



“Heranba Industries Limited  
Q2 FY‘23 Earnings Conference Call”

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**MODERATOR: MR. ROHAN OHRI – EMKAY GLOBAL FINANCIAL  
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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2 FY'23 Results Conference Call of Heranba Industries Limited, hosted by Emkay Global Financial Services. We have with us today Mr. Raghuram K. Shetty, Managing Director; Mr. Ronak R. Shetty, Executive Director; and Mr. Rajkumar Bafna, Chief Financial Officer. As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohan Ohri from Emkay Global Financial Services Limited. Thank you, and over to you, sir.

**Rohan Ohri:** Yes. Thank you so much. Good evening, everyone. I would like to welcome the management and thank them for this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you, gentlemen.

**Raghuram Shetty:** Yes. Thank you very much. I'm Raghuram Shetty, Managing Director, Heranba Industries Limited. Thank you, everyone, for taking your valuable time for Heranba's Q2 FY'23 earnings call. The company's revenue surged by 19.8% YoY to INR 4,233 million in Q2 FY'23 driven by strong performance in domestic markets, navigating uneven monsoon distribution. Our export business was impacted by the lockdown in China coupled with volatile global macroeconomics. Our EBITDA margins were under check due to higher raw material prices and a rise in power and fuel costs. The domestic agrochemical industry is likely to do well in H2 FY'23 due to residual moisture, owing to late withdrawal of the southwest monsoon, higher reservoir levels and rise in MSP (minimum support price) of rabi crops for the upcoming marketing season.

We have spent INR 410 million on capex at our Sarigam facility during H1 FY '23, and we will be spending additional INR 1,000 million in H2 FY '23. The commercial production of technical-grade pesticides and intermediates from the Sarigam facility is likely to commence from Q1 FY '24, adding meaningful contribution to the company's revenues. Heranba continues to look further to create sustainable growth for its stakeholders with its diverse product portfolio, R&D capabilities and prudent both strategies. We are on track to achieve 15% to 17% sales growth in FY'23, with EBITDA margin staying at 16% to 18%.

The company is well poised to build on the strong operational competencies developed over the last few years. I'm hopeful the company will continue to grow and surpass new milestones in the coming years. We continue to see FY'23 as an important year in Heranba's trajectory and are optimistic of the future. I will now hand over to Mr. Rajkumar Bafna, our CFO, to take you through the financials. Thank you.

**Rajkumar Bafna:** Thank you, sir. Good evening, everyone. I would like to brief touch upon the key performance highlights for the second quarter ended 30th of September 2022, and then we'll open the floor for question and answers. Now, moving towards financial highlights for quarter ended 30th of September 2022. Revenue from operation increased by around 19% YoY to INR 4,233 million

in Q2 FY'23 as compared to INR 3,534 million in Q2 FY'22. EBITDA grew by 6.2% YoY to INR 705 million during the quarter with EBITDA margin at 16.49% in the Q2 FY '23. Profit after tax stood at INR 477 million in Q2 FY '23 as compared to INR 456 million in Q2 FY '22. The company's domestic export mix stood at 67: 33 in Q2 FY'23 as against 68:32 in Q2 FY'22. Heranba exports were checked due to lockdown in China coupled with global macroeconomic challenges. However, the sector fundamentals continue to remain strong on medium term and long term basis. That concludes the update on financials. Now we can open the floor for question and answers.

- Moderator:** Thank you. The first question is from the line of Bhavya Gandhi from Dalal & Broacha.
- Bhavya Gandhi:** Congratulations on good set of numbers. My first question is what is the capacity utilization right now? And with INR 41 crores of capex that we've done, what kind of asset turn are we looking? And is it comprised as the commercialization started?
- Raunak Shetty:** So, the capacity utilization currently is around the same as last quarter, that is around 89-90 %. The capex that we have done is for the new site in Sarigam, and that is not yet commenced. It will be commencing in Q4 FY'23. So asset turns that we'll be able to see is somewhere around 3x.
- Bhavya Gandhi:** 3x of assets turns. In Technicals, you are mentioning?
- Raunak Shetty:** It will not be immediately. We will not be able to see that kind of asset turns. But over the period, when it is at around 80% to 85% capacity utilization, we should be able to see something around 3x.
- Bhavya Gandhi:** This 89% to 90% capacity utilization you are mentioning is for Technicals, right?
- Raunak Shetty:** Yes. Around 55%.
- Bhavya Gandhi:** Because as I see your formulation revenue contribution to overall revenue has increased drastically. So still the utilization is at 55% level only?
- Raunak Shetty:** Yes.
- Bhavya Gandhi:** And Sir, any update on the China situation, what is the demand scenario out there? And has the supply constraints over or are we still facing it?
- Raunak Shetty:** No. Actually, the Chinese season will start from Q4, generally Q4 and Q1. So currently, there are issues in China because of COVID-19. And we'll have to wait and watch.
- Bhavya Gandhi:** So, in this quarter, have we supplied anything to China?
- Raunak Shetty:** Yes. That is the usual business, but a major business usually starts in Q4 and Q1.

- Bhavya Gandhi:** And Sir, we've given a revenue guidance of 15% to 17% for this year. Our Q1 was not that great. Q2, we've been able to sort of recover. And so in the H2, what are we planning to reach the annual revenue guidance because the capacity utilization is at peak in Technicals?
- Raunak Shetty:** We should be able to maintain a similar kind of EBITDA margins as well as the revenue growth.
- Bhavya Gandhi:** So what sort of growth triggers are there in H2, if you could quantify?
- Raunak Shetty:** So overall growth from exports as well as local. So we are into four segments. And today, even the local business is doing well. And exports, usually Q4 is when we see good sales coming in some geographies that we are strong in, the Asia Pacific, including China. So we'll have to wait and see how things pan out.
- Bhavya Gandhi:** And have you taken any price hike in the current quarter?
- Raunak Shetty:** In the current quarter, yes, in a few products we had taken during Q2 FY23.
- Bhavya Gandhi:** So if you could quantify maybe on overall revenue?
- Raunak Shetty:** Overall revenue, the impact may not be much because we cannot take overall in all products. But in a few products, we could pass on. The raw material prices too came down. So overall, we could get that benefit in Q2.
- Bhavya Gandhi:** And with respect to higher employee cost, if you could explain, is it because are we starting to ramp up the facility at Sarigam or we have hired new employees? Or what is it like?
- Raunak Shetty:** No. For this quarter, we have employed around 10% high-grade total employee numbers. You can see the regularization of the some employees were not on the payroll earlier this quarter and we have come to payroll during the current quarter.
- Bhavya Gandhi:** So how do we see that going forward? Are we going to get back to 18% EBITDA margin?
- Raunak Shetty:** No. Going forward for this first half, as we guided for that, it will be around 16% to 18% margins, and we are sticking to that.
- Moderator:** The next question is from the line of Yogesh from Arihant Capital Markets.
- Yogesh:** So Sir, I had one question regarding Q3. So normally, our Q3 is very strong in exports. Last year, about 44% of revenue came from exports. And Q2, we had only 32%. So just wanted to know what are the drivers for a strong export growth in Q3, given that there is a lockdown in China. So do we think that Q3, again, exports will be strong like last year?
- Raunak Shetty:** No, it will be more or less in that range only. We will not say it will be very strong or something. We are trying our best, and able to match somewhere around the range that we have mentioned, that is around 15% to 18%. The domestic business is doing better. So that's how we are able to

cover whatever shortfall that we had in Q1. So going forward also, we feel the balance of both domestic and export would be able to drive that growth and not just the export market. Because globally, there are a lot of things happening currently. So we'll have to factor that as well while considering the growth in export market.

**Yogesh:** Sure, Sir. And so it's like it was more like 44% in last in Q3 FY '22, so will we actually achieved in that sort of number this time? Or it will be more domestic driven?

**Raunak Shetty:** We will be able to achieve that number, but growth we are seeing more from the domestic side. The monsoon has been good in Q2, and we foresee a good rabi season in India.

**Yogesh:** And Sir, last question on the guidance. So if you see our margins are about 15.5% in H1 FY23, and we had guided for 16% to 18% for full year. So do we maintain this guidance going forward? Or will be reversing?

**Raunak Shetty:** Consider around 15% to 17% kind of EBITDA margins, with on 15% to 17% of revenue growth.

**Moderator:** The next question is from the line of Bhavya Gandhi from Dalal and Broacha.

**Bhavya Gandhi:** Sir, with respect to rabi portfolio, do we have rabi mix in our portfolio? Because generally, H2 is rabi season. So what would be the revenue mix from rabi?

**Raghuram Shetty:** So when there is good rainfall, there's a good paddy plantation. So we will have that which usually does not happen when there are water issues. So overall, we will have a better mix in domestic market. This will be one difference. I hope that answers your question.

**Bhavya Gandhi:** No, what is rabi as a percentage to our sales, maybe mix in our portfolio product basket?

**Raunak Shetty:** It should be around 60:40.

**Bhavya Gandhi:** 60 rabi and 40 would be kharif base.

**Raunak Shetty:** No, 60% kharif and 40% rabi. But because of crop pattern change, there could be some difference. So what we had seen in the past, maybe we would see a different kind of business this year.

**Bhavya Gandhi:** And with respect to US market, what is the scenario out there? Have we supplied anything beyond that 50 metric tons that we had already done?

**Raunak Shetty:** This year too we received good business from U.S. and our business in U.S. itself must be 2x compared to last year.

**Bhavya Gandhi:** And over there, we have got only one registration. We had certain other registrations in pipeline in Europe, LatAm. Any new registrations have we received anywhere else?

- Raunak Shetty:** The registration of assets is a continuous process. So, we have received one registration in Europe in Q2 FY23. And maybe in Q4 FY23, we may receive two registrations in US as well.
- Bhavya Gandhi:** Two registrations in US, Sir? could you just repeat that?
- Raunak Shetty:** In Q2 FY23, we received one registration in Europe. And by Q4 FY23, we may receive two registrations in US, which will drive next year growth.
- Moderator:** Thank you. The next question is from the line of Jay Modi from EIML.
- Jay Modi:** Yes, Sir, so I have two questions. The first one was on margin. So between Formulations and Technical, which portfolio is a better margin portfolio for us?
- Raunak Shetty:** Usually, it is as a portfolio Technicals were better margins for us. But now because the base in the Formulation Branded business is less. That's why Formulation had lower margins, gross margin. And now our business in the Formulation also has increased over the last two years. And with that, the fixed cost or semi variable kind of costs remain the same, more or less.
- So that has increased overall EBITDA margins at the branded level also. So domestic Formulation business margins have improved over last year, which may, in the future, I don't know you may be able to see somewhat similar kind of gross margins in both Technicals as well as Formulations.
- Jay Modi:** So is it fair to say that once we have commercial pace through Sarigam facility for Technicals we see, we'll continue to see an improvement in gross margin level?
- Raunak Shetty:** We'll try our best. For now, we'll able to maintain 18% to 20% EBITDA margins going forward.
- Jay Modi:** And when you see our other expenses, we've seen this 25% increase. So all of it is predominantly to do with freight and fuel cost, or we've got some preoperational expenses as well in our other expenses?
- Rajkumar Bafna :** No. The majority contributes to the energy cost and the labor cost side, both our energy cost and other expenses increased by around 35% to 37%. The labor costs also gone up in 20%.
- Jay Modi:** And incrementally, how are we seeing our costs? Are we see prices coming up?
- Rajkumar Bafna:** Prices for the energy cost are state level. No further increase in that, but prices have not come down.
- Jay Modi:** And last question was on commercialization of Sarigam facility. So our total capex in this facility stood at INR 140 crores. Is that correct?
- Raunak Shetty:** Yes.

- Jay Modi:** And you said that we expect asset of utilization of 3x. How long does it take for us to fully utilize an asset?
- Raunak Shetty:** One year.
- Jay Modi:** So by FY '25, we'll have around 3x asset on some Sarigam facilities?
- Raunak Shetty:** Yes.
- Jay Modi:** And beyond Sarigam, any other capex plans that we have lined up?
- Rajkumar Bafna:** Yes. The capex plan at our Saykha unit will be around INR 150 crores plus impact, and which will come in the FY '24 and FY '25.
- Jay Modi:** To see the FY '25 commercialization?
- Raunak Shetty:** Yes, we are hopeful. We are on the same path.
- Jay Modi:** Okay. And even here, we expect similar asset there?
- Raunak Shetty:** Asset will be the same in the 3 to 3.5x.
- Rajkumar Bafna:** Our focus is usually like that, to have around 3 - 3.5x of asset turn. We can consider 3x at a capacity utilization of around 80% to 85%.
- Jay Modi:** And Saykha has also do with Technicals, so it's a blend of Technicals and Formulations?
- Raunak Shetty:** Technicals.
- Jay Modi:** And would this unit cater to export revenue? Or we'll be looking for domestic sales as well?
- Raunak Shetty:** Basically both, domestic as well as exports.
- Moderator:** We move on to the next question, it's from the line of Rajesh Jain from NB Investments.
- Rajesh Jain:** Sir, my first question is, if you see your presentation, Slide number 10, where you have given revenues from Technical and Formulations. For FY '22, the revenues from Technicals was INR 9,669 million, whereas the Formulations is INR 4,677 million.
- Raunak Shetty:** Right.
- Rajesh Jain:** But if you see for H1 FY '23, the Technicals is only INR 2,982 million. Is there any error in that?
- Raunak Shetty:** Currently, it's a total -- if you see the Technicals revenue comes to around INR 450 crores plus.
- Rajesh Jain:** That is what I was worried because it is showing uncertainty in the Formulations. But is the Formulation is from the -- H1 is INR 478 crores?

- Raunak Shetty:** No. Currently, Formulations is around INR 300 crores in H1 FY23. As far as the Technical is around INR 475 crores and the remaining is around INR 300 crores is the Formulations.
- Rajkumar Bafna:** So we'll look into that percentage.
- Rajesh Jain:** I think it looks like it must have got reversed, the two showing if -- okay. So that means we were riding a target of doing more than 350 to 400 from the Formulation. It looks like we would be achieving that during the current year?
- Raunak Shetty:** Pardon?
- Rajesh Jain:** We had a target of doing -- I think you have shared somewhere of doing around INR 400 crores in the Formulations business in a year. So that looks like it may happen in FY '23 itself?
- Raunak Shetty:** We'll be somewhere close to that target, yes.
- Rajesh Jain:** Sir, now regarding the commencement of Sarigam facilities, so I have heard three different dates. One in the investor presentation, it says Q1 FY '24. MD, sir, in the opening remarks Q2. And you said, Mr. Bafna, you said in answering to someone, you said Q4 of this financial year. So can you just clarify?
- Rajkumar Bafna:** Q4 only.
- Rajesh Jain:** Q4 of this financial year.
- Rajkumar Bafna:** Maybe in the Q4, by the end of the March 2023.
- Raunak Shetty:** So even in the last meeting also, last conference call also, we had mentioned Q4 FY '23 plus minus in that.
- Rajesh Jain:** So what I'm trying to ask is, so let us say this will start contributing to the revenues from next financial year?
- Raunak Shetty:** Yes.
- Rajesh Jain:** Being the first year of operation, we can expect around 50% capacity utilization. That's what we said, right?
- Raunak Shetty:** Yes. That's also correct.
- Rajesh Jain:** Sir, regarding the approvals from US and European customers, so have they visited our plants, inspection is over? And have they approved and all that process is completed?
- Raunak Shetty:** Yes. So, we've had a few visits and inspections this year with one in Q2 FY23 itself. So our business has also started. We've got an order from US. That's why in a previous question, I mentioned that as compared to last year in US, the sales has doubled on a lower base, but sales

is double compared to last year. So similarly, we'll be able to see some more such approvals that we'll get maybe in this year or where we'll be able to see some business next year.

**Rajesh Jain:** Sir, if I remember properly, I think last year, we had done around INR 20 crores for US market.

**Raunak Shetty:** Yes, around INR 15 crores or so.

**Rajesh Jain:** Around INR 15 crores. So how much we are expected to do next year for US market?

**Raunak Shetty:** Next year, we'll be targeting somewhere around INR 50 crores.

**Rajesh Jain:** Sir, we were told that in US, the market is controlled by a few distributors, ideally three or four and they have been supplied from a few Indian players, which is very difficult to break through. Now we hear slowly and steadily, Heranba is getting a foothold there and you're giving a very strong indication of getting sales from there. So could you tell us how is Heranba achieving all this?

**Raunak Shetty:** One is because our customer has already approved us as a source. And it is already known to them that we are strong in the products that we make. So we have got a registration. And we have good relations with a few of them. And it's not a very big target as such, because we had a very small base in US. And from a business of them to business of INR 15 crore to a business of INR 50 crore by next year is not a very big target that we need to worry about. Plus, minus something, but we will be able to see something around INR 50 crore.

**Rajesh Jain:** So going ahead in the next three to five years, can we expect around INR 300 crores from US market?

**Raunak Shetty:** It depends on how we get the registration.

**Rajesh Jain:** Sir, regarding Europe market, what is the status? We had applied and we have received few registrations.

**Raunak Shetty:** Europe this year has been dull for us, we have not been able to see a lot of movement in US and Europe. So we'll say it is at par to last year. There is no growth that we have seen in the European business.

**Rajesh Jain:** So since we do not have much sales to US and Europe market, the current recessionary trend, which is going to happen, will not affect much to ourselves. Is that assessment is right?

**Raunak Shetty:** Yes.

**Rajesh Jain:** Sir, lastly, we had launched a new product for the Indian market. Any update on that? How is it is doing in the market?

- Raunak Shetty:** It is doing well, we've been able to sell double what we had sold last year. Last year, we started as a small pilot campaign base. This year, we went 2.5x to our last year's capacity. And it has been well accepted by our customers. So next year, we'll try to expand from there.
- Rajesh Jain:** Sir, is it possible to know how many products you're planning to launch during the current year and next year for the domestic market?
- Raunak Shetty:** Is it in the Formulations or the Technicals?
- Rajesh Jain:** Which one will drive us with more business on the domestic market?
- Raunak Shetty:** Both. Because in brands or Formulations, we'll drive business. If you see last year, we've closed our Formulation business at around INR 250 crores, and we may be able to see a good jump in our Formulation Branded business this year. So in Formulations, we have launched around 10 to 12 products, and Technicals, we will launch around two products this year.
- Rajesh Jain:** So you're seeing good growth in the domestic market, is it from the Formulations business or the Technicals?
- Raunak Shetty:** Currently, it is from the Formulations.
- Rajesh Jain:** So this you expect to grow better in the coming years also?
- Raunak Shetty:** In the coming years, both will be good. We will be coming up with a new site in Sarigam, and that will drive both Technicals as well as Formulations growth going forward.
- Rajesh Jain:** Sir, generally, Technicals had higher margins, whereas the Formulations, because of the higher base fixed rate cost, used to have a lower margin. But with the increase in the sales in the Formulation segment, the margins there also should be improved as CFO has suggested to some of the participants. So with that in mind, so can we expect a better margin in the coming years?
- Raunak Shetty:** Yes. In the Formulations, we should be able to see better margins with higher turnover as well as better product mix. In Technicals, also this year anyway, it is known in the industry that there was raw material price hikes, but there was some demand issues and also there were some there are some margin issues because the utility costs also went up. But in a normal case scenario, even Technicals will contribute good margins to our business, this year being a different year and an unusual year as compared.
- Rajesh Jain:** Unusual. No, my question was in the coming years, this -- Formulations are also going to get higher margins. So normally, we stick to EBITDA margins of, let's say, 16% to 18% or so, your guidance. So that should go to the next slot, maybe 18% to 20%, is what I was trying to ask you.
- Raunak Shetty:** Usually, we say our margins are in the range of 18% to 20% only. This year, because of the situation, we have revised our guidance to 16% to 18%. Otherwise, we have maintained that

18% to 20% guidance. In an usual scenario, it will try and maintain that kind of margins on 18% to 20%.

- Rajesh Jain:** And the guidance for revenue growth would remain 18% to 20% only for next financial year also?
- Raunak Shetty:** Yes.
- Moderator:** [Operator Instructions] The next question is from the line of Vaibhav Gogate from Ashmore Group.
- Vaibhav Gogate:** Could you highlight what our capacity would be post Sarigam and post Saykha going online?
- Raunak Shetty:** You should say around 15,000 to 20,000 tons overall, both Sarigam and Saykha.
- Vaibhav Gogate:** Okay. And for Sarigam?
- Raunak Shetty:** Sarigam, see, first phase is what we've said is around 5,000 tons.
- Vaibhav Gogate:** And what is the time line for Phase 2 at Sarigam and let's say, Phase 1 at Saykha?
- Raunak Shetty:** We have to consider for Sarigam, Phase 2 would be Q3FY'24, and the Saykha would be kind of Q1 FY '25.
- Vaibhav Gogate:** And how would this 30,000 capacity be divided among Formulations and Technicals?
- Rajkumar Bafna:** Tonnage, it's very difficult to specify in this business.
- Raunak Shetty:** Tonnage is not the correct way to assess, because there's a different price line. See, some products are INR 200, some are INR 5,000. So based on the tonnage, it is very difficult to get a correct idea in this business.
- Vaibhav Gogate:** You highlighted that you have not been able to make much headway into Europe. So what could be the possible reasons behind that?
- Rajkumar Bafna:** The global scenario including Europe this year has not been that great. There has been drought situation there. So basically, we would be able to see business in this quarter, but we've not been able to see a lot of inquiries from European market. But as a geography, Europe has not been a very big contributor in Heranba's revenue. So it's not much to worry.
- Vaibhav Gogate:** Got it. And how does the product basket in US looks? Let's say, after these two new molecules get launched, what percentage of pyrethroid market would we have captured in US?
- Raunak Shetty:** That is very tough to access. Initially, we have not considered percentage-based market share. So we are tapping more customers in US, meeting them, building the relations. So as I mentioned in the earlier question, that we've taken a target of INR 50 crores by next year-end. It could be

higher, but we feel INR 50 is more achievable. It is a \$700 million market for pyrethroids. But we will be getting two product registrations in pyrethroids by this year-end.

**Vaibhav Gogate:**

Got it. And what sort of product basket are we looking at Saykha?

**Raunak Shetty:**

Saykha will be a purely herbicide facility. So we've already completed one, we have already completed two products in our R&D phase of this herbicide, which we are planning in Saykha. And there will be one multipurpose facility, where we will be making the smaller herbicides for Indian as well as global consumption perspective.

**Moderator:**

Thank you. The next question is from the line of Vicky Waghwani from Yes Securities.

**Vicky Waghwani:**

I have a couple of questions. First is, we have not seen much growth in technical segment this year, specifically H1 FY23 and domestic technical. Any specific reason?

**Raunak Shetty:**

No. we have mentioned that export has been a little dull during H1 FY23, but domestic business has done better as compared to the export business. So that way, we've tried to maintain the balance. There were some price pressures in the initial phase. So we did not focus on grabbing more orders based on lower prices. We try to maintain our product margins. That's why we've seen some hit in the technical side.

**Vicky Waghwani:**

Okay. Sir, I just wanted to know, we got one registration in Europe and expecting two registrations from US. So these are from pyrethroids basket itself?

**Raunak Shetty:**

No. It's one herbicide and one in pyrethroids.

**Vicky Waghwani:**

From US?

**Raunak Shetty:**

From US, and Europe has one herbicides.

**Vicky Waghwani:**

Okay. Sir, how much capex we have done to H1, overall capex, including Sarigam?

**Rajkumar Bafna:**

The total capex is around INR 50 crores-plus.

**Vicky Waghwani:**

Okay, around INR 50 crores. And how much we are expecting for total financial year '23?

**Rajkumar Bafna:**

We will incur INR 100 crores more in H2 FY23.

**Vicky Waghwani:**

Overall, INR 150 crores in FY'23.

**Rajkumar Bafna:**

That's right.

**Vicky Waghwani:**

Any guidance for FY24?

**Rajkumar Bafna:**

INR 150 crores will be spent on capex.

**Vicky Waghwani:**

Okay, Sir, I have another question. We have seen recent resignation from director in last three to four months. Any specific reason? And how do we see board's composition going ahead?

- Raunak Shetty:** We are reducing on the Board size. As in our earlier calls, the investors have only guided us that there are a lot of family members in the Board. So with the resignation of family members there has been the resignation of independent directors as well.
- Vicky Waghwani:** Okay. Sir, I'm just confirming, we are expecting commercial production of Phase II Sarigam from Q3 FY'24.
- Raunak Shetty:** Yes.
- Vicky Waghwani:** Additional 10,000 metric ton capacity, which is going to come.
- Raunak Shetty:** No, around 5,000 in Phase II.
- Moderator::** Thank you. The next question is from the line of Yogesh from Arihant Capital Markets.
- Yogesh:** Can you please tell what is the contribution of China to the overall sales?
- Rajkumar Bafna:** Earlier, it was around 22% last year. Currently, it's around 18%, first half.
- Yogesh:** And sir, any strategy to lower this to single digit going forward? How will the company approach lowering this dependence on China?
- Raunak Shetty:** No. Actually, we are not having any strategy to lower our dependency on China. We have a lot of products registered in China. And we started exporting an intermediate also in China. In fact, China is a good market for us and they are good buyers as well. So we've not thought of reducing China exposure in any way.
- Yogesh:** Sure. And Sir, which will be the major products in the Indian market for you, the top four, five products in the Indian market?
- Raunak Shetty:** The pyrethroids family.
- Yogesh:** It will be cypermethrin and others, right?
- Raunak Shetty:** Cypermethrin, and then there is one product called profenofos has a good market in India. Then we have another product called permethrin, which has a good market in India. So these will be the top three products. We have now, actually instead of permethrin, you can say Lambda cyhalothrin has a bigger market has come to permethrin. So, these will be the top three products, cypermethrin, lambda and profenofos in our basket.
- Yogesh:** Sure, sir. And in terms of the Sarigam facility, which is coming in Q4 FY23, like this will be all pyrethroids?
- Raunak Shetty:** No, It is not pyrethroids. It will be a mix of both insecticides as well as fungicides. We are launching three, four fungicides in the Phase II product. And Phase I will be a mix of pyrethroids and few other insecticides.

- Yogesh:** And the mixture will 50% fungicides and 50% insecticides for Sarigam?
- Raunak Shetty:** Yes.
- Yogesh:** And sir, one thing on the margin. So if we look historically, we had very strong exports like 45% of the revenue approximately was exports. And at that time, the margins were about 18% to 20%. In this year, exports has come down. And therefore, our margins have also come down. I assume that there are higher margins on exports. So going forward, if our focus remains on the domestic market, do you think that it will impact our margins, that 18% to 20% in the long term?
- Raunak Shetty:** No. In the long term, we'll be able to maintain 18% to 20% margins. This year, there has been global issues both geographical or political issues impacting the demand. Owing to lower demand the price expectation of the party in the export market have been lower this year. So we focus more on markets where we had better margins, including India.
- Rajkumar Bafna:** And also one reason for the exports is not oriented because the currency devaluation of the other countries also happened in that, or availability of the currencies also, yes, made an impact.
- Raunak Shetty:** A lot of countries are having dollar availability issues.
- Yogesh:** Sure, sir. And Sir, this 19% approximately growth in Q2 FY23. This might be a repeated question, how much will be attributed to product mix and how much to volume growth?
- Raghuram Shetty:** 50-50.
- Yogesh:** Okay. And the product mix will be like a mix of insecticides and herbicides?
- Raunak Shetty:** We're not making herbicides now. On the new site, we plan to have a dedicated herbicides facility to avoid contamination issues based on our customers' requirements.
- Yogesh:** Yes, Sir. And lastly on in initial commentary, we said that there was some margin pressure from higher raw material cost, which is now like, it has normalized. So are we expecting any price hike in this quarter to offset any pending pressure from higher raw material costs earlier?
- Raunak Shetty:** No. Our prices we have kept at the same range that we had last quarter. And for our products, unfortunately, prices have not gone down much from last quarter. So the products, the raw materials that we need are in the same range.
- Yogesh:** So we are not looking at any price hike in this quarter?
- Raunak Shetty:** No.
- Yogesh:** And Sir, lastly on China. So China is all technicals, right? There's no formulations from our side, all technicals supplies?
- Raunak Shetty:** Technicals and Intermediates.

- Yogesh:** Okay. And this is all pyrethroids, entire product basket to Chinese is pyrethroids?
- Raunak Shetty:** On production, yes. Intermediates, not pyrethroids.
- Yogesh:** So what would be like product basket like, in terms of insecticides, herbicides and fungicides for China?
- Raunak Shetty:** It's a bromine-based product, the intermediates, that we are exporting. One is an intermediate which is needed in insecticides, and rest are pyrethroids.
- Moderator:** Thank you. The next question is from the line of Rajesh Jain from NB Investments.
- Rajesh Jain:** Again, Sir, my question is regarding the capex. So you have mentioned that around INR 150 crores this year and again another INR 150 crores next year. So all this capex would be done through the internal accruals only?
- Rajkumar Bafna:** Most of the internal accruals, if we need some term loan, we can look into that. But then as of plan, we are stick with the internal accruals.
- Rajesh Jain:** Okay. Sir, for the Sarigam both Phase I, Phase II, you have mentioned, around 10,000 metric ton capacity will be added, right?
- Raunak Shetty:** Yes.
- Rajesh Jain:** Yes. And for the Saykha, so we have two plants. Out of it, the 34,000 is one where I think we are doing the next capex. So there also, will you be doing the -- in Phase IIs or it is in 1 phase only?
- Raunak Shetty:** In the two phases, we'll start with one and we start in one and then the multipurpose plant will follow.
- Rajesh Jain:** Okay. But both for Phase I and Phase II, the capex requirement is INR 150 crores?
- Raunak Shetty:** Almost.
- Rajesh Jain:** Almost. Okay. So you have mentioned Q1 FY '25 is the completion for Phase I. So can we expect maybe Q3 or Q4 may be the next one, right?
- Raunak Shetty:** Yes.
- Rajesh Jain:** Okay. Sir, for the next lot, whatever you have posted, the latest 57,000 square meter. So for that, have we received any approval from the environment ministry?
- Raunak Shetty:** No. We are in process to get approval.
- Rajesh Jain:** So that means once you complete this, the plan is to go for the next plant, right?
- Raunak Shetty:** Yes. It will take because all takes around one year to 1.5 years.

- Rajesh Jain:** Correct. Sir, just want to know both these Saykha plots would be, the capex would be done under Heranba Organics Limited, correct?
- Raunak Shetty:** Still not decided, but in the same, because it is a subsidiary company in that. Because and is the name of the Heranba Industries Limited in that, but we have capex fund for the overall group, we can say.
- Rajkumar Bafna:** As a group, we will be spending around, INR 150 crores.
- Rajesh Jain:** And Sir, the reason why I was asking whether it is in Heranba Organics, so that you can avail the lower income tax rate?
- Rajkumar Bafna:** Yes. It's still not, because lots of formalities is still to be done in that.
- Rajesh Jain:** Okay. Sir, we do not have any PLI scheme for our segment.
- Rajkumar Bafna:** No, the government has not introduced any PLI schemes or connected to that.
- Rajesh Jain:** Got you. Okay. Sir, lastly, for all these new capex, we will be launching a few new grades and then a few of them we would be exporting to the US and European markets in the coming years. Is it fair to say the margins of all these products from Sarigam and Saykha would be at a higher margin ones?
- Raunak Shetty:** We'll say we'll maintain 18% to 20%, because the base that we are at to the growth that we are mentioning, after a point, it may become tougher. So as a whole, maintain to have higher margins. So that's why we are not committing higher margins. Instead, we are maintaining this 18% to 20% kind of guidance.
- Moderator:** Thank you. The next question is from the line of Chintan Patel from Satco Capital Markets.
- Chintan Patel:** How much price hike we had taken in the first half?
- Raunak Shetty:** In few products, we have taken price hike. It's not across products, we have not taken price hikes.
- Chintan Patel:** Okay. So how much size price hike we had taken?
- Raunak Shetty:** Pardon?
- Chintan Patel:** So for a few products, how much price hikes we had taken? And what is the impact on overall mix?
- Raunak Shetty:** The overall mix impact may not be very much. The price hikes would be somewhere around 5% or so in few products. But as a whole, it may not have a major impact.
- Chintan Patel:** And Sir, can you quantify the revenue contribution from pyrethroids portfolio?
- Raunak Shetty:** Annualized we have, but for first half, we will have to get back.

- Chintan Patel:** Okay. And can you give some color on pyrethroids portfolio demand outlook?
- Raunak Shetty:** So domestic demand has been normalized as it has been in the past. But in export, not just pyrethroids, but the entire, the products, we are facing from few geographies we are facing some demand issues. Because the global situation is being broad, as well as political issue, COVID issues, currency availability is another issue. So because of that, there has been some demand slump, not because the demand for the product has gone down, but globally, there has been a lot of uncertainties happening.
- Chintan Patel:** Okay. And any, how much product pipeline for the pyrethroids portfolio?
- Raunak Shetty:** Around seven products.
- Chintan Patel:** And then for these seven products, we are going to launch in FY '23 and FY '24.
- Raunak Shetty:** No, not launch. This is an existing pyrethroid basket.
- Chintan Patel:** Okay. existing. And any new products for the pyrethroids product portfolio?
- Raunak Shetty:** We make around 13 to 14 products, out of which seven products are pyrethroids. And for pyrethroids, we are fully backward integrated where we make our own intermediates as such.
- Chintan Patel:** Okay. And Sir, on capacity expansion, can you shed some color on our Saykha and Sarigam facility overall capacity?
- Rajkumar Bafna:** Sarigam facility first well will be started by the end of Q4 FY23, whereby 5,000 tons will be the added capacity. The next phase will be around another 5,000 tons, which will be commenced on the Q3 FY '24.
- Chintan Patel:** FY '24. And so Sarigam has around 10,000 tons of capacity and Saykha?
- Rajkumar Bafna:** Saykha will be around same 10,000 tons capacity, and will be added in FY'24 and FY'25.
- Raunak Shetty:** But one thing as it was already mentioned in a previous question that tonnage should not be considered as a base when we are considering a project. Because when we consider high-value products or when we are doing backward integration, this tonnage may come down. So it depends on product-to-product, the tonnage may also change. We can make 20,000 tonnes also from this plant. But the products that we are focusing on, we may be able to touch only 10,000 tons. That's our focus.
- Chintan Patel:** And Sir, can you provide some color on the formulation margin?
- Rajkumar Bafna:** If you see the gross margin, it will be in the same range. But if you see the EBITDA margin, it will be here by around 1% or 2% hear on there from the technicals side.
- Chintan Patel:** And going forward, formulations will contribute more revenue. So how we will manage the margin for particular Formulation business?

- Rajkumar Bafna:** Yes, formulation business because the fixed costs remain same in that. If you increase your volume, it will be definitely boost our margin in that.
- Chintan Patel:** And any color on a distribution network for the formulation business?
- Rajkumar Bafna:** We have around more than 21 sales points in India, across India, for the distribution point of view.
- Raunak Shetty:** We have around 21 sales point and around 8,000 dealer distributor network.
- Chintan Patel:** And can you quantify the revenue contribution for region-wise in India?
- Rajkumar Bafna:** We have not done this breakup yet, so we can get back to this question later.
- Chintan Patel:** Okay. And sir, can you quantify the export in China? Like China, in the previous quarter, you have said that we sold our material to Shanghai port and then your distributor will sell the product. So any color on which region where we have strong revenue for China country?
- Raunak Shetty:** We are selling it to companies. We are selling the technicals to companies who have their brands in China or who are like traders who in turn sell to other companies. So we have both models, but we are not selling it directly to distributors in China.
- Chintan Patel:** Any number or any percentage of sales of China? And in which region we have a strong revenue from China?
- Rajkumar Bafna:** We only have country-wise breakup. So we just do is we sell it to companies who then have their branch across China or something like that. So we do not have geography-wise breakup also in the Chinese market. We are only selling Technicals. We don't do Formulation business in China.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Raunak Shetty:** Yes. Thank you so much for taking interest in this con call. I wish you all the best. Thank you so much.
- Moderator:** Thank you. On behalf of Emkay Global Financial Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.