large part of the growth has been driven through pricing. But we've also seen volume growth during the quarter.

Prashant Biyani: Okay. And secondly ma'am, how has been the demand in the quarter forr both domestic and international? Even though I understand that a quarter has just started, but till date, how has been the demand?

Sanjiv Lal: So, Q4 is looking good as far as the international business is concerned. And domestic, while there have been a lot of problems in Q3 due to unseasonal rain and pest infestation, especially for the chilli crop, and all sorts of state level decisions that have hampered the growth of the segment. We believe that Q4 should be a much stable quarter compared to Q3.

Moderator: The next question is from the line of Rohit Nagraj from Emkay Global.

Rohit Nagraj: Yes, thanks for the opportunity. So, the first question is, we have indicated that we have taken calibrated price hikes. Now, whether the similar price hikes will be continued in Q4? And whether there is an ability to absorb these increased prices by the farmers? How are we seeing it because as Subhra ma'am told that there has been an impact on the volumes for the entire industry? So, is that related to the pricing dynamics? Thank you.

S. Nagarajan: Yes you're right. We have taken calibrated price increases. For different products, we are finding that there are different competitive contexts, which are actually quite a bit important in terms of the sustainability for the different products. But the fact of the matter is that the raw material prices, as well as gas prices, freight rates, everything is actually going up. So, in a general sense, the trend is up on the overall cost. And therefore, we should -- we do expect that there would be elevated price level compared to what it might have been, let's say in Q2, for instance.

In terms of sustainability in some products, yes, it could become a bit of a challenge, because when the prices of select products go up too high, maybe the farmers could switch to alternate products. So therefore, it may have an impact for specific companies based on their portfolio of offerings. But in a general sense, yes, I think the price levels are likely to stay elevated.

Rohit Nagraj: Right, got it. Thanks. Sir, second question is in terms of international business. So, as commented earlier, there has been a significant growth in Q3 as well as the first nine months. Now here, are we not facing the same challenge of price hikes or the dynamics something is different, that there are challenges to solve the product from other geographies and that's why the growth has been relatively higher? Thank you.

Sanjiv Lal: Rohit, actually, what is happening globally, our understanding is that the commodity prices are looking good. And therefore, the ability for absorbing these higher prices in the international market appears to be there, but again, up to a point. Because we are also getting some pushback in terms of the kind of increase of price that we are trying to recover through our own pricing strategies. So, there is some pushback coming, but there is also acceptance of higher pricing, because that is a phenomena, which is, I think, globally accepted that the prices are on the higher side. But commodity prices being favorable, the ability to absorb higher pricing is in a way supporting the international business.

Moderator: The next question is from the line of Somaiah Valliyappan from Spark Capital.

Somaiah Valliyappan: Sir, with respect to the strategy Capex that we had laid out, can you just help us a bit in terms of the major projects be it MPP also the Dahej phase 1 completion all of that, by first half of CY '22, can we say the majority of the Capex that we have planned for is done? And what are the impending Capex as part of this Capex program? And second part of that question is what is the kind of asset turn that we are looking at for all these three projects that are by and large complete by first half of CY '22?

Sanjiv Lal: So, we are expecting our major Capex which is MPP plant to be completed during H1 of FY '23. And as far as the debottlenecking projects are concerned, whatever we had planned, those have been largely completed, whether it is on the herbicide side or whether it is on the insecticide side in Ankleshwar, all that has been completed. So, including the formulation facility we have commissioned one of the lines and other lines are getting commissioned during Q4 itself. So, the utilization of that plant will also start picking up during Q1 of next financial year. And these are the major Capex and we are already doing some planning related with further expansion of one of our products which is doing well. So, we will further expand during FY '23. We may be investing in further expansion.

As far as the asset turns are concerned for the debottlenecking projects, there is already a demand for these products. The capital investments have been on the nominal side relative to building a completely new multipurpose plant that we have undertaken. And as we are also alluded earlier, it will be some time before we're able to completely scale up the volumes in the multipurpose plant. And we have used the 10-year IRR for the investment that we have made. So, in the initial years, the returns would be on the lower side, but it will continuously pick up as we move along year-on-year.

Somaiah Valliyappan: Sir, would it be possible to give a very ballpark asset turn at least in case of the MPP plant?

Sanjiv Lal: I think, Sowmya, it'll be a little premature for us to be talking about that. Maybe one year from now we can discuss that.

Somaiah Valliyappan: Sure, sir. So, the second question is with respect to our international business. So, we have reported 19% growth, if you can give us some color in terms of what is the indicative volume versus price growth? And two, within volume has there been a new capacity vis-a-vis compared to last year that has come, if you can give some color on that'll be helpful?

Sanjiv Lal: Subhra, would you like to take that? I think the answer will be similar to what we had responded to for domestic but Subhra, you may like to just cover that?

Subhra Gourisaria: Correct. Yes, So, across our businesses we have seen this huge inflation both in terms of materials. And if I talk about international business it got further compounded by the steep inflation we saw on freights. So, if you ask me the split between price and volume, it's fairly similar across our businesses where we've tried to recover costs, and growth is also comprised between volume mix and price largely led by price. Does it help you?

Moderator: The next question is from the line of Abhijit Akella from IIFL Securities.

Abhijit Akella: Just a couple of questions, firstly Sanjiv, in your opening remarks, you mentioned that in 4Q we are on track to sign a couple of small CRAMS orders. So, would appreciate any color you could share in terms of the size of these orders and any further color in terms of are these in agrochemicals, are they in generics, any rough indication of the type of customer that this might be?

Sanjiv Lal: So, Abhijit, as I mentioned that these are small, so and they are not even material, if you are looking for a big figure, they are not material. But for us, it's important because, we've been discussing in the past that this is not an area that we had focused on till about two, three years back that we want to rebuild on the contract manufacturing opportunity. So, this is an important building block for us. And as I also mentioned earlier, that this business we'll have to build brick-by-brick. So, this is, I would say, one of those important steps that is really going to help us as we move along. So, there's nothing significant to report at this stage. And I guess, over a period of time, all this information will become available as we get into commercial production.

Abhijit Akella: Should we -- you said that this business will start to contribute towards growth within the next two years or so. So, can we potentially -- just as a baseline expectation, can we expect that these new, projects are getting into could potentially become somewhere close to as large as two CRAMS molecules are today for us?

Sanjiv Lal: No, no. As I mentioned, these are small opportunities. So, these are not big opportunities. In any case, these also will take at least a year before they can get commercialized. So, in your modeling, I would not suggest that you build in anything in terms of these opportunities in the next financial year. Because you sign a contract, and it takes time for getting all sorts of registrations and other things in place before you can actually start that business.

Abhijit Akella: Got it. And my last question is -- one is with regard to the sharp improvement in gross margins that we've seen sequentially this quarter, I believe it's gone up from 36% in 2Q to about 40% in 3Q. Is this, I mean -- is the major contributor to this an increase in some of our export product prices, like say, Metribuzin and others, or is it more driven by price actions in India? And the other thing I just wanted to clarify is, the presentation talks about some challenges in the seed business in terms of maize placement in eastern states. Just wanted to clarify what exactly happened there and how it impacted the business? Thank you so much.

Sanjiv Lal: Subhra, you like to take the first part of the question? And Naga can take the second part of the question.

Subhra Gourisaria: Sure. So, firstly, the way you look at material margin, because you're computing your gross margin by just looking at material margin. And what we spoke about is that it's not only restricted to input cost materials, where we have seen a steep inflation, we've also seen it in freight, gas prices and others. And hence, at an EBIT level, you have not seen that improvement coming through. So, the price increases have just been taken to help us recover the inflation across the various input cost components.

Secondly, to answer your question, as I said earlier, the price increases have been fairly similar across the different geographies. And it's been to recover the input costs pressures that we have seen.

S. Nagarajan: On the maize placement in eastern markets, in Bihar, there was a change in some of the regulatory requirements typically to be able to sell in the Rabi market in a large market like Bihar, there are either of two routes that were available. One is for the hybrid that you are offering to be put through a three-year state testing process or through the ICAR registration process. So, basically a state level process or a national level process, these were either of the routes that were available. But in this year, the local regulations required that any of the hybrids that have to be introduced in that market had to go only through the state process. So, we have had to complete -- had to go only through the National process ICAR registration process. So, we had to get the registration before we could offer that particular product in the state.

Although therefore, we had completed the 3-year testing process and we had anticipated to be able to offer our product -- new product in the market as you know our Rabi portfolio is getting built. So, it was a new product, not an existing product. We were put to this difficulty because of this change in regulations. That is what we are saying in that comment what you said.

Abhijit Akella: Okay. So, just to clarify it was an issue -- a hurdle faced by our new products not by our existing business, and it wouldn't have impacted the existing maize industry also for say in Bihar?

S. Nagarajan: Yes, that is right, that is right. For us, it was a new product as you know, our Rabi portfolio is building out. Yes.

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

S. Ramesh: Can you give us the name of the two active ingredients for which we have enhanced the capacity accomplished as per your press release, sir?

Sanjiv Lal: So, this is related with Acetamiprid and Lambda-cyhalothrin. So, these products, we have taken our production there.

S. Ramesh: Okay. And the second thing is for this new formulation plant, where you have started commercial production, can you give us the broad categories in the formulation in terms of insecticides, herbicides, fungicides?

Sanjiv Lal: No, no. This facility we'll be handling only insecticides and fungicides. And we have started one of the lines with fungicides.

S. Ramesh: Sir, just broadly if you look at the growth over '23-'24, most of the Capex benefits will possibly come in '24 in terms of the volumes. And you also talked about launching four crop nutrition products. So, in terms of your strategy, is there any potential for volume growth in FY '23, based on the new product launches, and the capacities increase? And second thing is, would you see further traction in terms of the crop nutrition, where we understand the growth rates and margins can be better than crop protection category, any thoughts on these assets?

Sanjiv Lal: So, that is right. The crop nutrition category is tending to show a higher growth rate. And the very differentiated products have also helped in better margins also. So, this is an important category for us. And while we have not specifically been calling out new products that we've been launching, when we had our analyst calls, but we've been slowly building our portfolio, in the crop nutrition category, as well as the biologicals categories. So, there also as I mentioned, that we have launched bio sites for nematicides. So, that was one of the launches that we did during Q3 along with the nutrition product from agro waste.

Moderator: The next question is from the line of Aditya Jhawar from Investec Capital.

Aditya Jhawar: Subhra one question for you is that if you look at our overall gross margin, depletion in inventory was a significant contributor in your gross margin expansion as compared to previous quarter -- same quarter last year. If we normalize that, you would see that there is significant pressure that we can see in the gross margin in this quarter. Does that mean that there is a significant part of under recoveries to be done purely on the material cost both in the domestic and the export side?

Subhra Gourisaria: No, material side as I said, we -- what we follow internally is how much is available cost that we need to recover in terms of looking at the pricing and how much is the appetite for obviously, the consumer to absorb. We are nowhere signaling that the pressure has come down, pressure continues to be there, but at the same time in quarter three, we have seen good recoveries happening through. So, yes, you are right that the pressure continues even in Q4 going forward in terms of ensuring that we are able to recover our steep inflation on RM and even on the other input cost components.

Aditya Jhawar: Okay. Second question is on the Opex. If you see any clearly freight increase is the one that alluded to that, that has been an increase, but on a sequential basis also that the steep increase as a percentage of sales. So, is there certain one-off or cost that is included in OpEx in this quarter? Or if you can quantify the extent of increase in the freight cost in this quarter specifically?

Subhra Gourisaria: So, firstly, there's no one-offs else included in this quarter, which is impacting the OpEx, these are all real increases that we have seen. An increase as you would have been seeing whether in this industry or across, especially in the terms of freight costs, international freight costs, gas prices that we have seen natural gas price escalation and across various other components. So, we are seeing this inflation across various items of operating expenses, which is leading to this compression.

Moderator: The next question is from the line of Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar: One of the comment you did in the call was the project are initiated with keeping in mind 10 year metrics for IRR, could you just retouch on that, I thought we were putting with CapEx five year or six year payback period inline?

Subhra Gourisaria: No. What we said is, depending on the risk of the project and the sensitivity, we take the IRR. Yes, you're right, we typically use five to six years as the IRR and it needs to cross the hurdle rates that we have. So, not necessarily all projects will have the same period considered for IRR. As finance we ensure that it meets the hurdle rates quite safely, before we embark on any project.

Nitin Gosar: To put this question in different ways, the project which can have a 10 year IRR, the quantum of those project will be smaller or bigger?

Subhra Gourisaria: It will be very small. We typically use five years IRR.

Nitin Gosar: Okay. Another two observation on numbers, on gross margin, you already did indicate that adequate price hikes been taken. For the third quarter the number that we are seeing is this completely factoring for all the price hikes that you have taken or there is some spillover, which is expected to happen in fourth quarter as well in terms of numbers?

Subhra Gourisaria: See, it's not a general and it cannot be across -- generalized across all commodities and across all products. What we are saying is depending on the volatile cost scenario, and depending on the consumer, and our brand positioning and also the consumer pull, we're taking price hikes to ensure that we are able to recover all our input costs inflation that we are seeing. That's the endeavor we're going and hence it's not that the price hikes have closed, and we will not have any carry forward pricing or we will not be able to take pricing, if the situation continues to be volatile, we'll continue to take price hikes.

Nitin Gosar: Ma'am, idea was to understand were we late in taking price hikes or this price hikes were completely -- would have seen 90 days price hike?

S .Nagarajan: No, I don't think there is any spillover or anything like that we can attribute. See typically the way we -- as you know the products that are relevant for the Q3, the portfolio that is relevant for Q3 and the portfolio that is relevant for Q4 are not the same. So, for different products, as the season kind of comes through, we take the product -- take the price increases and they manifest themselves. So, for example, if we have taken a price increase in November, for instance, for a product that sells in November, December and January, then certainly the price effect will be felt in January as well. That is not a spillover. It is just that whatever gets sold in January would be witnessing that price increase.

To your question, no, we have not felt that we have been late in taking price increases because we've actually been on a very close basis looking at the cost trends and translating the relevant price increases. I hope that helps.

Nitin Gosar: Yes. Perfect. And one last observation was employee costs if I were to see for nine months basis of current year versus nine months for FY '20 that's two years back, the CAGR looks like around 11% while the business momentum has not been so strong. The 11% CAGR inflation on employee cost this is more to do with same employee seeing inflation or the new hiring being made, or any business development, how should we see it?

Sanjiv Lal: On the employee cost one is that in the base years, you'll recall that during the first round of COVID, we had been a little cautious in terms of these kind of costs. So, we had not given any salary increase. But during the current financial years, we have given the employee salary increases in line with the industry. So therefore, you're seeing this increase. And yes, there has been some additional resources that we've added to our teams, especially on the R&D side as well as the sales side for the growth of the business that we have planned.

Moderator: The next question is from the line of Nirbhay Mahawar from N Square Capital.

Nirbhay Mahawar: Yes. Sir, just a small follow up on the CRAMS development, we've been talking about. While it is too early to build on models, can we get some sense of size of opportunity and kind of customers we are working?

Sanjiv Lal: So, I think that will be very premature to be talking about that. So, we will perhaps pick up this question at a later point in time. So, I will sort of avoid answering this question at this point Nirbhay.

Nirbhay Mahawar: Fair enough. Thanks.

Moderator: The next question is from the line of Chintan Modi from Haitong Securities.

Chintan Modi: Sir, with respect to the seeds business, you say that the review has been completed and you'll be aligning the expenditure with the industry. So, if you could just touch more about it like exactly what you mean by that, will it be more on the R&D side? Or will it be more on the marketing side? And secondly, is there any number that you would like to share, I mean, a broad range like how much sales you intend to achieve in say next three to five years?

Sanjiv Lal: So, in terms of -- one is that certain category of crops, for example, as you are aware that on cotton, there has certainly been a lot of problems during the current Kharif season due to the prevalence of the illegal cotton. So, in a way, the addressable market for industry players like us is getting compressed because of the growth in the illegal cotton. So, when you've got a smaller size of the addressable market, we also have to limit our expectations of growth in the, let's say, the cotton category, more realistic in terms of what is happening.

So certainly there we are taking some portfolio positions as to what are the products that we will really be pushing and some of the products that have done well during the current Kharif, although on a very small base, because they were new products, those products, we will be scaling substantially during Kharif of '23. And while certain other products, we will be scaling back. And therefore, in line with the products that we are going to be supporting, we will adjust our promotion costs and support costs for those categories. So that is the adjustment that we are doing.

And as far as R&D is concerned, we continue to invest in R&D. Again, there are certain categories that we feel we should maybe slow down our investments in terms of breeding. So those things also we have reviewed. And there will be some adjustment, but there is going to be no reduction overall in our R&D spends on breeding, it will shift from one set of hybrids to another set of hybrids.

Chintan Modi: Okay. And any number that you would like to share like where we kind of try to be in like next three to five years or say in terms of market share?

Sanjiv Lal: So, see in terms of market position, I can give some indication,. Market share because we tend to be small when it comes to the crops like cotton, we do have a good position in millet and paddy. So, we will continue to maintain our market position in these categories. And on an overall basis our sense is that the hybrid -- for example, hybrid paddy is growing at a much lower rate than what was anticipated a couple of years back. So, again the addressable market is growing very slowly.

So, these are some of the things that we have factored in into our overall growth plans, but we will continue to maintain our market position, especially of the crops where we have already got a good position and also build positions in certain crops which are important. For example, mustard it's an important category for us, it's small at this stage, but we have launched new products and they have done very well as well during the current season. And we will continuously build on that category, so that our market position improves. Today it is a very, very small category for us. But from our overall India perspective, oil seeds are becoming more and more important. So, we'll continue to focus on that.

Chintan Modi: And sir, one last question on the crop care business. Were there any instance of where -- because of the raw material procurement issues, you were not able to cater to the demand?

Sanjiv Lal: No, so, far in Q3, we have not lost any business on account of stock out situation. We had been sort of calibrating our procurement. And we had mentioned it earlier also that our inventory costs and all are tending to be on the higher side because of strategic procurement. But all these inventories have all started coming under pressure because of delayed shipments, the complete stoppage of certain chemical parks. So, all those problems have really eroded our inventories that we have.

But in the meantime, our approach to trying to find alternate sources has continued. So, we are just hoping that we are able to manage the supply chains till such time some of the key materials that are required from China stabilize and the current view is that maybe towards March, the supply chain should ease.

Chintan Modi: Okay. And just one last one Was there any significant sales return in the domestic business during the quarter which got booked?

Subhra Gourisaria: No, it was in line with our historical trends and what we had provided for.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss.

Rohan Gupta: Sir, first question is on the challenges which you have mentioned that in availability of raw material and the pricing. Sir, how long do you see that these disruptions may continue? You are dealing -- I mean, we have seen that the China problems has been going from last three to four months and may continue to do so. Are you also looking at some alternate supplies and sourcing from some domestic market? And have you resumed to some more of a domestic sourcing on that front? And how the industry is behaving? And in terms of market acceptance in terms of increased pricing from the farmers?

S. Nagarajan: Yes, you're right., we have been witnessing these challenges. Yes, certainly three, four months it has become heightened. In terms of going forward, we think that this is going to be there for some time at least because people obviously are attributing it to the Olympics and so on. We will have to see whether it will abate, but we are hopeful that it will abate at least in the beginning of next year March and April. But I think from our point of view, what we are looking at is as mentioned trying to build strategic inventory on certain key raw materials.

We are also in the process of tying up with local suppliers wherever available, some of our raw materials, it is available, some of them are not. Where it is available, we are in the process of tying up. It might even be at a slightly higher cost position, but we feel that supply security is very important. So, yes, we are taking action on the localization if you want to put it like that.

In terms of farmer level acceptance in the Indian market, as you know the total consumption of pesticides for instance, ranges between 10% to 20% of the total cost of cultivation. So, from that standpoint it is not a very significant percentage and even if you had a 20% increase for example, on something which is 15% cost item, you are really talking about a 3%, 4% cost increase. As long as there is an adequate reward that the farmer is able to get from the commodity prices, from his output being able to be sold higher than that cost inflations.

However, the challenge comes because of the different possibilities that can arise. One is that if a particular formulation becomes more expensive then the farmer has an option to compare between different kinds of formulation and pick what he thinks might be the best solution from his point of view. So, you could actually have a completely different formulation serving the same purpose in the same segment, in a slightly different way becoming more competitive.

The second of course, is the competition that is possible in a particular segment itself between the different companies, because of the different opening stock levels, which Sanjiv alluded to in his opening remarks. So, I think these are some of the bigger challenges. In theory, it should not be a big impact, provided there is a commodity price increase. So, crop-to-crop it would vary.

Rohan Gupta: Sir, my second question is more to Sanjiv sir on our long-term strategy of the company. Sir, as we see that in Indian chemical industry, there are many players who have emerged especially focused on manufacturing, you'd have also seen that many new players have emerged and even many IPOs have also come in last couple of years, those companies are focused more on the import replacement and technical or intermediate manufacturing opportunities in India with a ROI ranging from almost 20% to 25%. Sir, my worry and concern is that we are a very solid cash flow generating company of almost Rs. 250 crore to Rs. 300 crore annual free cash flow. And we are probably struggling to find out the opportunities of investment and that may leading to you are saying that higher payback period of even going up to seven, eight years also. Sir, we are the Indian chemical company, agro chemical focus since so long, where are the gaps and where are the opportunities which we are missing and not able to find out the opportunities for a better return ratios? We are going to continue to generate such a solid cash flow generation and if we cannot invest probably in a better opportunities, then probably our ROCE profile may keep on deteriorating. Sir, that's a concern probably, I mean, which probably right now we are facing and also as a stock price.

Sanjiv Lal: So, , in a way, what you're saying is right. In the near-term, there may be pressure on the ROCE. And as far as our capital program is concerned, as mentioned by Subhra, this financial year we will be spending about Rs. 250 odd crore right, this is what we had outlooked. We are intending a similar CapEx for the subsequent financial year as well. So, it is not that we are not making the investments, but I think we will always be a little cautious in terms of giving outlook in terms of how the returns will come. And that is mainly from our own experience that it will take its time to get the registrations in the key markets, which are important for these kind of products.

And you are already aware that there is a very long cycle time, especially in high consuming markets like Brazil, and also in North America. So, while it is much shorter in North America, it is still a process that one needs to go through. So, we will continue our investment in building capacity. And even for our existing products, we have not hesitated in increasing capacity for whether it is a Hexaconazole, whether it's a Pendi. And in the case of Metri there has been a bit of a lull, but as I was mentioning that in H2 we really expect to get the plant back in terms of full capacity utilization. I don't know whether that answers your question.

Moderator: The next question is from the line of Dhaval Shah from ICICI Securities.

Dhaval Shah: Yes, thanks for the opportunity, sir. So, I have a question on -- you've mentioned that we are witnessing some decent demand for one of the key technical for the international market. And maybe we'll come up with the capacity expansion in next year. So, can you please name that molecule wherein we are finding decent growth over here?

Sanjiv Lal: So, as I mentioned that we will in due course of time, let you know, once the plant gets commissioned and dispatches start, we will communicate at that point in time. So, for the time being as I mentioned that we are doing the piloting work and the plant is being built out because we don't have the capacity in our existing facility for these newer products. So, in due course of time we will communicate.

Dhavan Shah: Sure, and sir, my second question is, we have expanded our technical capacity for some of the international molecules in last one, two years. And maybe the inventory situation is also getting normalized for few molecules. I think we may find the volume growth in the next couple of years plus there is also a pricing growth. So, in the presentation it is mentioned that by FY '25 the revenue contribution from the international market would be around 40% odd against 37% presently. So, I mean, do you foresee that, that is a conservative target and maybe we can inch up above that 40%? Plus, if you can share the margin mix between domestic and international market, how is the margin scenario between these two segments?

Sanjiv Lal: So, we had, in fact, over two years back, we had outlooked that we want to have a balance between our domestic business and our international business and that is where we had called out that we would like to see a higher growth coming from our international business. All said and done, if you look at the trend -- growth trend in India, the exports are growing at higher pace than the domestic consumption growth. So, therefore, there is certainly that opportunity which as a manufacturing company like ours, we need to leverage and that's why we had outlooked a 60-40 kind of split between domestic and the international business.

In terms of margin structures, they -- for our domestic business, we do have a lot of investment that we put in terms of distribution, sales team and all that. And in the case of international business, it is more B2B kind of business. So, the amount of investment which one has to do on distribution is not there. So, in terms of margin profile, I would say that it will be comparable.

Dhavan Shah: Okay, and the last one is about the formulation plant and the MPP plant. So, these two plants, I mean, can you share, I mean, it will be largely for the international market or this formulation will be mainly for the domestic market and the MPP could be for international? If you can share the mix between these two plants?

Sanjiv Lal: So, the MPP plant, we are building out in the SEZ, the Dahej SEZ, so it is intended for the international business only. The formulation plant is built out in the chemical zone and it was intended for the growth that we have outlined for our domestic business to be able to do the formulation at the new CZ where we have built this plant. And it is also our intention to slowly shift some of the formulation work that we are doing at Ankleshwar to this facility so that we release space within the Ankleshwar facility for more production of active ingredients.

So, that is our thought process of the formulation plant in CZ, which is largely focused for the domestic market. But there could be some formulation export which we had alluded to that we are also trying to build for our international business. So, some of these products can also be done from the CZ as well, but largely focused on domestic distribution.

Moderator: The next question is from the line of Varshit Shah from Veto Capital.

Varshit Shah: Sir, as we go into Q4, how are you seeing the inventory level especially in the domestic formulation market for new as well as for the industry because the what I sense from the market is a lot of the competitors are anticipating some moderation in the raw material prices. And hence, actually they're kind of sitting on the fence in terms of building up the inventory for the Q4. And so, can you throw some light on your inventory position? And how are you approaching this? As well as what do you see at least at the industry level?

S. Nagarajan: Yes, that's right. I think from the raw material point of view, yes, we are taking raw material by raw material. There are different dynamics as you are aware. So therefore, there are certain raw materials where we are carrying or we will even be adding to our, what we call, strategic inventory. So, that we are able to cover through the uncertainty that is there. So, it varies from raw material to raw material.

As far as the channel stocks are concerned, we have very stable channel stocks at the end of Q3. Some -- I mean, our understanding is in the market, there could be situations where certain products could be overstocked, for certain companies. But from our point of view, we are satisfied with our channel stocks at the end of Q3 and we don't see that as an issue, actually.

Varshit Shah: Sure, and just out of the blue question, I mean, is there a situation probably I'm at least anticipating that that could be sadly, it's a tricky situation for all the companies in the industry that let's say if the prices keep falling and you keep bidding till the end. And then, of course, you book it either you will not get the material and if you're too soon to order and the prices fall further, then actually you end up making compromises on gross margins. It's a tricky situation to take a call, I mean, at the industry level itself?

S. Nagarajan: Yes, yes. That is true, that is very true. So, that is why like I alluded to earlier, we have reduced the time difference between ordering or taking pricing calls. For example, we have increased the frequency, let me put it this way, the frequency of these decisions has significantly increased. We are taking shorter duration calls. But in spite of that, what you're saying is absolutely correct, because supply also, not just the price drop, what we're alluding to, supply also can turn, I mean, from being available to not being available. And therefore, it is a tricky situation for the industry.

Varshit Shah: Sure, because at least I am anticipating that everyone will go to buy in the market at the same time. So, availability might become a challenge.

S. Nagarajan: That's right. That's why we are actually taking very, very close -- this is actually become in fact, in quarter three also similar situation actually prevailed. Ever since, I would say, from the middle of November to at least end of December, or maybe 20th of December, there was a significant increase. And then availability became a significant challenge. And therefore, I think we put our process in place in October, which I think has been timely.

Moderator: The next question is from the line of Rajat Setiya from ithought Financial.

Rajat Setiya: Sir, on the -- my question is about the innovation turnover index. If we look at it, it's actually a proxy for our R&D and distribution strength. But this number hasn't improved over a long period of time. So, what is the evaluation or analysis of the management team that what is going wrong and how you're going to change that?

S. Nagarajan: Okay. Yes. So, I think as you have seen in the investor deck, the innovation turnover index has been hovering around 10% to 12%, you can say, except for one year in FY '20, where it was higher. So, in the last couple of years, we have introduced products. But as you know, we have also had challenges in terms of being able to scale up some of those products as much as we could, even from the market standpoint, not just from the raw material, which we've spent a lot of time talking about availability and supply and that kind of standpoint, but even from the standpoint of being able to do physical detailing of these products, because it is very important for new products to be able to conduct differentiation activities, product differentiation activities to position them properly in the market.

We have done, of course, as best as is possible under the circumstances with regard to following the COVID procedures and so on and of course using digital medium to the extent feasible. But certainly, that has been one important factor that has played out. But I think some of these hopefully should come down maybe if things improve on the virus front, maybe in the upcoming Kharif we should certainly have more physical detailing possible. So, that I would say has been one important factor, but yes, we are still continuing to introduce products and we will be backing them up with good promotional budgets and marketing activities, because we certainly wish to improve on the ITI for the domestic industry -- domestic business.

Rajat Setiya: Sure. So, you are saying basically new product you have been launching, but the last two years markets were bad, so you couldn't scale up? So, should you expect next two years to be different? And what is the number that you will be satisfied there, ITI number?

S. Nagarajan: I think it's difficult to predict for the next two years. We are hopeful that it will certainly be better because what we have found is that some of the product – in spite of all these challenges, by the way, there have been significant improvements that we have seen on the products introduced in FY 20 – in FY '22. So, these products have not really got the benefit of very good physical marketing demand generation work, both in FY ’21 as well as in FY ’22. So, that is one which is certainly giving us some hope for optimism.

And secondly, yes, if the situation improves, I think this can certainly become even better. So, there is no specific percentage that we are able to sort of prescribe for a couple of years down the line, but we certainly are wanting to improve on this parameter.

Rajat Setiya: Sure. So, my second question is about the Rs. 800 crore of Capex that is in the pipeline overall, and we’ve already spent majority of it. So, if we divide this into three, four categories like backward integration, capability enhancements in R&D, capacity expansion or anything known productive, interrelated, so, what is the broad break up here?

Sanjiv Lal: So, Rajat, out of the Rs. 800 odd crore, what we had indicated as committed was around Rs. 550 odd crore. So, there is still some opportunity for us, which we’ll be sort of doing the proposals and planning during FY ‘23 for the other spend as well. And we have done debottlenecking, we have also, of course, there’s usual sustenance capital for replacement of old equipment, all these things have been there. Plus, there’s also been investment in our digital investments both on the market side as well as in the factory side for automation and bringing in Industry 4.0 concepts of IIoT.

So, all these investments are going on, there’s investments in mechanization. So, they’re spread in various categories. Maybe next quarter, we will give you a split for the year as to how this has panned out over different categories of spent.

Moderator: The next question is from the line of Mayank Lakdawala from Concept Investwell.

Mayank Lakdawala: Just a couple of questions, first is on, how is your demand for the PEKK? Means in the last call you alluded that PEKK was not in production. So, has the production started? And what is the stage of illegal cotton overview? Can you give that, like did the returns reduced like in the last call you alluded that returns were around 40%. And one more thing on, One-Rallis approach.

Sanjiv Lal: Okay. I’ll just answer the question on PEKK and then I’ll request Naga to fill you in on the other two points. As far as PEKK is concerned, last year, pretty much our sale was zero. And so far, our conversation with our key customer indicates that the revival of this particular product is again linked to the airline industry and the demand is yet to fully come back. We can only anticipate that towards Q3, maybe Q4 of next financial year, we will be able to restart this part of the business in any meaningful way. So, this part of the portfolio of ours continues to not deliver.

S. Nagarajan: Actually, as you know, the sales return in the end of H1, which we talked about the 40% figure what you talked about, that is actually pertaining to the Kharif returns. Q3, we have had stable situation on the sales returns. And part of the reason also is like I mentioned earlier about the bans in -- or rather the regulatory challenges in Bihar or like what Sanjiv mentioned about bans for paddy in AP and Telangana, we calibrated our placement. So, we have not had any challenges in terms of phase return.

Second, in terms of One-Rallis, as you know, we had introduced it in the eastern regions from first of October. We are working through the alignment of the crop care and the seeds teams. The work commenced on different aspects, business alignment, IT alignment, training of our people, because as you know, it certainly requires the crop care team members to get familiar with the seed operations and vice versa. All of that has been underway and it is progressing quite satisfactorily.

Moderator: We take the last question for today from the line of Suresh Kamate from Ubbu Business Solutions.

Suresh Kamate: This is regarding our dependency on China. So, I read somewhere in the last year that it was around 50% is what you had dependency. So right now, where we stand on this thing?

S. Nagarajan: Yes, this is -- the raw material dependency this quarter would be similar. I think it hasn't changed, but like what we mentioned, we are actively looking to localize as much as possible. We have made progress in at least two of the products, one which is larger and the other one which is a little bit smaller in terms of value of procurement. But I think we will really be in a position to report on all of this maybe the next quarter.

Suresh Kamate: Okay. And my next question is, majority of crop protection revenue comes from insecticides. And upcoming future crops are either CRISPR or GM seeds based. With these crops, necessity of insecticide will drastically going to reduce just like it has happened in the developed countries. So, how are we going to address this risk? Knowing this risk, why company is focusing on increasing the capacity on the insecticide?

Sanjiv Lal: Your observation is absolutely correct. Of course, today in India, we only have GM cotton which is permitted. But you are right over a period of time, there would be newer products which are coming. Herbicide is an area of focus for us. Our investments in herbicide, especially for the export market has been increasing. And even on the domestic business side, we have introduced a number of new herbicide products for the local market. And that has actually grown quite nicely during the nine-month period. So, it is certainly an area of focus for us, investments may be happening in insecticides, fungicides, but that doesn't take away from our building out the formulations that are required for the herbicides category.

S. Nagarajan: No, that is right. In fact, if you see our focus on herbicide in the nine months period this year, if you compare our herbicide domestic market growth over the previous year, it's more than 20%. So, we are increasing the share of herbicide in our portfolio and that is actually an outcome of the herbicide focus that we have brought. So, that is absolutely correct what you're saying. The additional point is that even in insecticide and fungicide we do feel that there are crop pest segments that we will have to further cover. And therefore, we are also doing investments in insecticide and fungicide, but it is not at the cost of herbicide. It's a combination of all is what we would say.

Moderator: Thank you, very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Sanjiv Lal: Thank you. And as we move into the last lap of this financial year, it is with a whole lot of optimism. This year has, of course, been very, very, I would say challenging, largely led by a very erratic monsoon. And the forecast which we had for the monsoon for the current financial year was actually supposed to be a very, very stable monsoon, but due to various climate effects and all these changes have actually had a significant impact on the industry as a whole. And see in that layout in the terms of the results for various companies.

And now, looking forward towards the next Kharif season, it is again anticipated that we will have a stable monsoon based on some of the El Nino El Nina kind of influences that impact the monsoon over India. As of now it is indicating a stable monsoon. So, we are going ahead with our planning with the expectation that we will have a good monsoon. And Q4 is now practically in the last leg. So, whatever planning and all has to be done all that is in place. And we are just trying to make sure that we can navigate it without any major issues in terms of application of these chemicals.

And of course, supply chain continues to be an issue which our teams are navigating. We do have a planned stoppage of our plants during April. And if there's any such eventuality where we find some particular raw material not being available, we can always advance our shutdown into Q4 so that we have a continuous run during the Q1 of next financial year. All these fine tuning and all the teams are currently working on. And we also needing to go through the challenge of the current Omicron wave, which is impacting many people, including our colleagues in Rallis. So, all necessary attention and care is being given so that we're able to keep our team safe and at the same time conduct our business in the most appropriate manner.

So, with that, thank you very much for joining this call.