RALLIS INDIA LIMITED

January 30, 2024

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' Call pertaining to the Unaudited Financial Results for the third quarter and nine months ended December 31, 2023

Further to our letter dated January 10, 2024, we enclose herewith a copy of the transcript of the Analysts' Call on the Unaudited Financial Results of the Company for the third quarter and nine months ended December 31, 2023 held on Wednesday, January 24, 2024.

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 SHIVDAS NAIR

Digitally signed by SRIKANT SHIVDAS NAIR
Date: 2024.01.30 18:24:14 +05'30'

Srikant Nair
Company Secretary & Compliance officer

Rallis India Limited

9M & Q3 FY24 Conference Call Transcript
January 24, 2024

Moderator: Ladies and gentlemen, good day and welcome to Rallis India Limited's Q3 FY24 Earnings Conference Call.

Please note that this conference is being recorded.

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

Gavin Desa: Thank you Michelle. Good day everyone and thank you for joining us on Rallis India Limited's 9M and Q3 FY24 Earnings Conference Call.

We have with us today, Mr. Sanjiv Lal – Managing Director and CEO, Mr. S. 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 involve risks and uncertainties. A detailed statement in this regard is available in the "Results Presentation" sent to you earlier.

I now invite Mr. Sanjiv Lal to open the proceedings of the call. Over to you Sanjiv.

Sanjiv Lal: Thanks Gavin and good morning, everyone. As usual I will start with a brief overview of the industry after which I will discuss the Rallis specific developments.

To start with, the industry grappled with numerous challenges in the initial half of this fiscal. India itself experienced a 6% rain deficit compared to its historical average, posing difficulties beyond just the low precipitation, spatial distribution challenges also emerged. In particular, inadequate rainfall during Kharif led to moisture deficit in the soil and reduced water storage and reservoirs. The Rabi season witnessed a small decline in the sowing area compared to the corresponding period in the previous year.

In addition to weather related challenges, the industry struggled with the declining prices of various generic active ingredients, primarily due to continuing high inventory overhang.

On a global scale, challenges also emerged in Latin America which is a substantial market for numerous Indian agrochemical companies where demand remained subdued. North America and Europe faced de-growth issues attributed to channel inventory issues.

Moving on to Rallis Specific Developments:

Our performance during the quarter is largely in line with what we have been guiding in our earlier calls. Volume growth for the quarter is positive but because of steep cost deflation, in fact our price growth was negative at 8% resulting in a revenue decline of 5%. Our revenues for the quarter stood at Rs.598 crore. EBITDA for the quarter stood at Rs.61 crore against Rs.53 crore during the corresponding period last year. PAT for the quarter stood at Rs.24 against Rs.22 during the corresponding period last year. During the quarter, EBITDA and PAT margins improved to 10.2% and 3.8% respectively, compared to Q3 of FY23.

Moving on to the individual businesses:

Starting with Domestic Crop Care:

As mentioned earlier, revenues have been impacted by the delayed and unpredictable monsoons. Our efforts in terms of calibrating placements with market agility and focused marketing helped in a 6% revenue growth during the quarter, supported by 7% volume growth in crop care. Regarding regional demand, North, Central and Southeast Asia have exhibited resilience, while West and Southwest India, particularly in Maharashtra and Karnataka, have experienced subdued demand due to lingering effects of the deficit monsoon. Fungicide liquidation in Maharashtra has been sluggish, influenced by clear weather conditions and decline in onion crop sowing.

Despite these hurdles, we remain focused towards enhancing our product mix, expanding our reach and deepening our connect with customers. We launched three new products during the quarter, for application in multiple crops. So far, during the first nine months of the current financial year, we have introduced 16 products across various categories and markets. We are optimistic that these efforts will contribute to our growth in the years ahead. Our distribution network for domestic crop care business stood at close to about 5000 distributors and our retail footprint has increased to about 62,000 as of end of December.

Moving to International Business:

Exports continue to witness challenge with 26% degrowth during the quarter. Demand in general remained muted across our key markets, including the United States and Europe. Product prices are soft and channel inventories continue to remain high. In terms of individual products.I our key products, Pendimethalin, Metribuzin, Acephate and Hexaconazole, witnessed an approximately 15% to 30% price decline versus the previous year. Even in these turbulent times, Pendimethalin is showing traction and we have announced expansion of capacity of Pendimethalin to support the positive growth momentum.

Moving on to Contract Manufacturing:

It continues to remain steady. As highlighted earlier, we have signed three contracts. One of them an intermediate had already commenced despatch in H1. During Q3 we dispatched a new technical from a multipurpose plant for one of the Japanese innovators and a new formulation from our plant in the chemical zone. We are optimistic that over time we will be able to scale up our contract manufacturing business.

Our Seeds Business:

We experienced a positive first half, predominantly fuelled by a strong performance of our cotton hybrid Diggaz. In addition to Diggaz, the new cotton hybrid, Aatish Express, has gained traction in Maharashtra and the southern cotton belt sales of other crops such as paddy maize and millet have been steady. Q3 being a small quarter, our revenue was Rs.32 crore. The distribution network for the seeds business is now around 2,750 distributors and a retail footprint of about 47,000 retailers. While we have taken measures to enhance our Rabi portfolio, we anticipate that the seeds business will continue to be predominantly Kharif oriented in the near term. Our actions towards improving the profitability of our business are progressing well.

In Summary:

Although we anticipate ongoing challenges in the near term, especially in the exports business, we remain optimistic of the overall potential in the medium to long term. Our actions around portfolio expansion through new product launches and expansion of distribution reach and market investments will continue to drive profitable growth. We are also commencing the construction of our integrated R&D facility and expect it to be ready within 18 months and this is also going to go a long way in building a steady product pipeline in line with our long-term ambition.

With these opening remarks, I will now request Subhra for analysis of our financials. Subhra over to you.

Subhra Gourisaria: Thank you Sanjiv. Good morning, everyone and thank you for joining us today for our Q3 and 9M Earning Call.

Let me quickly walk you through our financial performance for the Quarter, post which we should commence the Q&A session.

Starting with the top line for the Quarter:

Our revenue stood at Rs. 598 crore as against Rs. 630 crore generated during Q3 of FY23 which is lower by 5%. Volume growth is positive, but pricing challenges have impacted the overall growth. EBITDA for the quarter stood at Rs. 61 crore as against Rs. 53 crore during the corresponding period of last year.

Margin for the quarter stood at 10% as against 8% during Q3 of last year. Our efforts around agile pricing, shorter pricing calls and shorter procurement have helped in improving gross contribution.

Further, our actions around timely liquidation, even at lower prices in the past have ensured we are marked to market for finished goods. Lower exports mix, better domestic performance and overall cost control have helped in improving gross margin. We also continued to be prudent in terms of overheads during these turbulent times. Profit for the quarter stood at Rs. 24 crore as against Rs. 22 crore during Q3 of last year.

Moving to Businesswise Performance:

In the backdrop of challenging monsoon conditions and steep cost volatility, our actions have helped domestic business growth at 6%. We continue to focus on the quality of sales and collections. As far as international business is concerned the overall situation remains challenging. Demand as well as the pricing environment remains muted in turn impacting the revenue and profitability of the business. Our

focus will be to drive volume growth as much as possible and ensure the best possible capacity utilization. We are also happy with the commencement of dispatches to a few new prominent global customers during the quarter. Our contract manufacturing business delivers steady performance during the quarter, and we remain positive on a long-term basis.

As far as seeds is concerned, we've had a good year following the performance of cotton hybrids, Diggaz and Aatish Express. Our efforts on working capital continue to progress well. Our inventory levels are significantly under control, especially in the seeds business and we continue to remain cash positive during the quarter as well. On Capex, we envisage that our spends for this year would be in the range of Rs.150 crore.

To Conclude:

I would like to reiterate that we remain positive on the business on a medium to long term basis, basis our recent strategic initiatives coupled with the commissioning of the Dahej unit. That concludes the opening remarks.

We can now commence the Q&A session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Prashant Biyani from Elara Securities.

Prashant Biyani: Subhra ma'am, can you elaborate further on this agile pricing point and how it is bearing fruit for you on the margin expansion side?

Subhra Gourisaria: So, what I meant was that we are looking at the market context and we are reviewing with the business team on what is the pricing actions to be taken to remain competitive in the market and as far as the international business is concerned, we had spoken in the past that even if we had to liquidate some of the products at a lower margin, we have done that to ensure that our inventory levels do not balloon. Both these actions, I would say have helped us in ensuring our gross margins are protected.

Prashant Biyani: But on the international front, liquidating at a lower price would drag your margin. But is it only because of your change in geographic mix that we are seeing margin expansion, or this dynamic pricing is helping you to increase margin in the domestic business? If this is true, then how is it doing it?

Subhra Gourisaria: So, our export margins are certainly under pressure but overall, at a product and a portfolio level we have been able to improve the margins.

S Nagarajan: So, I think we have to distinguish between international business and the domestic business. As far as the international business, what you're saying is absolutely correct, our margins are actually lower right this quarter compared to the last year same quarter, Q3 of FY24 versus Q3 of FY23, for the reasons that are quite obvious in terms of the price points falling much faster than the cost points. As far as the domestic business is concerned, there is definitely an improvement in the margin and that is happening because of a couple of factors. One, of course, is the overriding drop in costs which is certainly facilitating the process. But I think in terms of pricing also, there is a lot of short calls that we have been taking in the last few months, particularly more in last 6 months I should say and certainly in Q3 also. What it means is that on a very short basis, like 10 days kind of basis, there is very close monitoring of how the product prices are moving. So that has contributed. The second is, of course, our mix also has improved I should say, in terms of the contribution margins. We have had some couple of new products that have been introduced which you are already aware of. Last quarter we introduced Clasto, an insecticide which has also been a good product from the point of view of margins as well. So, it's a combination of agile pricing, it's a combination of mix change in the domestic market and of course raw material cost reductions as well from the standpoint of GC level and at the overall level, there is fixed cost control also that was mentioned earlier. That has also contributed to EBIT margin improvement.

Subhra Gourisaria: And also the mix because domestic business has better gross margin, but on overall portfolio level as well the mix is positive. That's also contributed to the improvement in the gross margin.

Prashant Biyani: Lastly, leaving aside this year, is there a steady state margin for international business or it is quite volatile depending on the global Ag-Chem prices leaving aside this year?

Subhra Gourisaria: It's actually quite volatile as you exactly said. It will depend on when the raw materials are sourced and it also differs between different products and the competitive context. But I think we had mentioned earlier as well that considering that the overheads are low for this business, at the EBITDA margin level, the business is comparable to domestic business in terms of margin on a longer-term .

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Asset Management.

Tarang Agrawal: Just a couple of questions from my side. If I look at nine-month FY24 or Q3 FY24, your operating expenses have come off reasonably versus the base quarter, which is everything in conversion cost except employee cost. So, what are the key factors that have driven this? So that's one. The second, in terms of your seeds business, how are you guys placed to feed Kharif of ‘24 in terms of maize, paddy and cotton? And do you have products for Rabi Corn?

Sanjiv Lal: On the fixed cost there has been a special emphasis that we've been giving on managing our cost structures at manufacturing levels as well as at the sales, marketing and other corporate related costs. That has certainly helped in managing the costs, I would say. And as far as the seeds business is concerned, there have been challenges in hybrid seed production. As far as cotton is concerned, I think we are largely in line with what we were expecting to produce for the upcoming Kharif and there is a certain inventory that we are holding. So, we still need to fully establish what is going to be the hybrid seed production from the current sowing season. So, we'll get an estimate of that. But yes, there is going to be a certain amount of pressure on next year's Kharif placement.

Tarang Agrawal: Is it pervasive across crops or are you talking only about cotton?

Sanjiv Lal: Cotton, largely we are okay because whatever we were intending for next year, we've been able to secure the production for that.

Tarang Agrawal: So, your comment was more for the other crops?

Sanjiv Lal: That's right.

Tarang Agrawal: And are you present in corn which is sown in Rabi?

S. Nagarajan: We have a very small presence,

Sanjiv Lal: We are present but it's very small.

Tarang Agrawal: And just last, if you could give us a sense on how much was Aatish in FY24 versus FY23 and the years before, because that product seems to be garnering reasonable traction and similar number for Diggaz?

S. Nagarajan: We have crossed about 4 lakh packets for Diggaz this year and about 5.5 to 6 lakh packets for Aatish Express this year.

Tarang Agrawal: And how much was this in the previous period, previous year?

S. Nagarajan: Diggaz was last year closer to 2-2.5 lakhs so it's kind of double. Aatish was also roughly 2.5-2.75 kind of region.

Tarang Agrawal: So, there's been reasonable growth across both the products?

Sanjiv Lal: Yes, it's doubled FY24 over the previous year.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the export or the international pricing. You did mention that lower pricing has been putting the margins under pressure. Just wanted to see where or how much the differential between our pricing versus competition is, which probably is largely China. So, pricing wise competitiveness over there?

S Nagarajan: Well, obviously I think in the cases that we have been able to win the orders at an overall level, not just from the standpoint of competitiveness based on pure price alone but overall, in terms of service, availability, quality, timely supply, everything put together, we have been able to obviously be competitive. But if you just take purely on a pricing basis, certainly the prices from China are in some cases lower. But as you would appreciate, it is also an important point about registrations and all of that is going into a decision by the customer. We try to be fairly close to China. I can't say that we are lower than China. There are cases where China is definitely better than India and certainly our prices too.

Ankur Periwal: And just a follow up, basis your understanding, is it that Chinese are selling it below the cost or maybe cost to cost?

S Nagarajan: Its very difficult to predict their cost structure and all of that but the drops in prices are, as you know very steep. For the chemicals that we sell we have mentioned that we actually have seen 15% to 30% drop over last year, the same quarter Q3 of FY23. So, it's hard to say, but yes, it's possible.

Ankur Periwal: And just second question on a strategy which you highlighted, the short cycle focus versus the long cycle one, is it more specific for the domestic market and which is where large part of the cost cutting as well as the margin accretion happened or are you focusing on this strategy equally across the export as well as the domestic crop care business?

S Nagarajan: Both the markets. I think if you look at it from the front-end pricing point of view, it is of course in both the markets because even in the international markets, the demand situation is fairly weak, it is still muted. So, we are taking short and even the customers would like to sort of keep it short. And the domestic market, of course, we are doing that. From a procurement point of view also we have shortened our cycles. We are actually taking near-term procurement calls so that we are able to sort of navigate the cost points if the raw material prices were to further fall down.

Moderator: The next question is from the line of Viraj from Securities Investment Management Pvt Ltd.

Viraj Kacharia: Just three broader questions. First is on a domestic piece and the question is largely one is on the volume outperformance. So, you are having positive volume growth in an environment where the industry inventory is quite high, and the season has not been that great. So, if you can just probably give more elaborate color in terms of the drivers of that growth in terms of the new product scale up and how is the performance of the base business has been in domestic crop care?

S Nagarajan: So, in domestic, I think the volume growth is largely coming because of our insecticide category. That is, of course, related to the new products that we have launched. Benzilla, which was launched in this quarter and Clasto, which was launched the last quarter. Benzilla, of course, as you know is for BPH control in paddy and Clasto is for whitefly control in cotton . These two have contributed significantly for the overall growth. We have had challenges on the fungicide front as was also mentioned earlier. So, there has been I could say adegrowth there. But overall insecticide is what has driven the growth. Geographically Andhra, Telangana, these locations have actually driven the growth, if you look at it for the last quarter.

Viraj Kacharia: But a lot of these will be primarily placement driven not consumption driven. Because most of the key market season for this will be primarily Kharif, maybe not that much Rabi, especially for cotton or paddy crop. So, do you see a possibility of sales return kind of situation going into Q4?

S Nagarajan: Well, I think the BPH product, Benzilla BPH comes late in the crop lifecycle for paddy. So, it actually comes in the Q3 because in Kharif of '23, the crop would have started. And then it would have reached maybe close to 80 or 90 days, depending on the market, 70 to 100 days kind of a time frame in Q3. So, liquidation has been happening there. And we have also found that for cotton, it was almost kind of the tail end stages in Q3. So therefore, the amount of Clasto that has gone there is actually comparatively small.

Moderator: The next question is from the line of Eesha Mohanty from Kotak Securities.

Eesha Mohanty: My first question is the impact on the revenues because of the Red Sea freight disruption. And the second question is, what sort of revenue could we expect from the new contract manufacturing product in the upcoming years?

S Nagarajan: Red Sea, I think the impact has been more from the standpoint of higher freight costs. Definitely that is impacting us, and we do have sales there in the European and around that Mediterranean Sea region which was dependent on the Suez Canal. So, there is an impact consequent to that.

Eesha Mohanty: What sort of revenue could we expect from the new contract manufacturing products in the upcoming year?

Sanjiv Lal: So, what we have mentioned is that our new opportunities in contract manufacturing, these are smaller opportunities, so they will take time to scale up. So, what we are currently trying to do is to add more and more products and customers in our contract manufacturing business. So, there will be a number of small opportunities that we will be building on. It will take some time to scale because some of them are very new products in the market. So, it'll take some time to scale.

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

Bhavya Gandhi: Just wanted to know if price erosion was close to 15%-30% so if you can just name key molecules and what is the price erosion over there,that will be really helpful.

S Nagarajan: I think this is the general overall range for all the molecules. Specific as you know, there is published information that is available, it can be accessed but this is broadly the kind of range for our portfolio.

Bhavya Gandhi: If you could name any key molecules and their prices one year back and what is the price right now?

S Nagarajan: Well, not readily available. So that's why I was saying that this is the range. We can share it with you later or you can also look it up. It's available.

Bhavya Gandhi: And also, just wanted to know, what was the current quarter international versus domestic mix and for nine months as well?

Subhra Gourisaria: Current quarter versus international would be domestic to international would be broadly 2:1. So 35% would come from international business. Domestic business 65% and on a year-on-year basis is in the similar vicinity.

Sanjiv Lal: 30%-32% will be international be on the lower side this year.

Bhavya Gandhi: And just one last question. In history, have we seen this kind of scenario where channel inventory has been to this level and how long did this cycle last historically? If yes then is it like a 2–3-year cycle or is it like a four-five quarter cycle? Because I'm seeing all our agrochemical companies, they are forwarding their guidance maybe by one-two-three quarters then now. So, if you can just elaborate on that front historically, what has been the outlook?

S Nagarajan: Historic. No, I don't have that kind of information historic, but it has happened in the past also. But of course, the reasons and the contributory factors would have been very different at that point in time. I think 2013 or 15 or something. The drivers were different at that point in time. Now the drivers are, of course, quite different. How long it will stretch, we certainly think that this quarter is something where we have very good visibility, and it is not ending in a hurry in this quarter. Now we will have to see how quickly in the next financial year it will revive. Whether it is going to be Q1 or Q2 is a little bit hard to say at this point in time.

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

S. Ramesh: If you see the trend in gross margins and EBITDA margins, what would be the difference in terms of the EBITDA margin or the absolute EBITDA between the international business and the domestic business? And you can give us the share of the international revenues in 3Q or nine months that will be very useful.

Subhra Gourisaria: I think we gave you the share already that it was broadly 65% for domestic business. As far as the EBITDA margin is concerned and I'll talk more about the steady state. The steady state international business will make lesser gross margin but at EBITDA margin, both the business would be broadly similar.

S. Ramesh: So, you are saying international business is still profitable, although there has been a 15% to 30% decline in the prices, right?

Subhra Gourisaria: I'm not talking about this quarter, but on a longer-term basis. And yes, international business is certainly profitable, even for this quarter on a gross margin basis. And overheads are not very high if you take the exclusive costs.

S. Ramesh: So, if you take, assuming normalized inventory levels and normalized procurement and placement, do we see the domestic and international margins kind of reach parity? And to that extent, can we expect your overall growth in earnings and cash flows to show a positive trajectory over the next 2 years? And to that extent, can we expect the ROCE to show an improvement in the next 2-3 years?

Sanjiv Lal: Yes, I think certainly as Subhra was mentioning on a steady state basis, at the EBITDA margin level, the international business will be more or less in line with the domestic business.

S. Ramesh: Just one last thought on the contract business. When do you see the contract manufacturing business reach a material share in terms of the overall revenue 5%-10%? And is that going to be similar in terms of a margin and ROCE profile or would you be able to reach a certain critical mass where the margin and return profile in the contract manufacturing would be higher than your existing crop care business? Because if you see the contract manufacturing companies across India and other countries, the margins tend to be a little bit higher. So, what is your overall sense of the business you're building?

Sanjiv Lal: That is true. Contract manufacturing does have better margins than what we call catalogue sales. And what is positive is that one of the businesses of ours, which is that polymer business which had been almost dormant for quite a period of time, is now slowly coming back. So that will also help in sort of improving the percentage of our business coming from exports. So, we see the contract manufacturing business steadily grow over the next 2-3 years because some new products also being introduced for catalogue sales in the exports business apart from contract manufacturing opportunities which we've already mentioned.

Moderator: The next question is from the line of Rohit Nagraj from Centrum broking.

Rohit Nagraj: First question is on CAPEX. So, I believe including the FY24 CAPEX we will be completing the Rs.800 crore that we had planned a few years ago. How much of this is currently reflected in terms of revenues or rather not exactly revenues, but may be from a utilization perspective? Just to get an understanding that this capacity will be available for the next 2 years or 2.5 years or so. And just a number, what would be the CAPEX run rate from FY25 onwards?

Sanjiv Lal: So, in terms of the big-ticket items, we had the formulation facility in the chemical zone. So that is fairly good in terms of its utilization. The multipurpose plant, which was the other big-ticket investment of ours, we are expecting about 60% capacity utilization next year as we add more products to it. And of course, we've also done a number of capacity enhancements for our existing products. Most of them have already been operationalized. The next big-ticket investment is the work which we are starting on the new R&D center that will be spread out over the next 15 to 18 months in terms of expenditure. So largely we are outlooking about Rs.150 crore for the current financial year and maybe next year it'll be about Rs.170 odd crore.

Rohit Nagraj: Second question is on Pendi. So, what is the current competitive scenario and what gives us confidence of putting up incremental facility when in China we have been seeing that there have been capacity enhancements across all the generics.

Sanjiv Lal: I think for us we have a good customer list with us and our business has been quite steady with our existing customers, price drops and all notwithstanding all those issues, but certainly, we see that there's an opportunity for us to further add capacity so that we are able to support our customers in the key markets. In fact, what has also happened is that we have also got the Europe registration for Pendimethalin, so that is giving us another direct market.

Moderator: The next question is from the line of Vishnu Kumar AS from Avendus Spark.

Vishnu Kumar AS: Just on the contract manufacturing business, you highlighted that we would see some growth from here on. Is that business fixed margin or will we see some volatility if the prices go up and down?

Sanjiv Lal: Typically for our contract manufacturing, the way we are structuring the contracts are with key raw material costs being passed through. So, in a way it is supporting the level of margin that we'll be getting from these contracts. Does that answer your question?

Vishnu Kumar AS: Yes.

Sanjiv Lal: I was just saying that the key starting materials are all pass-through costs.

Vishnu Kumar AS: So irrespective of the Chinese, assuming the prices continue to be soft, we will at least get the fixed margin per kilo exported. Would that be a right understanding?

Sanjiv Lal: That will be a correct understanding that we are having a pass through for the key raw materials.

Vishnu Kumar AS: What level of growth can we expect? Even if you can give some sense into the next couple of years on this side of the business, if you could help us on that.

Sanjiv Lal: One is as I mentioned, that one of our key products which is at polymer is coming back. So that itself we should see it getting back to its historical levels over the next 2-3 years. Our new business opportunities are going to be small ticket opportunities and we are quite happy to support new customers with even small volumes. A purpose of our multipurpose plant is to give that flexibility to be able to meet customer needs. I would not want to hesitate a percentage growth. But I would certainly say that we should be well placed to add at least two new customers products over the next 3 years.

Vishnu Kumar AS: And one final, if I may, reservoirs are not great. And also, we are hearing that the snowfall in the North has not been—at least in the upper reaches of Himalaya, has not been—good. Do we expect that the upcoming season for Kharif will be a bit more challenging and in any sense that you could give us, at least on this side, if these two conditions are there in the past, things have not been great, any sense on that?

Sanjiv Lal: So, actually, if one goes with the kind of information that is currently available, it is certainly not going to be very easy. To start with, there is a lower reservoir level, so it's already impacting what's happening in Rabi. That is one. Second is that if you look at the El Nino forecast, the probability of El Nino continuing into next year is almost at 75% probability. So, some of these things as of now, give you the sense that it may not be so straightforward. So, we'll have to wait for some guidance coming from IMD and others, but this is what is the current information.

Moderator: The next question is from the line of Darshita Shah from Antique Stock Broking.

Darshita shah: I just had one question regarding the tax rate during the quarter. What was the reason behind it being lower and is it sustainable in nature?

Subhra Gourisaria: The tax rate is dependent on, of course, how the income tax, I mean to say tax profit is calculated, which takes into consideration income taxdepreciation and others. And that is where there is some difference when you're comparing year-on-year. So, I wouldn't be able to say whether it will continue or not continue, but you can, for all practical purposes, consider the marginal tax rate as for your working.

Moderator: The next question is from the line of Sneha Jain from SKS Capital.

Sneha Jain: I just wanted to ask what would be the impact if there is any logistics or shipping cost increase because of the Red Sea situation?

Subhra Gourisaria: Your question is shipping cost impact because of the Red Sea issue?

Sneha Jain: Yes.

S Nagarajan: Maybe a few tens of cents per kg.

Subhra Gourisaria: The situation is, I would say, dynamic. And we'll have to see how this impacts the overall costing.

Sneha Jain: And secondly, the destocking of the invention, what is the current situation and has it improved? Is the outlook going forward is better.

S Nagarajan: At this point in time, it still seems to be fairly highly stocked. There are some products where, for example, the imports that are coming into the US market are looking a little better than what they were one year back, November-December 2023 versus November-December 2022. But I think it is too early to say across the board and it is too early to say across all markets. So, we do expect as far as this quarter is concerned, like we mentioned a little earlier, things are not looking like it is going to be addressed. Now, how quickly it will get addressed in the next financial year is what we are now trying to see whether it is going to be late Q1 or early Q2, or in Q2.

Moderator: The next question is from the line of Sandeep Abhange from LKP Securities.

Sandeep Abhange: I had questions related to your seeds business. So, your seed business has been higher by 33% during this quarter. Just wanted to know what drove these sales. And overall, just wanted to know the outlook for 2024 for your seeds business particularly.

S Nagarajan: So, this quarter is a very small quarter, Rs.32 crore and Rs.24 crore was the last year figure. So that one-third what you're talking about increase, I would suggest that we should look at it over a longer, like a YTD kind of a basis. On a YTD basis, what has driven a larger revenue this year, like we mentioned earlier, has been our performance on Diggaz and in Aatish. I wouldn't set too much store by the Q3 33% growth. As far as next year is concerned, I think like what was mentioned earlier, certainly we are having challenges this year in terms of the seed production, we are in the midst of the production season, so we will have to really see where we close on maize and paddy, not on cotton, but on maize and paddy in terms of production levels and therefore, after you add up the inventory levels that we are already carrying, where we might end on the supply levels for next year. So, we'll have some better clarity maybe a few weeks down the line.

Moderator: The next question is from the line of Anik Mitra from Finnomic Solution Pvt Ltd.

Anik Mitra: My first question is related to the late monsoon, which is evident for last two, three years continuous basis. So what strategy you are adopting? And you also rightly mentioned about 75% probability of El Nino this year. So what strategy you are adopting considering late monsoon in this year as well.

S Nagarajan: So, one of the things that has actually contributed to the success of many of the hybrids that we have in the market from a seed point of view, has been the shorter duration of them, whether you take Diggaz or even Aatish. So, I think one of the important things is to try and make sure we have enough short duration products on the seed side. As far as the crop care and crop protection business is concerned, I think it is a challenge because you go with the assumption that things might be normal and then you end up placing certain stocks and then you have some difficulty later on. So, what we are trying to do is to try and get as much information as close to the placement as possible. And there our deployment of the integrated business planning tool, the digitalization efforts that we are undertaking, it's just started this year, we are hoping that it will have some meaningful benefit in terms of helping us to predict the kind of demand that might be there in the market. It's early days, but that is what we are doing. And of course, to have a portfolio which can actually address if there are any changes in circumstances, rather than just focusing on one or two products which could get disrupted if things change adversely for those products. So those are the things that we are doing.

Anik Mitra: My next question is related to a few products like do you see any price erosion in Acephate, Pendimethalin, Metribuzin, PEKK, if you can throw some light in the international market point of view and as well as in the domestic market.

S Nagarajan: In fact, that is what we mentioned. All the products that we are having in our portfolio, Pendimethalin, Metribuzin, all those products which you mentioned, we have seen price erosion between 15% to 30% compared to the last year same time.

Anik Mitra: This is in the Indian market?

Sanjiv Lal: In the international market. These are in the international market. And the cost also has gone down. So, these are price reductions. But there's also cost reductions which have happened in the international market.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Asset Management.

Tarang Agrawal: Just a question on the crop care business, the technical business. Acephate, Pendi, Hexaconazole, Metribuzin, these are some of your key products. You seem to have reasonable global scale in these products. So, you would have a sense on peer set cost structures, whether it's in India and China. And some of these products, or maybe most of these products are also seeded by Chinese players. We have seen in the last six, eight months where in case of other products, the market pricing has been onerous enough for the technical prices to be maybe at par or maybe in some cases even lower than the variable cost of production because of the aggression that some of the peers have demonstrated. Has it been true in your set of products?

S Nagarajan: On an average basis we are not in a negative contribution, if you can call it like that. We are not in that kind of situation.

Tarang Agrawal: But you have seen it happening across other molecules.

Sanjiv Lal: Just to also add, for example, if you are seeing significant price erosion where we feel that it is not even covering our cost of manufacturing, we simply don't produce that material. We don't want to be sitting on inventory in a market which is uncertain. For example, just to let you know that Metribuzin is one of such products that we've been having significant challenges because one is the inventory is high plus the price is low. So, we prefer to keep the asset idle rather than to produce and hold wrong priced inventory. Likewise, even for Acephate, we've seen very-very sharp decline in sales, especially from key markets like Brazil. And there again, there are no buyers, even at any price, there are no buyers. So there again, we've had to take slight production cuts so that we don't end up sitting with the wrong inventory.

S. Nagarajan: And that is what, actually when we talked about agility earlier, I think it is across multiple dimensions. Pricing was one part of it, but also in procurement and in production also basically the supply chain as well. So, we haven't been in that kind of situation.

Tarang Agrawal: Would it be possible for you to hazard a guess that the players who are supplying at the current prices in all the markets that you also play in, would you be able to comment whether in your view, at the prices currently for, say, something like an Acephate or Metribuzin, are those players making any profits?

S Nagarajan: Hard to say. I think some of them are based in China also. For example, for Acephate, there are producers in China. It's very hard to really say what their cost structure is. But I think, let's put it this way, I think if you push for answer, yes, the possibility exists that there could be negative GCs, possibility exists, but we don't know for sure.

Moderator: We'll take the next question from the line of Viraj Kacharia from Securities Investment Management Pvt Ltd.

Viraj Kacharia: Two questions. First is just continuing with the question from the earlier participant, to put it in a different way, are you seeing any signs of capacity adjustment, say, in China or India, for the major products which we cater to?

Any perspective on Demand side, could you give a fair color that the end markets are not doing that great, and say in US or Europe or LATAM, even the current season has not been great, but on the supply side, are you seeing any signs of capacity closure or shutdowns, both in India and China for the major products which we cater to?

S Nagarajan: So it is, again, you see, definitely, I think 2023 has been a very difficult year and we have heard situations where smaller players have had deep troubles in terms of being able to make their ends meet because the prices have got so depressed. Maybe they are sitting on high-cost inventory themselves in terms of raw material, making it very difficult for them to hold on. If they produce and sell, they end up with losses. If they don't, they are ending up with high capital being locked up in inventory. So, there are these kinds of things that we hear, but explicitly for the products that we are operating, whether some capacity is working its way out of the market, whether it is for Acephate or Pendi, we have not heard about that.

Viraj Kacharia: Any further increase in capacity or new addition?

S Nagarajan: Capacity additions have also been obviously affected. Because everybody has, at least in the customer conversations that we have, indicated that everybody is really focused on dealing with the current inventory overhang that is there at an overall level. And certainly, for the products that we are having also we have not heard somebody has added capacity, let's say, in the last six months to nine months.

Viraj Kacharia: Second question is on the gross margin part. So, if you look at overall reported financial, we saw a little over 300 basis point expansion in gross margin. When you look at the domestic piece, the margin expansion could be well over 500 basis point year-on-year. Now, the question is that you highlighted that there are three reasons for the margin expansion. But if you were to just understand the major factor among three, the RM part, the dynamic pricing, and the new product piece, what is the larger factor driving the margin expansion and how does dynamic pricing really aim in margin expansion? If you can just probably elaborate more on that.

Sanjiv Lal: When we are talking about dynamic pricing, if you recall, we had also said that we are going to be taking shorter pricing calls for procurement of materials. So, if we are very clear as to what price we are able to procure some of the key actives, we know how to price it. And we are not sitting on higher cost inventory, which is forcing us to price it at a level which we will be losing sales. So that is, I think, what has contributed. Basically, taking shorter procurement calls has helped us in this dynamic pricing.

S Nagarajan: Just to give a little bit more clarity for you as a process, for example, when we are buying some stuff, along with the procurement team, we also have a marketing person embedded in that process so that there is actually an integrated view we are able to take about the overall end to end, how the whole thing will play out from a margin, from volume point of view, it is a more inclusive or a more collective kind of a decision process, and that allows us to take better calls.

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

Bhavya Gandhi: Just one question on the contract manufacturing side. Just wanted to know, is it like a long-term agreement or do we have any minimum offtake guaranteed, or how is it, if you can throw some light on the same?

Sanjiv Lal: So, for older contracts, these are, in a way, long term only. It's not that we have a fixed price for a long period, but yes, there's a long-term commitment to each other, from our customer and from us. For some of the newer opportunities, since some of these products are new products, these are still on the basis of shorter contracts. They're not long-term contracts, but I guess once the product becomes successful in the market, they will convert into longer term contracts.

Bhavya Gandhi: And are we the sole supplier for this or are there other suppliers also for this product.

Sanjiv Lal: At least for one of the molecules that we are currently doing for the Japanese innovator, we are the only ones.

Bhavya Gandhi: And is there any minimum offset guaranteed to you at least?

Sanjiv Lal: As I mentioned we are supporting them with establishing their product and we also need them to succeed for the volumes to build up for us. So, we have not tied them into any long-term contracts.

Bhavya Gandhi: And on the process front, we don't do any innovation, right? I mean, on the process front, its only contract manufacturing, bulk manufacturing, if I'm not wrong.

Sanjiv Lal: As it turns out, for this particular product, there's been a lot of work that has been done in our labs by our team, and the customer has been guided by the work that our team have done.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sanjiv Lal: Thank you, and I hope we've been able to provide clarity on your questions. For us, Q4 is a smaller quarter, and our larger focus will be on planning for the upcoming Kharif that we've talked about some of the potential challenges on the seed side, especially in terms of availability for the next season. But we are just working through that. We expect international business, which has been another problematic area for the last three quarters, we expect this to pick up momentum only towards the end of Q1 all going well. But as one of the participants in today's call mentioned, that new guidance keeps coming in terms of when things will start normalizing. So, we are also hopeful that maybe Q1, Q2, things will start normalizing. And inventory destocking is taking more time than what we had thought about because if you'll recall, we were actually expecting things to turn around by Q4 which is not really happening. We will continue to pursue all efforts to drive maximum utilization of our plants and get volume led growth, with price possibly coming under pressure. Margins will remain a priority and we will continue to improve on an annualized basis through better product mix and pricing actions which we talked about. Our recent initiatives position us well to capitalize on the growth opportunities in both domestic and international markets, and we will further focus on improving collections. That is going to be an important area for us. Investments that we have made over the last couple of years in R&D, product development, manufacturing and capabilities will enable us to drive our growth agenda in a sustainable way. Our long-term strategy of driving competitive growth remains on track, and we will keep reviewing all opportunities as relevant. Thank you all very much for joining till we meet next quarter end. Thank you.