



“Heranba Industries Limited
Q3 and 9M FY ‘23 Results 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 Q3 and 9M 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. Raunak R. Shetty, Executive Director, and Mr. Rajkumar Bafna, Chief Financial Officer.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. Thank you and over to you, sir.

Rohan Ohri: Thank you, Lizann. Good afternoon, 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: Good afternoon, everybody. Thank you, everyone, for taking your valuable time for Heranba's Q3 and ~~nine months-9M~~ FY '23 earnings call. The company's ~~nine month-9M~~ FY '23 revenues stood at INR 10,655 million impacted by challenging global macros including prolonged geopolitical concerns, rising inflation in major economies and slowdown in demand. The domestic technical business witnessed lower demand due to challenging market conditions coupled with higher inventory. Our export business was impacted by volatile global macroeconomics. The EBITDA margins were suppressed during ~~nine months-9M~~ FY '23 due to higher raw material prices and an increase in power and fuel costs. Heranba's capex plans are progressing as planned and it will further strengthen the company's capacities and capabilities for the coming years.

Heranba aims to leverage its sales and marketing team's reach to strengthen its relationships with existing customers along with adding new customers. The near-term outlook is challenging for the entire agrochemical industry. However, Heranba will continue to diversify its product portfolio, widen its distribution network and sharpen its R&D focus for creating sustainable growth. The company is well poised to build on the strong operational competencies developed over the last few years. I am hopeful the company will continue to grow and surpass new milestones in the coming years. We look FY '23 as transitional year for Heranba and are optimistic of the future.

I will now hand over to Mr. Raj 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 ~~third quarter Q3 ended 31, December 2022~~ FY'23 and then we'll open the floor for questions and answers.

Now, moving to our financial highlights for the quarter ended 31, December 2022. Revenue from operations stood at INR 2,802 million in ~~quarter-Q3~~ FY '23 as compared to INR 3,954

million in ~~quarter-Q3~~ FY '22. EBITDA stood at INR 264 million during the quarter with EBITDA margin at 9.41% in ~~quarter-Q3~~ FY '23. PAT stood at INR 144 million in ~~quarter-Q3~~ FY '23 as compared to INR 535 million in ~~quarter-Q3~~ FY '22. The company's domestic to export ratio stood at 49:51 in ~~quarter-Q3~~ FY '23 as against 65:35 in ~~quarter-Q3~~ FY '22. Though sector fundamentals remain challenging for the short term, however, it continues to remain strong for the long-term basis.

That concludes the update on financials. Now we can open the floor for question-and-answers.

- Moderator:** The first question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.
- Bhavya Gandhi:** A couple of questions, sir. First question with respect to capex. What is the capex figure for nine months because I see there's an incremental depreciation charge in the current quarter? If you could just share the capex number for nine months?
- Rajkumar Bafna:** ~~For During nine months 9M FY23,~~ we have done capex around INR 60-odd crores. ~~For the depreciation charge,~~ [inaudible 0:06:06].
- Bhavya Gandhi:** So INR 60 crores, our annual guidance is around INR 150-odd crores. ~~So in the last quarter, are we expecting--~~
- Rajkumar Bafna:** ~~Last quarter~~ we will ~~done~~ around INR 50 crores to INR 60 crores ~~Group~~ capex in Q4 FY23 and it will be touch around INR 120 crores for FY23. [inaudible 0:06:29].
- Bhavya Gandhi:** So, we don't expect to touch to INR 150-odd crores, it will be around INR 110 crores, ~~INR to~~ 120-odd crores, right?
- Rajkumar Bafna:** Currently ~~it is difficult,~~ INR 150 crores looks difficult.
- Bhavya Gandhi:** And if you can just share something on the employee cost? Because last quarter it was around INR 19-odd crores, this quarter it is around INR 16-odd crores. So are we not ramping-up the facility, adding new employees? What is the reason for lower employee cost?
- Rajkumar Bafna:** Lower employee cost, because some cost is related to our turnover basis. So our turnover has decreased by around 30% ~~or the thing.~~ So some labors and some so you can see the lower production in our factory premises also. That's why the employee cost has gone down for this quarter.
- Bhavya Gandhi:** Contractual workers, maybe that is the reason for decline--.
- Rajkumar Bafna:** Yes.
- Bhavya Gandhi:** And sir, one more question. In last eight quarters we've not seen increase in our dealers whereas our formulation sales have increased from INR 64-odd crores, we've reached now to almost double. So if you can just shell out what is the reason for no increase in the number of dealers stagnant around 9,400 dealers?

Raghuram Shetty: No, ~~we had~~ 9,400 dealers ~~was number of the~~ in FY '22. We have not updated ~~the number of current quarter. We will update in the~~ you can say, the year ended number is ~~that~~ that number annually. Currently, ~~if you see the current number, it will be~~ we have more than 10,000 dealers.

Moderator: The next question is from the line of Yogesh from Arihant Capital Markets Limited.

Yogesh: So sir, my first question is if we recall, Q1 and Q2 FY23 both were quite weak. Q1 was one of the worst quarter for us and one the main reason was the China lockdown. And Q3 FY23 has been even weaker. So just it would be helpful if you can give some details on actually what is happening in China? Is there a demand issue or the ports are closed? So exactly what is happening in China because of which we are facing this problem?

Raghuram Raunak Shetty: ~~Basically the entire,~~ if you see, the global macro situations are not good. In Q3, because majorly it's the Western countries where you have major business. But because of inflation, foreign exchange, availability and in China also if you see because of the COVID issues, there were lot of lockdowns in Q3. So, the demand ~~ratios issues~~ are definitely there and supply is sufficient to fulfill this kind of demand. That's why there's this price issues and all that have come into play. But we have not really reduced the prices, that's why there's a dip in the turnover.

Yogesh: So sir, there is no issue of logistics. Like, last time it was the Shanghai port was closed, so it's not about logistics.

Raghuram Raunak Shetty: No, there are no port closures as such. But geographical macroeconomic issue is not really good.

Yogesh: And sir, what is the current -- like China reopened in the later half of December so what is the current situation? Are we getting orders request from that part?

Raghuram Raunak Shetty: ~~Orders:~~ We have started getting orders from China. But then because there are supply available in the market both in China as well as India, that's why the price expectation of our customers are lower. But once demand kicks in, things will stabilize. So, for now, we are being very selective and not really reducing our prices. So initially maybe it looks bad. But once the demand kicks in in China, the pricing will also stabilize and things will start moving in a better way.

Yogesh: And for the quarter, how was the domestic business? Like, export is down. How was the domestic business? Has it increased during the quarter, Q3?

Raghuram Shetty: Usually Q3 is not a domestic period and because, as I said, the global macroeconomic situations are low, that's why domestic requirements for export orders have also been low in this particular quarter. ~~Have I answered your question or do you need --~~

Yogesh: ~~Yes.~~ Just to understand a little more. So like domestic business would be small, but ~~it would be like~~ -- what would be the trend like?

Raghuram Shetty: So usually what happens is in quarter 3, the demand for herbicides are more in the domestic ~~market~~ -- in India, ~~and w~~ We are more strong in fungicide and insecticide portfolio. So whichever,

what orders we usually get are exports and domestic orders which are for export requirements. So because your global macroeconomics have not been good, that's why insecticide, fungicide requirements for our products have been low and that's why the hit in the total turnover. Usually our products start moving in Q4, the insecticides and fungicides. Q3 is mainly a herbicide period.

Yogesh: And just coming back to China. Like, Q4 is also a large quarter for China?

Raunak Shetty: Yes. COVID is still a concern even now in China. The situation is not really normalized in China and now there is a festival. After the festival, it is hopeful that the situation will improve in China. The fourth quarter as far as China is concerned, it should be better than the third quarter. But normally third and fourth is the main export market especially for China—~~China~~ at it is a global production hub. Chinese buy from India also our range of products and distribute to the global requirements like, Africa and all. But now fourth quarter should be much better than the third quarter.

Yogesh: So just to understand on the demand side. Like, if I take approximately about 50% revenues come from domestic approximately and then the rest 20%-odd comes from China. So about 70% is contributed by two countries. So if we are seeing some pricing pressure in China and some like demand issue as well so what would be the outlook on China? Will this grow in FY '24? How do we see this forward?

~~Raghuram~~ Raunak Shetty: Can you reframe the question? Grow as in?

Yogesh: So what I meant is like, if there are some challenges in China because of COVID and others like pricing challenges and demand issues, ~~how do we~~—what is the outlook for the China business? Do we see it growing in line with what we see like 18% to 20% growth? Do we see that going forward in FY '24?

Raunak Shetty: Yes. That will happen because our new facilities will be coming in. When it comes to China also, usually our line of products start moving in quarter 4 in China in a big way. And the Chinese government have already taken a call to open-up the entire economy even though they have these COVID issues, because the lockdown was really not supporting them. So we will start seeing demand coming in from now because today is the Chinese New Year so they had been on holiday for almost 15 ~~days~~—20 days and they should be opening-up in February.

Yogesh: My next question is on the capex. So regarding the Sarigam capex Phase 1, which we are targeting March end, so are we on track to complete it by March end Phase 1?

~~Raunak~~ Raghuram Shetty: Yes, we are on track for this capex plan that we have given. Our facility will be coming up and the products that we will bring in would not be purely from China perspective, but distributed both in India as well as other than China geography. ~~So then this~~ It will also diversify our geographical risk that we have and ~~also~~ our product portfolio will become better.

Yogesh: And sir, by when can we ramp-up this Phase I to optimum capacity? How many months?

Raunak Raghuram Shetty: It should be one to two quarters it should be ramped-up to sufficient capacity.

Yogesh: So I'm assuming that this is technical so the optimum capacity utilization would be about 70%, 80% in six months?

Raunak Raghuram Shetty: We can say 70% next financial year.

Yogesh: Sure. 70% by ~~September, right?~~ September '23, right?

Raunak Raghuram Shetty: Yes. We are hopeful by September it should be at 65%, 70% range.

Yogesh: And sir, have you got the product registration for this new molecules coming up at Sarigam?

Raunak Raghuram Shetty: Yes. We have registrations for three of them and for the other two molecules, ~~we'll be starting slow.~~ We'll be starting slow, but slowly as we get registration, we will increase our capacities. As of now, it is lined up.

Yogesh: Sir, what I understand is like we will start with two molecules and three molecules will come in Phase II?

Raunak Raghuram Shetty: Three molecules we'll try and bring in the Phase I only.

Yogesh: And the other two will come in Phase II, which will start after October '23?

Raunak Raghuram Shetty: Yes.

Yogesh: And sir, one question on the growth expectation we have. So like FY '23 was challenging and we have a long-term revenue growth of 18% to 20% on revenue. So will there be any pent-up revenue growth because '23 was down? So are we in line with this 18% to 20% revenue growth in FY '24?

Raunak Raghuram Shetty: Yes, we will be in line of 18% to 20% in FY '24. This year has been tough and that's why. Otherwise in a usual year, we would have been able to achieve as we had projected 18% to 20% even this year. But since it's not been good, that's why we may match the last year's turnover this year.

Yogesh: So just coming back to the guidance, it's like 18% to 20% is our long-term expectation. But since FY '23 was weak, would there be any pent-up demand so can we exceed the 20% guidance next year maybe like 23%, 24% because '23 there was this problem with the lockdown in China.

Raunak Raghuram Shetty: Currently, we are very conservative ~~in that.~~ So we estimated it will be around INR 1,450 crores ~~we are targeting~~ for FY '23 and INR 1,850 crores ~~we are targeting~~ for FY '24. This is all our ballpark numbers of that.

Yogesh: So FY '24 would be like 18% to 20% and FY23%4 is like 15% to 18%?

- Rajkumar Bafna:** Right.
- Yogesh:** And margins would be similar for FY '24 like between 18% to 20% operating margins.
- Rajkumar Bafna:** Yes.
- Yogesh:** And lastly on the cash flow, sir. So are we positive on cash flow from operations at the end of nine months?
- Rajkumar Bafna:** Not now. For the first half, it was positive. For this quarter, it's almost around you can say minus to around INR 5 crores to INR 10 crores.
- Yogesh:** And we hope to get back to positive territory by end of the financial year?
- ~~Raunak Raghuram~~ Shetty:** We cross our fingers. We are targeting our cash flow positive for this financial year, but it seems to me it will be a neutral around minus INR 5 crores or plus INR 5 crores in the range.
- Yogesh:** And sir, the last question on the planned capex at Saykha. So when are we looking to start our next stage of capex in Saykha?
- Raghuram Shetty:** We are targeting by FY '24 end.
- Yogesh:** And this will be totally herbicide?
- Raghuram Shetty:** Yes.
- Moderator:** The next question is from the line of Niharika from Aequitas Investment.
- Niharika:** Sir, my first question would be on the inventory side. So how much days of inventory do we hold as on December?
- Rajkumar Bafna:** Currently inventory is around 110 days, madam. 110 days exactly
- Niharika:** And this is higher price inventory or like have we taken any write-offs in quarter 3 regarding that?
- Rajkumar Bafna:** Because we have inventory as a carrying out policies of the market value or the cost whichever is less. So it's almost you can see the market value is reflected in that.
- Niharika:** So we have not taken any write-offs in inventory-~~considering...~~
- Rajkumar Bafna:** No write-off in inventory.
- Niharika:** And secondly, ~~I want to understand on the~~ so, you are saying that there has been macroeconomic factors and that is why our performance is not as good. So what exactly do you feel that these all things will fall in place next year and our demand can come back? Because I understand one portion is China say 20% of our sales. The rest of 80% is dependent on India,

probably US and a bit of Europe. So what things do you feel would fall in place that we would see demand coming back?

Rajkumar Bafna: Ma'am, currently you can say, our domestic business has grown. Our domestic business has grown by 4% for the period of nine months and our export revenue degrowth by 12% for the nine months in that. The major contribution is the China related COVID issues ~~for that because the COVID issues~~ was exceptional ~~here~~ for FY '23. So we don't expect this will be continued for FY '24 ~~also~~. It will be continued because a bit the pent-up demand of the China will also come in the next year and the other geography we are entering with our new plant capacity and new registrations charges. So we are on track on that will be achieved around 18% to 20% growth from FY '24, ~~by FY '23~~.

Raunak Shetty: ~~New-The~~ new plants will have different products portfolio. And we have got a lot of new registrations in India as well as the other countries. We will be targeting these new products in these new geographies and that's how we feel that this 18% to 20% should be achievable.

Niharika: And sir, there were some peer companies whose results are already out for this quarter and their agrochem division didn't perform as poor as ours in a way. So what do you think? Are we losing our market share in the metric because seeing the presentation, I could see that our domestic demand has fallen drastically quarter-on-quarter. Export hasn't fallen quarter-on-quarter that much, but I think domestic demand I can see has fallen down. So what do you think might be the major reason for that and why do you think our peers have performed a bit better? Are we like losing market share to them?

Raghuram Shetty: Ma'am, domestic business, we have two aspects, one is the formulation and one is the technical business you say. So formulation business has grown by around 25% to 30% in that but our technical business, which subsequently used to be exports in that, it has degrown by around 15%. So for our branded formulation, our definitely market share has increased in that.

Raunak Shetty: Also product profile company-to-company is different. So it is not necessarily we've lost market share. It is possible that they are in a different product, they deal in different products where the issue may not be that ~~great~~ ~~0:24:34~~ ~~much~~ as our product that we deal in. They may be doing business more into herbicides or so and we are into insecticides and fungicides.

Niharika: Fair enough. Also I want to understand on the Sarigam side that what kind of topline are we -- like can we achieve maximum revenue potential from Sarigam in Phase 1 and Phase 2?

~~Raunak Raghuram~~ Shetty: Should be around 2.5x to 3x our investment.

Niharika: And when do we plan to achieve it? I understand that you will be planning to ramp it up in phases. So this 2.5x would be possible, say, in FY '25, '24 end?

~~Raunak Raghuram~~ Shetty: Yes. For optimum revenue, we will consider FY '25. We ~~it~~ ~~will~~ be conservative.

Niharika: And my last question would be on the capacity utilization side. So what kind of capacity utilization did we see in this quarter?

~~Raunak Raghuram~~ Shetty: Capacity utilization in our existing facility?

Niharika: Yes, existing facility.

~~Raunak Raghuram~~ Shetty: Existing facility, our technical plants, it's at ~~90% — almost 90%, you can say~~ 85% to 90%. And then formulations, it's around 55%; to 60%.

Niharika: And now that you are in ~~quarter 4 of this financial year~~ Q4 FY23, do you see any demand coming back like because you said that ~~quarter Q4~~ demand should be better in domestic? So what kind of scenario are you facing currently?

~~Raunak Raghuram~~ Shetty: We feel that usually our Q4 is ~~usually~~ better than Q3. So we see that as China has also opened up, ~~the government has opened up Chinese economy~~; we see that demand from China will come in ~~in~~ Q4.

Moderator: ~~The next question is from the line of Chintan from Prudent Corporate.~~ We'll move on to the next question that is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.

Bhavya Gandhi: Sir, just wanted to understand how many products are there in the pipeline. So five that you mentioned Phase 1, Phase 2 that we are aware of and then post that, how many products are there in the pipeline?

~~Raunak Raghuram~~ Shetty: We are evaluating around 10 to 12 products for Sarigam. That's a multipurpose facility. And we have got many registrations in India which is available in the public domain also and few registrations we got in other countries like in the West as well as a few in the Middle East and Africa. So based on that, we'll be bringing in new molecules; some may be a dedicated facility and some on multipurpose facility based on some campaign.

Bhavya Gandhi: And in the first year, ~~—from April 2023 onwards~~ ~~in the first year~~, how much revenue can we expect from Sarigam? 2.5x, 3x is FY '25; but in the first year, can we expect at least 1.5x of revenue of the investment that we're doing?

Rajkumar Bafna: We've not really calculated like that, but we should comfortably be able to achieve 1x to 1.5x.

Bhavya Gandhi: And with respect to our domestic technical, because I see it's almost at INR 50-odd crores versus on a sequential basis it was at INR 122-odd crores. So barring the supply issue, is there any competition intensity which increased because that's a major fall because if we take it on a Y-o-Y basis also from INR 106 crores, it's down to INR 50-odd crores, domestic technical I'm saying.

~~Raunak Rajkumar Bafna~~ Shetty: Last year as you see, there was power issue ~~[inaudible 0:29:05]~~ which impacted the final product price rise which we had seen in Q3 ~~last year~~ and because of the China issue ~~so~~ we saw a very good quarter in Q3 last year. So this year, it is exactly opposite. It is not usual, it is

really an unusual year. So we've seen two cycles from last quarter to this quarter, last year this quarter to this year this quarter.

Bhavya Gandhi: And do we maintain the annual revenue guidance that we had because that seems unachievable with this quarter results?

~~Raunak Raghuram~~ Shetty: We've already said that we will be matching last year's turnover and next year we have projected at INR 1,850 crores.

Bhavya Gandhi And with respect to -- so if you can just quantify the number of registrations that we had one quarter back and now that we have?

~~Raunak Raghuram~~ Shetty: We don't have that figure now, but we can get back on it.

Bhavya Gandhi: Any approx figure will also do. How many registrations that -- number of increased registrations that you've got in this quarter? Maybe that also helps.

~~Raunak Raghuram~~ Shetty: Maybe around 30.

Bhavya Gandhi: 30 new registrations in this quarter?

~~Raunak Raghuram~~ Shetty: Yes. They will be a mix of both formulation as well as technical. In domestic also we've got good registrations of technical.

Bhavya Gandhi: And can you just share the role of Ajit Gujral that you hired and brought him onboard?

~~Raunak Raghuram~~ Shetty: Yes. He'll be looking into our marketing domestic both brands as well as B2B.

Bhavya Gandhi: And on the technical R&D front, does he have any competence or how is it like or only in terms of marketing he's going to look after?

~~Raunak Raghuram~~ Shetty: He's mainly for marketing. He is not a R&D person, but yes, his views on patents ~~as such~~ has been really good in the past, which we consider as a part of marketing efforts. ~~So based on his views...~~

Rajkumar Bafna: Based on his suggestion, we can take up new high-value products we can select which is required in the coming years in the branded as well as B2B.

Bhavya Gandhi: And going forward, are we looking at more 9(3) products versus 9(4)? Is that the thought process?

~~Raunak Raghuram~~ Shetty: There will be 9(3) formulations going forward, yes. We have been touching for more because we've got a lot of technical registrations in the last one year and we have already filed for many which we may see in the next six to eight months. So based on those molecules, we would be filing for some formulation 9(3) registrations as well in our B2B and we may give ~~it~~ in our B2C and we may give those molecules in B2B as well.

Bhavya Gandhi: In terms of pricing, have we seen realizations drop drastically or is it only the demand which has led to poor revenue?

~~Raunak Raghuram~~ Shetty: Both even prices have come down.

Bhavya Gandhi: Prices have also come down. Is it possible to quantify at least the Top 3, Top 4 molecules that we have, have they saw any price erosion or how is it?

~~Raunak Raghuram~~ Shetty: Across products. Quarter-to-quarter there has been price erosion. But if you see last year Q3 to this year, Q3, there has been a big fall.

Bhavya Gandhi: And possible to share the split between herbicides, insecticides and fungicides? How much revenue does it contribute?

~~Raunak Raghuram~~ Shetty: Around 70%, 75% is insecticides and rest around 20% is fungicides, 5% maybe herbicide.

Rajkumar Bafna: The equation will change in the coming years because the Saykha site will be dedicated to herbicides.

Bhavya Gandhi: That would be metribuzin or which one would it be? Is it possible to...

~~Raunak Raghuram~~ Shetty: There will be few other molecules also which will come in Saykha not just metribuzin.

Moderator: The next question is from the line of Vicky Waghvani from Yes Securities.

Vicky Waghvani: Sir, there is 30% Y-o-Y drop in our turnover in this quarter. If you could quantify between how much this fall due to price and what is the impact of volume decline?

Rajkumar Bafna: Both will have same impact. The quantification would be tough, we'll have to work that out as well. But there has been price as well as volume decline in this quarter.

~~Vicky Waghvani:~~ ~~Sir, we have seen the sale of...~~

Moderator: Sorry to interrupt. The line for the current participant has dropped. We'll move to the next question that is from the line of Imran from Longbow India Capital.

Imran: Sir, just one question. If you can tell us whether out of these last three months, October, November, December; which one was the worst?

~~Rajkumar Bafna~~~~Raunak Shetty:~~ December was the month which we got the lowest turnover, ~~December month.~~

Imran: And October and November were normal compared to last year same time?

~~Raunak Shetty~~~~Rajkumar Bafna:~~ No, ~~not to compare—it~~ will be around 5% to 7% degrowth in October, November also.

Raghuram Shetty: As we mentioned, last year Q3 there was a big jump in the prices because of China power issues. So last year to this year, anyway we've been seeing of all value-wise sales figure in October as well as November, but December has been very poor.

Imran: So that means you knew that this is not doing that well in this quarter, October and November was not that good. Now my question is then if you already knew this, then why did you give a guidance of 15%, 17% growth you will continue for this year when you were doing the con call last time in November? Is my question—~~am I audible? You heard my question or shall I repeat?~~

~~Raghuram Raunak Shetty:~~ Your question was not audible. Now we are able to hear you.

Imran: So let me repeat my question. I was asking if you knew that October is down 5%, 7% and November is also looking very similar; then why did you guided in the last con call for about 15%, 17% growth?

~~Raunak Shetty Rajkumar Bafna:~~ See, normally this third quarter and fourth quarter is going to -- in past trend it used to be better for many years. So all of a sudden the situation has changed mainly because of the COVID also, which was unpredictable.

Imran: So you didn't know about it till your last con call?

~~Raghuram Raunak Shetty:~~ One thing is we had already guided lower to 15% to 17% revenue growth in this year in Q2 con call and that was from an H1 point of view. We had not considered that from Q3 to Q3 basis. We had considered based on what we were seeing in the month of October that sales were not up to a mark, but things would be better because there were discussion of things improving and all. So we said that we would be maintaining anywhere around 15% to 17%. Even in our last con call, we had guided lower our projections.

Imran: And given whatever data you have as of now for this month, based on that I'm assuming you're aiming to match last year's revenue. You will do more revenue basically in Q4 so that you will match last year's revenue, right?

Rajkumar Bafna: Correct.

Moderator: The next question is from the line of Rajesh Jain from NB Investments.

Rajesh Jain: Sir, my first question is what are the reasons for the drop in margin? Because there is no inventory loss as CFO had mentioned, then what are the reasons for the drop in margins?

~~Raghuram Shetty Rajkumar Bafna:~~ Basically, the margin used to consist of two, three reasons. First is the raw material cost has gone up in that and we are not able to entirely pass on to the customer—~~due to the [FG 0:39:21] prices not in our control also.~~ And second one reason is our inflationary factor in that, our fuel and the power cost has been rising by around 20% to 30% in that. Those are the two major reasons for the drop in the margins.

Rajesh Jain: Sir, did you say raw material prices have gone up?

Rajkumar Bafna: Yes, raw material prices have gone up.

Raghuram Shetty: It has gone up, but for our set of products it has not come down.

Rajesh Jain: So you're still not able to pass on the increase in raw material prices to your customers? That is what you are saying?

Raghuram Raunak Shetty: Yes, because our geographical macroeconomic situations are not good. Demand is really not coming in. China was under lockdown and ~~China already~~ the factories have inventory in place. So globally we're expecting prices to...

Moderator: Sorry to interrupt, sir. Your audio is breaking up.

Raghuram Raunak Shetty: So issues, the macro situation has been down. There's been lockdown in China. Domestic season usually in Q3 is also down. So overall things because of lower demand and ample supply, the prices also expectation of customers were down so prices, we had to give lower prices to our customers. The RM prices were on a higher side, which did not come down. So overall, we had to face some margin issues.

Rajesh Jain: Now that you have given for the full year flat revenue growth...

Raghuram Shetty: Initially we tried to hold on to the price. As already mentioned by our CFO that December had been bad. But we held on for as long as we could, but things did not look good even by mid of November when we had to take a call.

Rajesh Jain: Sir, now for the full financial year, you have said that you said that you would try to reach last year revenue figures. How it would look in the bottom line? Will you be able to reach last year profit or will it be lesser than that?

Moderator: Members of the management team, are you'll able to hear us? Sir, what we'll do is we'll just disconnect your line and reconnect you all. Mr. Gandhi, may we request you to proceed with your question?

Rajesh Jain: I wanted to understand the geographical breakup in terms of our sales to China, what would it be as a percentage of revenue in this quarter and the quarter back?

Raghuram Shetty: ~~[inaudible 0:43:08]~~

Rajesh Jain: ~~Sir, your voice is not audible.~~

Raghuram Raunak Shetty: We don't have the breakup at present, we have to work it out.

Rajesh Jain: Any broad understanding also will do at least?

Raunak Shetty Raghuram Shetty: ~~[inaudible 0:43:34]~~ We will connect offline instead of giving you some broad idea.

Rajesh Jain: And in terms of our overall exports, I think Middle East contributes the major. If you cannot at least quantify, but in terms of overview if you can just mention?

Raghuram Shetty: ~~[inaudible 0:43:54]~~

Moderator: Sorry to interrupt, sir. Sir, your audio is breaking up. Ladies and gentlemen, we request to stay connected while we reconnect the management team. Ladies and gentlemen, we now have the line for the management reconnected. Over to you, sir.

Rajesh Jain: I just wanted to know the geographical breakup, we were discussing about, is Middle East a major portion of our exports or how is it? If you could just rank it amongst different geographies that will also help.

Raunak Raghuram Shetty: Yes. As a rank, if you have to say, excluding India also, Asia Pacific is the Number one geography, followed by Africa and then Middle East.

Rajesh Jain: And in terms of depreciation, is it possible to quantify how would be the first year depreciation charge as a percentage of incremental capex?

Rajkumar Bafna: It will be around you can say, because the proportion on the rough side, it will not do more than INR 2 crores to INR 5 crores in that.

Rajesh Jain: And in terms of our employee cost, how much would it be fixed and how much would it be variable, if you can quantify that?

Rajkumar Bafna: It will be ~~say~~ around 75%:25% in that range.

Moderator: The next question is from the line of Vicky Waghvani from Yes Securities.

Vicky Waghvani: Sir, my question was I have seen peers also the sale of insecticide has been impacted in this quarter. Any specific reason for the same?

Raghuram Shetty: The same that as usually in domestic, it is not an insecticide period and macro situation globally has not been good.

Vicky Waghvani: On Y-o-Y basis if we compare for Q3 last year, the sale of insecticide has come down so maybe inventory is more into a channel or what any specific reason?

Raunak Raghuram Shetty: Yes, you can say inventory is more because demand has really not peaked and production did not go down because everyone expected that demand will come in sooner or later, but that did not happen.

Vicky Waghvani: And sir, secondly, if you could give our prices on Y-o-Y basis for Top 3 molecules; maybe for cypermethrin and deltamethrin, if you could give what was the price in last year Q3 and this year so that we can compare on a Y-o-Y basis?

Raunak Raghuram Shetty: We'll have to look into it what exactly the price was last year. But there should be around 10% dip as compared to last year to this year, 10% to 12% dip for sure.

Vicky Waghwani: On average basis?

Raunak Raghuram Shetty: Yes, on an Average-average basis.

Moderator: The next question is from the line of Yogesh from Arihant Capital Markets Limited.

Yogesh: My first question is regarding the US business. So we are targeting about \$25 million in the US business. So what would be the timeline like? By when can we expect this?

Raunak Raghuram Shetty: Two to three years.

Yogesh: So by FY '25 we'll be able to target \$25 million?

Raunak Raghuram Shetty: Should be.

Yogesh: And sir, how many products are registered in the US for us?

Raunak Shetty Raghuram Shetty: US-As for now, we have two products for US. Recently, we got one more product registration in US. And hopefully by end of financial year, one more we should be getting or maybe Q1 next year.

Yogesh: So just wanted to understand and if you can share some more details. What I understand is currently we have about INR 25 crores of revenues coming from US and if we take a two-year horizon, \$25 million if I take exchange rate of INR 80, like INR 200 crores in about two years from INR 25 crores.

Raunak Raghuram Shetty: Two to three years.

Yogesh: So, will it this go to—will be from around four products we have. Will this be sufficient for us to ramp-up to around INR 200 crores in three years?

Raunak Raghuram Shetty: We are planning more products. We already applied for few more products. So total I think around six to seven products basket we will be making in US and depending on how we get the registrations, this figure we will be able to achieve.

Yogesh: And sir, this will be all herbicides, the six to seven products which we are looking at?

Raunak Raghuram Shetty: It will be a mix of all three.

Yogesh: But the major composition would be herbicides?

Raunak Raghuram Shetty: No, it will be insecticides and herbicides. Mainly more insecticides will apply.

Yogesh: And sir, any plans for us to register products in the LatAm market going forward?

- Raunak Raghuram Shetty:** Yes. We have also started activity in LatAm market. We already sell in the Latin American countries, but we plan to increase turnover even in LatAm market. We have already filed for some registrations also, but takes longer in LatAm.
- Yogesh:** ~~So we already have product registered~~—sSo just to understand like we already have products registered in the Brazilian market?
- Raghuram Shetty:** Yes. We have products as a source addition in Brazilian market.
- Yogesh:** And this will be like which category like insecticide, herbicide, which type?
- Raghuram Shetty:** All insecticides.
- Yogesh:** And sir, what would be our total capacity for deltamethrin?
- Raghuram Shetty:** Deltamethrin total capacity should around 300 tons per annum.
- Yogesh:** And this will be mainly export oriented?
- Raghuram Shetty:** Yes, mainly export.
- Yogesh:** And sir, last question on the quarter. If we see the effective tax rate, there has been a big decline both quarter-on-quarter and Y-o-Y basis. It seems to come from some deferred tax related assets. So if you can share some details on that?
- Rajkumar Bafna:** The tax rate will be in the range of 24% to 25%. Because over next quarter, the new plant will be started and we get a depreciation benefit for that also. So it will be range around 24% to 25%.
- Yogesh:** 24%, 25% going forward in FY '24?
- Rajkumar Bafna:** Right.
- Yogesh:** And sir, just to come back to the third quarter, it was around 21% the effective tax rate, 21%, 21.5%. So if you can share some details to what led to the decline in effective tax rate?
- Rajkumar Bafna:** Because tax rate we are calculating on the annualized basis. So this was an exceptional quarter and the profit decline is too much in that. That's why tax rate is you can see the quarter-to-quarter impact also.
- Moderator:** The next question is from the line of Rajesh Jain from NB Investments.
- Rajesh Jain:** Sir, my call got disconnected when I was asking my last question. It's regarding you have given a guidance for the topline, which will be flat compared to last year. So what would be the same guidance for the net profit?
- Rajkumar Bafna:** The EBITDA margin will be around 18% to 20%.

- Rajesh Jain:** Sir, for FY '23 I'm asking for the complete year?
- Rajkumar Bafna:** FY '23, the EBITDA margin will be around 12% to 14%.
- Rajesh Jain:** My second question is now the Sarigam facility Phase 1 would commission by the end of this quarter?
- Raghuram Shetty:** End of this quarter.
- Rajesh Jain:** Secondly, about the registrations, you had told us last time in the call that a few customers from Europe and US would be visiting our plants. So all those visits and everything has gone successfully?
- ~~Raunak Raghuram~~ Shetty:** Yes. It's an ongoing process. We had the European visits, US is pending. But it is a continuous process where customers from different geographies now as everything is opened up have started moving and evaluating facilities also. So we also had a Brazilian company audit our facility recently.
- Rajesh Jain:** Now why I was asking it? You had mentioned last time that US we may do around INR 50 crores next year and now to the previous person, you mentioned around INR 200 crores in the next three years. So the registration and all that, the marketing setup, all those are on track?
- ~~Raunak Raghuram~~ Shetty:** Yes. So we have taken a goal of \$25 million and we have already started working for that goal. So next year we should be able to meet INR 50 crores and also we've put in few registrations. If everything goes well, we would be able to achieve this there as well.
- Moderator:** The next question is from the line of Taha Ansari, an Individual Investor.
- Taha Ansari:** Sir, my first question is what is our R&D expense in terms of our revenues as of financial year '23 as well as what R&D expenses to revenues we see going forward and what is the current size of our R&D team, sir?
- Rajkumar Bafna:** Currently R&D expenditure is around 1% for that and going forward it will be around 1% to 2% in the range of that. ~~It is around...~~
- Taha Ansari:** Sir, my next question is, three years back our MD Raghu sir has given an interview in which he has mentioned that soon company will come up with biopesticides. Can you please update us on that?
- Raghuram Shetty:** So for now it is yet under planning stage only. We have looked into a few molecules in the biopesticide segment also, but maybe we'll take it up for marketing first and not production. It is definitely a good segment to look into. For now we have not yet seriously entered into manufacturing or seriously thought of manufacturing such biopesticides.
- Taha Ansari:** So it will not take place in, let's say, near future I think so?

- Raghuram Shetty:** At least not in the next one year.
- Taha Ansari:** Sir, next question is in 2020 government proposed 27 pesticides although, they are not implemented yet. If in future this gets implemented then our two products, acephate and deltamethrin are going to be banned on that. Please if you can tell the revenue share company gets from acephate and deltamethrin? And is the company ready to protect its revenue as these two products get banned?
- ~~Raunak Raghuram~~ Shetty:** So already ~~we have been softly~~—we've been told that deltamethrin is not going to be considered in this list as it's a safe molecule used in public health as well as agriculture. Secondly, deltamethrin in agriculture also in India it's not a very big product. It's mainly an export product. Coming to the second molecule acephate is not a very big molecule for us today and we'll be able to shift our sales to another product if acephate tomorrow gets banned.
- Taha Ansari:** So sir, if you can please share the revenue in terms of acephate and deltamethrin?
- ~~Raunak Raghuram~~ Shetty:** Acephate is negligible. delta definitely is a big molecule for us. But the ban also is only for domestic, which they have mentioned, and not exports. That share will be very small
- Taha Ansari:** I think the deltamethrin is 8% to 9% of your revenues?
- Raghuram Shetty:** Yes. But it won't be banned. Data submission, ~~it is submitted done~~ and ~~there it is will not be banned—it won't happen~~.
- Raunak Shetty:** It won't happen. It's already mentioned that data's required by the government has already been submitted and should be okay.
- Taha Ansari:** Sir, next question is as of my knowledge, our glyphosate product is fully or partially banned in 60-plus countries as well as recently India has implemented several restrictions in the usage of glyphosate. Sir, if you can share the revenue percentage company generates from glyphosate side and what's your opinion for the future of glyphosate?
- ~~Raunak Raghuram~~ Shetty:** It's not a very important product for us and it is not banned. It's only partially for a few months it is banned, but for us it is a negligible turnover and there is enough alternate products even if it is in restriction.
- Taha Ansari:** So there will be no serious setback if this thing happens?
- ~~Raunak Raghuram~~ Shetty:** Less than 1% of our sales.
- Taha Ansari:** Sir, next question is one of our competitor on permethrin side is adding capacities in cypermethrin and beta-cypermethrin and you were mentioning cypermethrin and permethrin as an old product in the industry. So what's your opinion on that, side? And are we also working on these updated products?
- ~~Raunak Raghuram~~ Shetty:** We are looking, otherwise it is ~~not—it~~ is a very well-accepted product worldwide.

Raunak Shetty: We are also working on these molecules. Cypermethrin and beta-cypermethrin have very good efficacy on field field:00:12 level as well as very well accepted in public health segment also.

Raghuram Shetty: So even if we don't grow that, we can also produce that.

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

Raghuram Shetty: Yes. Thank you very much for showing interest and joining even on Saturday, I appreciate. And if there is any further query, our E&Y IR team will reply for any further queries. Thank you so much for your interest.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.