SUMITOMO CHEMICAL INDIA LTD.
Corporate Identity Number (CIN) - L24110MH2000PLC124224

Corporate Office: 13/14, Aradhana IDC,
Near Virwani Industrial Estate, Goregaon (East),
Mumbai - 400 063.
Tel. : +91-22-4252 2200 / Fax : +91-22-4252 2380
URL http://www.sumichem-india.co.in

SCIL/SEC/2023
25th May, 2023

To,

BSE Limited,	The National Stock Exchange of
Listing Department,	India Listing Department,
Phiroze Jeejeebhoy Towers,	Exchange Plaza,
Dalal Street,	Bandra Kurla Complex
Mumbai-400001	Bandra East,
	Mumbai - 400 051

Sub: Written Transcript of Earnings Call held on 19th May, 2023

Dear Sirs,

This has reference to our letter, intimating about the earnings call on 19th May, 2023 with Investors/Analysts to discuss financial performance of the Company for the quarter and year ended 31st March, 2023, and weblink for the audio-recording of the call submitted to you on 20th May, 2023.

Please find enclosed herewith written transcript of the aforesaid earnings call.

The said transcript will also be available on the Company's website: https://sumichem.co.in/investors-relations.php#Announcements.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Sumitomo Chemical India Limited

Deepika Trivedi
Digitally signed by: Deepika Trivedi
DN: CN = Deepika Trivedi C = IN O = Personal
Date: 2023.05.25 16:41:04 +05'30'

Deepika Trivedi
Company Secretary & Compliance

Encl: a/a

"Sumitomo Chemical India Limited
Q4 and FY23 Earnings Conference Call"
May 19, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 20th May 2023 will prevail.

MANAGEMENT: **MR. CHETAN SHAH – MANAGING DIRECTOR – SUMITOMO CHEMICAL INDIA LIMITED**
MR. SUSHIL MARFATIA – EXECUTIVE DIRECTOR – SUMITOMO CHEMICAL INDIA LIMITED
DR. SURESH RAMACHANDRAN – CHIEF COMMERCIAL OFFICER – SUMITOMO CHEMICAL INDIA LIMITED
MR. MASANORI UZAWA – NON-EXECUTIVE DIRECTOR – SUMITOMO CHEMICAL INDIA LIMITED
MR. KUNAL MITTAL – SENIOR VICE PRESIDENT, PLANNING AND COORDINATION OFFICER – SUMITOMO CHEMICAL INDIA LIMITED
MR. ANIL NAWAL – CHIEF FINANCIAL OFFICER – SUMITOMO CHEMICAL INDIA LIMITED
MS. DEEPIKA TRIVEDI – COMPANY SECRETARY – SUMITOMO CHEMICAL INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Sumitomo Chemical India Limited Q4 and FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal and operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

From the management today, we have on the call Mr. Chetan Shah, Managing Director; Mr. Sushil Marfatia, Executive Director; Dr. Suresh Ramachandran, Chief Commercial Officer; Mr. Masanori Uzawa, Non-Executive Director; Mr. Kunal Mittal, Senior VP, Planning and Coordination Office; Mr. Anil Nawal, Chief Financial Officer; Ms. Deepika Trivedi, Company Secretary and colleagues from SGA, their Investor Relations advisors.

Now I hand over the call to Mr. Chetan Shah, Managing Director of Sumitomo Chemical India Limited. Thank you, and over to you, Mr. Shah.

Chetan Shah: Ladies and gentlemen, a very good afternoon to all of you, and welcome to the conference call to discuss the financial year '23 performance and of our company Sumitomo Chemical India Limited. Kindly, let me give a brief overview on the agri input industry landscape during the year.

Financial year '23 started with a very good first and second quarters. 25% growth in revenues as well as in profitability versus financial year '22. This was mainly due to good water level in the fields, pre-monsoon showers, low-cost opening inventories, increasing costs wherein industry and trade partners were building up inventories and overall positivity in the market in the first half of 2023.

However, the situation suddenly turned adverse in second half due to the following key points. Number one, low insect infestation and limited volumes offtake in financial '23 caused by weather-related disturbances, such as late monsoons, erratic and uneven rain pattern, excess rains towards the end of monsoon period. All this resulted into higher channel inventories and overall pessimism in the market.

Second, Chinese market opened up post-COVID and then we saw excess supply situation and the market prices started getting softer and softer. The above two factors caused double impact, low demand, higher inventory, excess supply and falling prices. Most industry players and channel partners attempted to reduce inventory levels drastically in the second half of '23. The situation was further aggravated due to similar trends in other key export markets like Latin America and some of the Indian players have sizable exports in this territory.

Due to above challenging factors, our domestic volume growth and margins were impacted in the second half. Large part of growth was witnessed due to price increases in all our portfolio segments. The modest growth can also be attributed to the decline in revenue from Fungicide segment. If we ignore the challenging situation in domestic market in second half, overall it is reasonable performance in the domestic market.

We introduced almost 10 new brands, 4 in insecticides, 4 in PGR and 1 in fungicide during the year. Six out of these 10 brands are under Section 9(3) of the Insecticides Act, which means that it was for the first-time introduction. Several of these unique 9(3) are first time registrations in India after years of efforts and expected to ramp up over the next few years and we are looking forward to robust growth in these brands.

Even though exports were lower in the second half as compared to our internal estimates, overall, we achieved a very good growth in export market in line with our strategic direction to increase exports. As compared the uptick in exports partially mitigated the decrease in domestic market. The company's recent capacity expansions are expected to support the positive momentum in export market.

Overall, we are proud of our teams who work together in this challenging situation and delivered a respectable performance in line with our past trends and overall strategic direction. We look at this situation as a small pause, which gave us an opportunity to reflect on our strengths and business fundamentals with a strategic theme for the current year, which is called "Back to the Core".

In near short term, our current assumptions are as follows: Efforts are taken to minimize impact of above-mentioned challenges are expected to start showing trend reversal in near term. There should be limited adverse impact of El Nino weather situation, assuming current projection of 95% monsoon level and no impact on crop acreages. Growth is expected to be driven by volumes. This is a very clear message that during the year, the volumes of all our brands have to be increased, both for existing portfolio and the products which we have introduced recently. The input cost prices are at lower level and profitability should return to normal levels in next couple of months and when weighted average of inventories costs gets adjusted to current market levels.

However, these assumptions and market situation is expected to be dynamic, and we will need to monitor the same on a regular basis going forward in the next few weeks and months. It does not take -- we have this negative trend -- we hope this negative trend turns into positive trend as quickly as it had turned negative in the first place. By focusing on business fundamentals, our company will be ready to take best efforts to maximize the potential in any situation.

So with that, I will now hand over the call to Dr. Suresh Ramachandran to give more information on our operations. Thank you.

Suresh Ramachandran: Good afternoon, everybody. Thank you very much for taking time out to join our call today. Hope my voice is clear to all of you. Throughout the previous fiscal year, we implemented several strategic initiatives to fortify our business fundamentals. This included expanding our strategic marketing, demand generation function, product development, channel partner analytics team, as well as prioritizing the implementation of more rigorous commercial policies from a long-term sustainable business perspective.

Our portfolio comprises of 200 brands across the entire value chain, including 20-plus mega brands with strong brand recall. Our distribution network comprises of over 15,000 direct distributors and 60 depots and that also across the country, making it one of the most extensive distribution network in the country with maximum number of brands.

The growth of our domestic agro-solutions business was primarily driven by price appreciation in FY '22-'23. Notable growth in Animal Nutrition and Environmental Health markets can be attributed to increase in both volume as well as price. Export growth was driven by a combination of price as well as volume increase.

The company has successfully established enduring positions in several export markets. During the year, our company experienced good growth of sales in African and Latin American countries apart from shipments to our parent company in Japan. The company has received regulatory approval for selected products, which have exhibited robust demand and will serve as a strong base for expansion of our export business in the coming years.

Our insecticide, herbicide, fungicides and PGRs are experiencing good demand with our robust supply chain and renowned brand names, we are poised to capture market share from unorganized players. We anticipate good growth, stability and profitability in the herbicides, PGR and biorational product segments. In order to mitigate the effects of seasonality on our company, we have diversified our product portfolio to encompass both Kharif and Rabi crops and are focused on augmenting our PGR segment's contribution. Our strategic plan includes upcoming product launches in this segment, which will further solidify our position as one of the top leaders in the industry.

The new products and brands that we launched during the last fiscal year have been accepted by the channel partners as well as distribution network and have had a decent beginning, given the limited time that these products had in the market over the last few months. As a part of our ongoing efforts, we consistently evaluate our product portfolio to identify any gaps and work towards them. In that process, we are anticipating to launch at least another 2 products in the current fiscal year.

Our company's robust field promotion initiatives have enabled us to establish direct connection with farmers where theyby facilitating their access to optimal farm management techniques. This, in turn, empowers them to enhance productivity and operate more efficient agribusiness. By leveraging real-time feedback, we have the opportunity to enhance our relationship with farmers, gain valuable insights into their needs, and drive growth as an organization. We have directly reached out approximately 4.4 million farmers and about 30,000 channel partners.

Furthermore, we have implemented digital marketing as a supplementary to conventional marketing methodologies to enhance consumer product awareness and educate farmers on optimal form management practices. Our portfolio comprises of 23 websites across 9 local languages and multiple social media platforms, which have yielded staggering 20 million digital engagements.

With that, I hand it over to Mr. Kunal Mittal our Senior Vice President, Planning and Coordination Office to take this to the next segment.

Kunal Mittal: Thank you, Mr. Shah and Dr. Suresh. So first, we will start with our consolidated financial performance for Q4 financial year 2022, '23. In this quarter, our top line in financial year 2022, '23 Q4 was at INR652 crores as compared to INR664 crores in the previous year. The sales growth was impacted due to several headwinds in domestic agrochemical industry as explained in detail by Mr. Shah. Challenges in the domestic market were partially offset by export sales. Q4 is not a major consumption period for the domestic agrochemical industry, and we believe our performance is respectable in the current extraordinary adverse situation.

The Insecticide segment recorded a flattish growth trajectory. Fungicides and Metal Phosphide segment witnessed poor demand, which was moderately compensated by strong growth in Animal Nutrition division and Environmental Health division.

EBITDA was at INR81 crores in Q4 financial year '23 as compared to INR109 crores in the same period last year. Profit after tax stood at INR72 crores as compared to INR75 crores in the same quarter last year. While the margins at gross level were lower, our company quickly focused on controlling the overhead cost and the cost management. These efforts ensured that our overhead costs were lower. And at net profit levels, our margins were largely in line with our past trends.

Coming to our consolidated performance for financial year '22, '23, which, in our view, is a more reflective of the current situation. The revenues from operations in financial year '22, '23 were at INR3,500 crores, which was increased by approximately 15% as compared to financial year '21, '22 when we had recorded revenues of INR3,061 crores. In domestic market, a large part of the growth was due to price increases across our portfolio segment, whether it is Animal Nutrition, Environmental Health and whether it is export market. In all the segments, we delivered price increases. In export market, the growth was both on account of volume growth as well as price growth.

The sales growth in financial year '23 was primarily driven by impressive growth in Herbicide segment, which was contributed by multiple products and not just one particular product in Herbicide segment. And in several of these products in Herbicide segment, we have very good market share.

The share of exports in the total revenue increased from 22% in '21, '22, to approximately 25% in financial year '22, '23. This was on account of increase in exports to Latin America, Africa and some other important markets and increased shipments to our parent company in Japan.

In financial year '22, '23, Insecticides contributed to about 43% of the total revenue, while Herbicide was 24%. Plant Growth Regulators and Fungicides both contributed approximately 9% each in our revenues.

EBITDA margins witnessed a growth of 11% from INR600 crores in financial year '21, '22 to INR661 crores in financial year '22, '23. Our EBITDA margins were 19% in financial year '22, '23 as compared to 19.6% in the previous year. We were able to sustain our operating margin as a result of our initiative to pass on the higher input costs. This was further aided on improvement in our operating leverage, better product mix, cost optimization and better cost management, especially in the second half, and we continue to realize our synergies.

Tax for financial year '22, '23 witnessed a jump of 19% to INR502 crores from INR423 crores last year. We maintained higher inventory levels as compared to previous quarter on account of the approaching Kharif season. However, as compared to the March 2022 levels, inventories are at a much lower level, and this indicates our corrective actions in line with the dynamic and challenging situation in the market, especially in the near term.

During the financial year '22, '23, our collections were at INR3,676 crores as compared to INR3,458 crores during financial year '21, '22. This also indicates that our team's ability to generate ground-level demand and liquidation, which is followed by the actual collections. No sales in our sector should be considered final till the material is consumed and collections are realized. And our teams continue to keep this in mind and follow disciplined practices even under challenging situation.

Our net working capital stood at 124 days in financial year '22, '23 as compared to 133 days in financial year '22. This improvement is largely due to the lower inventory levels, which were partially offset by fall in payable days because we have been purchasing at immediate payment basis for some of our purchases. We have cash and cash equivalents amounting to INR827 crores as on 31st March 2023.

On the manufacturing side, since our overall volumes were lower, our production levels were also lower, especially in the second half. However, all our operations teams focused on the strategic cost optimization efforts, and this was our response to the challenging market situation.

Our projects team expanded our manufacturing capabilities in line with our ‘Make in India’ initiatives, which we had announced. We had earlier announced that we will be investing approximately INR1.2 billion, which is about INR120 crores for two ‘Make in India’ projects to develop several proprietary products for our parent company and our global affiliates. This is over and above the normal and routine capex, which we have been incurring for our existing products and businesses. Both these projects are progressing as per the expected time lines. One of the projects, which is at Bhavnagar facility for one important molecule has already commenced commercial operations in the last financial year and this is a very important molecule. For the second project, which is at Tarapur, which is a multiple products plant for mainly our EHD products, this plant is expected to start commercial production in the Q1 of financial year '23, '24. These projects are being implemented, both these projects, which we mentioned, ‘Make in India’ projects, these are being implemented in our current facilities and the operating margins of these projects are expected to be in line with our company's existing margin range.

Both these projects are expected to contribute to the revenue growth in financial year '23, '24. However, it may not be the full capacity levels in the current financial year because one of the projects will be started in a few months' time.

A variety of additional products that can be manufactured in India are also being evaluated and there are discussions at various stages. Once -- and whenever the projects are approved by our Board for the further investments, we shall keep you updated.

Our R&D team is also involved in several product development, especially in the off-patent segments, in the pre mixture combinations and focusing on the products for the future demand in the Indian domestic market and also in the export market, and also in high regions such as Latin America, Africa and some Asian countries.

We would like to second what Mr. Shah Sir mentioned earlier. We are very proud of all our teams who worked together in the challenging situation and delivered a very respectable performance in this challenging situation. We have always maintained quarterly performance may sometimes have variations due to weather impact or seasonal impact, and the annual trends are more accurate reflection of the overall performance.

Overall, our performance in financial year '23 is in line with our past track record, wherein we have delivered 15x growth in the last 13 years since 2010 when we started focusing on the Indian market. And consistently since 2010, we have achieved growth every year during this journey. And this gives us a confidence that we have built up a fundamentally strong business.

As one of the most diversified platform in Indian agrochemical sector, and with a good track record of extraordinary year-on-year growth every year in the last 12, 13 years, even in some of the challenging year situation like last year, we continue on the path towards our strategic ambition to take the leadership position in the Indian agrochemical industry.

With this, we would like to take a pause, and we would like to open the floor for question and answers.

Moderator: Thank you very much. The first question is from the line of Swati Hiroo from Ratnabali Investment. Please go ahead.

Swati Hiroo: Firstly, I just wanted to say that while I understand the entire industry has gone through a very challenging period, your team has still managed to outperform the entire industry. So I just wanted to say congratulations to the entire team. So my first question is that I wanted to understand if you could give us a basic sense of how many proprietary molecules are there in Sumitomo Japan and what percentage of that has been introduced in India?

Chetan Shah: All right. Thank you for your question. First of all, thank you for your acknowledging our team’s good work. Thank you very much for that. To your specific question, well, the parent company has many proprietary products. And quite a few of them, we are already in Indian market in terms of importing the active ingredient and selling our brands of those active ingredients. So that would be at least 10 molecules, which we would be in the brand business of parent company. And we are manufacturing as of today, 2 active ingredients, which is a part of proprietary products of Japan, and we are in the process of starting the production of 5 other molecules by the month of end of June or beginning of July, which will add to that portfolio.

However, I must -- even in addition to that, I must say that India is being considered now as the production hub for Japan. And they are in talk with us for many molecules, at least 5 to 6 molecules further, which are the top-class molecules, not the old molecules, and they are talking about getting them produced in India. So that is at the feasibility stage. But all in all, we have full support from our parent company, to make India a very robust production based company.

Swati Hiroo: Sir, I understand, but I just wanted a sense whether, say, 20% of the total basket has been introduced in India, 50%, 40%, and why aren't we bringing that entire portfolio to India at one go?

Chetan Shah: So it is impossible to do that, number one, because all the products have to go through a very, very rigorous bio-efficacy test. We have to convert those products to be usable in India. We have to fix up the ratios, the type of formulation, the strength of formulation, and it is a long drawn process. So I think we can take 2, 3 products at a time. The registration process again is a very long process. So it cannot be brought all in one go. And if you see the trend in the industry also of other multinational companies, nobody will bring the entire portfolio at one go. There will be only one or 2 maximum 2 products every year that will be coming in. So that is the way it works, Swati.

Swati Hiroo: Okay. So sir, what percentage approximately if you could just give me a sense that we achieved so far?

Chetan Shah: I doubt if I can give you that because we have an actual 17 products already. And Japan could have maybe 40, 50 products, so that way -- and also Japan continues to have pipeline products. So it's very difficult to give a percentage. But overall, I can assure you that we are in a very good situation of getting the products from Japan.

Kunal Mittal: And this what, Swati, Mr. Shah mentioned is only from the marketing and sales side. From the manufacturing side, we have just started with a very limited number of products, and there is a very wide variety, as Mr. Shah mentioned, maybe 40 to 50 SCC products. And currently, we are only producing 4 or 5 products in India.

Swati Hiroo: Understood. Understood. My second question was that Sumitomo Japan has recently made this acquisition in the biostimulant space. So I just want to understand how the Sumitomo India benefits from that? And do these products in any way help India reduce, say, the fertilizer subsidy that we have?

Chetan Shah: No. This biorational product, this is a very interesting acquisition that is made by SCC. And we just have had one meeting with the global colleagues, including Japan and U.S.A. to understand what that portfolio means. And in coming months, there are going to be more definitive interactions of how to bring these products into Indian market. And I will request Uzawa-san who is here with me to throw some more light on this.

Masanori Uzawa: Thank you for asking that question. The company, we, Sumitomo Chemical, Tokyo acquired is a very strategic one with the biostimulant business. And then so far, that business side is limited. And then the markets they're selling is almost only limited in the United States. However, we are expecting we can roll out that product globally, once we can get the registration in those regions.

So we are targeting some regions, for example, Latin America and Europe and, of course, here in India as the potential market. So we're excited to expand that business we acquired into all of the regions, especially the fastest-growing market here in India.

Moderator: Thank you. The next question is from the line of Kapil Agrawal from Itus Capital. Please go ahead.

Kapil Agrawal: So historically, you've been able to protect margins better to the industry. Even today, you continue to do so. So for the first time, we are seeing pressure, both on the margin front as well as on the revenue front. You mentioned China opening up as the primary reason for this. Please help us understand what you're seeing on the ground? And based on your experience from history, how would you look at the situation for opportunities?

Chetan Shah: Well, and as I mentioned in my opening remarks, the situation or the conditions of business turned adverse very, very rapidly and without any warning. We had to act very fast in terms of controlling our inventories, definitely controlling the prices and not eroding the sales rise to an extent that the market has fallen.

Just to give you an example, compared to the last financial year, fourth quarter, where we had strategically imported more raw materials for stocking because we saw the price trend going up, and which actually happened in the first quarter of financial year. As compared to that, we reduced our purchases for stocking-up purpose almost by 20% as compared to the previous quarter. So that is what action we took.

And the ground reality is that prices are falling every week till now. I think we are seeing some stability of pricing as of the beginning of the month of May, but till April end, the prices were drastically falling every week. I think now the prices have bottomed out. I don't see any further erosion of prices in this sector. And we are trying our best to liquidate whatever limited high-cost inventory that we have as quickly as possible and move on to lower cost inventories. Also, every month on the basis of average costing principle, we are reducing our cost every month, right from January, February, March, April and May. And going forward, we see the same trend. So I think we should be fine in a couple of months.

Moderator: Thank you. The next question is from the line of Anandha Padmanabhan from PGIM India AMC. Please go ahead.

Anandha Padmanabhan: For the year -- Financial year 2023 what would be the contribution of glyphosate as a portion of your overall domestic business and export business? And if you could give some color on what kind of margins would this product be going for this fiscal year?

Chetan Shah: So see, the glyphosate, what we had in the current year, our volumes of glyphosate came down by 17%, but the value of that -- even the reduced volume went up by 50%. So it was quite a volatile situation. The prices have corrected as of April 1. We can predict that prices will still correct somewhat additionally. And I think it should settle down on the onset of monsoon.

And we expect to grow our volume to our previous levels, so we are expecting growth of glyphosate both in domestic market as well as in export market. We have got some new registration in African countries for our glyphosate 71% formulation. And we have started the export of this, which also we feel that will increase in the current year '23, '24.

Kunal Mittal: Just to add here and supplement whatever Mr. Shah mentioned, the overall proportion of glyphosate sales in financial year '22, '23 was approximately 18%, which was as, Mr. Shah mentioned increased due to the higher price evaluation . Historically, If we see last 2, 3 years, it used to be about 15% level.

Anandha Padmanabhan: Okay. And this 18% would have come at higher than corporate average margins, given becasue of the price increase?

Kunal Mittal: Margins would largely be in line with our company level margins.

Suresh Ramachandran: First Half the margins are high. In the second half, it was slightly lower. So overall, it would be around the corporate level.

Anandha Padmanabhan: Okay. Okay. And how do you see the on-ground situation in India currently given the lack of clarity or some confusion with regard to the government regulation for the product?

Chetan Shah: So we don't see any issue in that, in a sense that, first of all, the important thing to note is that government is not talking about any restriction in usage of glyphosate. They are only talking about the mode of usage that how it should be or by whom it should be used. So as you must be aware, the matter is in the court and government has given a date of 19th of July that they will come up with some solutions. And we don't see any solution to this situation. So it will get again postponed or maybe the relaxation in the circular.

Anandha Padmanabhan: Okay. And with regard to the LATAM market, in the presentation, you had mentioned that there is some sort of a channel high inventory in the market. So in the current scheme of things, or if I look at fiscal '24, how should we look at the overall export business for the company? And specifically for the LATAM business, how should we look. For LATAM has been one of the fastest-growing piece for Sumitomo the last couple of years?

Chetan Shah: You are absolutely right, and we are concerned about this situation. However, the LATAM situation is also a matter of fact. I think it is not a hearsay or anything. It is absolutely true that they are stuck with very high inventories. And what we feel that till the first half, that is up to August, the demand may be slow, but we are certain that as the season starts from June, a lot of inventories will get liquidated, and we should be back in normal business condition with LATAM in the second half.

Anandha Padmanabhan: Okay. Okay. And with regard to the pricing for your supplies to subsidiaries or sister concerns of your parent in the export business, would the transfer pricing would be in terms of margins, or it's a cost-plus kind of a pricing that happens or it's more of a market determine pricing to the extent that in case there is a sharp fall in the pricing, you will have to take some hit on the margins also?

Chetan Shah: No. So it is on the margin basis, it is not cost-plus basis, number one. Number two, the prices, if it goes down - I think for those molecules, I don't think we face that kind of situation. And this type of situation is more in generics like Glyphosate, Imidacloprid, Acetamiprid or Thiamethoxam or something of that sort. But these are the different product lines and we don't face any such volatility in pricing in terms of input cost as well as our selling price.

Anandha Padmanabhan: Okay. So if I look at FY '24 in terms of growth and margins, how confident are you of maintaining that 19%-plus or minus 1% margins that you, the guidance that you had given previously, you would be able to maintain in FY '24?

Chetan Shah: Well, our endeavour will be always to maintain it, apart from the exterior situations and circumstances, our endeavour will be to maintain this type of margins.

Anandha Padmanabhan: Okay. But any recovery that should ideally in the current scheme of things, it should be more like an H2 kind of recovery is what one should ideally build in the current scheme of things that you are saying on the ground?

Chetan Shah: I am sure that in a part of H1 also we will see a turnaround. So maybe this situation could be a little bit on a lower side in Q1, but we expect Q2 to bounce back to normal.

Anandha Padmanabhan: Okay. Thank you, sir. I will get back to the queue.

Chetan Shah: Thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Yes. sir, the first question is on the tax rate for Q4. It is low. Any explanations on why that is the case?

Chetan Shah: Yes. That is because we got some refunds of the previous cases which were going on. And I think, there was a substantial amount. There is a difference of around 2% or 2.5%. About INR12 crores we got refunds. That is why you see the lower tax in the Q4.

Gagan Thareja: Right. And the five molecules that you will start your contract manufacturing for, you indicate that the potential could be around INR200 crores to INR250 crores. Up to what proportion of that peak potential do you foresee yourself reaching in this year?

Chetan Shah: In this year, since we start the production say by July and we will have only nine months and taking into account certain registration delays or something of that sort, I think we will achieve at least 50% of our target in this year.

Kunal Mittal: It would be somewhere more than 50%, but at this point of time it is very difficult to predict because the plant has not started the commercial production. And if everything goes well, it could be slightly higher. But that is what Mr. Shah mentioned, a lot of uncertainty as to when it will start. And hopefully, everything can start and all the registration globally can be in line and then we can achieve, I think, our targeted revenues either this year or certainly by next year we should be achieving it.

Chetan Shah: So we are trying to achieve at least 50% this year. And also let me tell you, I mean, for the entire group who is listening, that the revenues of '22-'23 does not include any revenue from our Clothianidin plant which we started in Q3 of '22-'23 in Bhavnagar. We are producing the material, but we have not commercially billed any material in the revenue. So it doesn't come in the revenue of this year. So for '23-'24 we also expect that that will -- what revenue will be coming in. So that production we are continuing and the only reason why we could not invoice or export that product is because of some delay in USA for the approval of the label and the final registration copy that they have to receive. So now it is all clear and we will start commercial shipments during the year.

Gagan Thareja: Right. So this will be in addition to the other five molecules.

Chetan Shah: Right .

Kunal Mittal: No, this is part of those five molecules. Part of those five molecules. So there are two projects. One project already started the commercial production during last year. As Mr. Shah mentioned, no revenue has been achieved. It is only the commercial production and inventory built up which we have done so far. And the second project which involves four multiple products will start, the plant will start operations sometime this year, in next few months. And both of these projects should give us some revenues during current year and that is why we are confident, as Mr. Shah mentioned, that we will have revenues and all of these revenues in the current year will be incremental because there was no revenue from this project in last financial year.

Gagan Thareja: This year has been strong for your exports, 30% growth. Given the situation in Latin America with the channel inventories being what they are, would it be possible for you to give us some idea of where do your exports growth settle in '24? On the one hand you have this issue of slowdown in South America and at the same time you ramp-up your CRAMS piece. So how should we think of the exports growth? And for that matter, also on the domestic piece, since you have introduced new molecules last year, while the environment is a little subdued between the new introductions and the environment, how should we think of the domestic growth as well?

Suresh Ramachandran: As Mr. Shah mentioned earlier in his comments, LATAM market is facing challenges currently. But our estimate is that current inventory should get liquidated or cleaned off by the end of first half latest and second half normal demand should come up. And we could start significant size or some size at least during the second half of the year. While the first half still is not zero. Some sales would happen, continue to happen. While that has been the LATAM situation, our focus is also on growing the African market, where we have recorded good growth last year. We got a couple of new registrations which we want to build on. And another one is Asian market where we are focusing to grow. So, overall the exports market would continue to grow including LATAM, which is our anticipation at this point in time.

Now coming to domestic market, the new launches, we launched about six new active or six new 9(3) registration products which were launched sometime starting from July of last year and could not get the full season. Some were launched as late as February, one product PGR in apple. None of these products got full season last year. It was all like three months, six months, two months.

There is always a craze for new technology among the farmers in this country. So whatever we have launched, we have delivered, whatever our internal targets were for '22-'23, under the challenging conditions. There is quite a bit of field promotion activities, brand building activities, digital marketing initiatives. All of those things are - we did not let it go despite the challenging condition. We knew that these are all new products we had to invest. We did all the groundwork, whatever was supposed to be done during any launch year. Our team's full focus is on ramping-up these new products in the current year. We are quite confident that whatever feedback we are getting, either from the channel or the farmers, they have all been accepted well and the products have gone as per the plan. This year also, despite the challenging conditions, people would look for new technologies. These products would definitely record growth in the coming year also.

Kunal Mittal: We would also like to highlight that this one year or two years could always be a lot of variation sometimes. But as a strategy and as a trend and direction, what we have been saying since the last two-three years is that we will be growing our off-patent molecules growth in the exports market in Latin America and Africa. We have achieved and we will achieve it in the future. And in addition to that, manufacturing of the proprietary molecules under 'Make in India', expansion of that portfolio and making more products and exporting it to our parent company and also domestic businesses. So, all of this continues to be growing and one year could be up and down as I think we are seeing in the current situation. But as a trend in medium to long term, we are on that strategy and we will continue to achieve and deliver those strategies in the next medium to long term.

Gagan Thareja: And you also talked about five or six more additional molecules which are under discussion to be bought for production in India. Just to understand, we have been given some idea of the scale that the first five can achieve. Is it possible for you to give us some idea of the scale that the next five or six can achieve given that you are talking of these being relatively larger, if I understood this correctly, relatively larger molecules?

Chetan Shah: I think it would be unfair for me to give you the number, but I can assure you that we are in discussion with SCC Japan and these are all the molecules we are talking about, the new technology, new molecules and very, very bright futuristic growth molecules. So, they are all new generation. So, nothing is generic. It is new generation products and with the type of forecast that Japan has for these products in the global market, it would be a very, very good situation for Sumitomo Chemical India to be manufacturing these products.

Gagan Thareja: But any timelines you could provide as to when you see this fructifying? I understand you have to ramp-up the first five, but any timelines roughly to work with over which this can happen?

Chetan Shah: We are going to start our development work of our Dahej site sometime in 2023-'24 and if you take the registration process and instalments of plants and machineries, I would say, three to four years.

Gagan Thareja: The final question, INDIFLIN is I think a patented molecule, while LATAM is in a bit of a difficult situation. It is probably more from the point of view of generic molecules. So, I wanted to understand if INDIFLIN is going to do well irrespective of the situation there, in which case for you, Tebuconazole goes with INDIFLIN and will therefore that also irrespective of the current situation do well?

Chetan Shah: Your understanding is correct. We don't see any slowdown in INDIFLIN. And INDIFLIN, as a matter of fact, they have projected very good volumes. So, we expect very good orders of Tebuconazole in the second half.

Gagan Thareja: And you have no capacity constraints? I think there was some issue, if I recall, in the earlier quarters of FY '23, you indicated you sort of had full capacity there. Have you added capacity for Tebuconazole?

Chetan Shah: No, we have increased the capacity and we have enough capacity to cater to the demand of INDIFLIN-plus Tebuconazole.

Moderator: Mr. Thareja, may we request that you return to the question queue for follow-up questions. The next question is from the line of Chintan Modi from Haitong Securities. Please go ahead.

Chintan Modi: Yes, so thank you, sir. Sir, firstly, we had a fire incident at our Bhavnagar site in February. So, if you could highlight whether there was any one-off impact because of that in the fourth quarter, or we are likely to see some impact in first quarter?

Chetan Shah: Yeah, there was an unfortunate incident of fire in our Bhavnagar plant and I wouldn't say that we had any impact due to that in the fourth quarter or the first quarter. Because what we have done is both the products, the two products which were manufactured in that plant, we had enough raw materials in our books and we have got that same converted into finished AIs by very reputed two companies on job work basis. So, we are being able to fulfill our domestic as well as export demand of these two products as of now. However, one of the products, Tebuconazole, is primarily the second half product and Quinalphos, which is another product, we are continuously exporting it to Asian markets. So, there is no impact on revenues because of this.

Chintan Modi: Sure. Secondly, with respect to capex, this INR120 crores capex, which we had for these five molecules, I think that will get capitalized in first quarter itself. Can you tell us beyond that what kind of capex one should expect for FY '24 and maybe for FY '25?

Kunal Mittal: So just to correct, part of the capex has already been capitalized in last financial year, financial year 2023 and part of this will be capitalized in current financial year once the plant starts the commercial production. And in terms of the forecast for the capex, as we have mentioned that annually about 12% to 15% of EBITDA, we look to invest in our capex projects annually for various activities like de-bottlenecking, sustainability, making the products more efficient, modernizing our plants.

In addition to that, whenever something extraordinary like a project specific capex is approved, we will do additionally. And as Mr. Shah mentioned, that I think even if we do something later this year or next year, it will take three to four years for those kind of projects to come up. So, we do not have the estimates right now that how much that additional capex could be. But as and when the board approves this, we will keep you informed.

But yeah, this will be larger, I think as Mr. Shah mentioned. The last capex cycle for this project which we did was INR120 crores investments with a revenue potential of INR200 crores to INR250 crores. So, the next cycle is expected to be hopefully bigger and more I think important projects, high-value products. So the capex cycle could also be larger for development of our Dahej site, some products for SCC. And hopefully the revenue potential should also be larger as compared to our last cycle which we are about to complete now.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Hi sir, thanks for the opportunity. Sir, one question and one clarification. Question on the export side. You did mention that there are potentially more molecules from the parent Sumitomo Japan, which can potentially come to India. Is there any filter or shortlist or any technicality in terms of chemistry specific understanding and hence the target universe will be limited or the technology etcetera, can be transferred and there is no restriction on that?

Chetan Shah: There is no restriction on that. I think, the entire technology transfer can be made. There is no limitation on that.

Ankur Periwal: Sure. And from a timeline perspective, it's just a matter of time as you mentioned since they are looking at India as a core manufacturing base.

Chetan Shah: Right.

Ankur Periwal: Okay. And a clarification on the domestic side, you did mention slightly higher inventory in the system. I wanted to clarify whether that is a scenario both for our specialty range of products as well as the generics and by what time frame should we expect things to normalize?

Chetan Shah: It is not pertaining to specialty at all. It is pertaining to only generics. That is number one. Number two, as I mentioned that every month, I mean luckily or fortunately by grace of God, we did not carry huge inventories in this particular fourth quarter of '23 and our levels of inventory at high cost is coming down every month because we are replenishing the new price raw materials every month to a limited extent. So, we are seeing that our average costing is coming down in month of May from April and our June prices are also coming down as compared to May. So, by end of June, I don't think we will have any old high-cost inventory.

Moderator: Thank you, Mr. Periwal. May we request that you return to the question queue for follow-up questions. We will take the next question from the line of Bhavya Gandhi from Avendus Wealth. Please go ahead.

Bhavya Gandhi: Yes. Thank you for the opportunity. Quick two, three questions. So, just wanted to understand Sumitomo Japan, they are going to manufacture $1 billion of molecules, right, the new patented ones. So, that end formulation, if the value is $1 billion, so can we assume that 30% would be the technical contribution and will that be the addressable market size? I understand we may not have registrations or technical capabilities, but broadly speaking, is it possible to quantify that?

Kunal Mittal: So, see, this what you mentioned is the sales potential which SCC has mentioned for some of the new latest generation molecules which have been launched and this is the estimates on a good case basis once the products become mature. But some of these products have just been commercially launched in some geographies. The second products will be launched. So, this is a multiple three, four products to be launched across the world and ramp up to be seen and hopefully SCC can achieve those kind of estimates and projections which they have given.

In terms of the manufacturing potential, how many of these can be made in India and as and when, I think that is not yet decided because I think what we have seen in the past is typically for some of these new molecules, the first facility is set up very close to the R&D facility and once the ramp up is happening to a very matured level over three to five years, that is a time when it can be decided whether to set up those capacities in Japan and India.

So, I think it is very difficult to give you that kind of estimate that out of this $1 billion or $1.2 billion what SCC has mentioned, how much of this will come to India. It is too, I think, premature to give that kind of estimate right now. But certainly, I think, as Mr. Shah mentioned, the talks are on, that if some of these molecules and chemistries can be made in India. That kind of a talk is certainly on. It is a direction we will look at it for sure, but how much and what percentage, what amount it is too early to commit or mention.

Bhavya Gandhi: Okay. But I just wanted to understand that INDIFLIN and those Pervecto and all those newer patented molecules, I think they have taken almost one or two years into their cycle, right? So, what time will they reach their peak cycle? Is it in the third, fourth year or is it in the fifth, sixth year? Because I think no new capacity is going to come in Japan, right? Or they are going to expand because the older molecules gradually they will have to shift to India because India is the only technical facility, right? So, if you can throw some light on that.

Chetan Shah: So, what I told is precisely that as per the estimates of Japan, these products will require more active ingredient in three years, four years' time. And that is why we are talking today and we are trying to match that gap of three to four years, whereby we should be ready with the production to cater to the global demand or increased demand. So, that is precisely why we are starting the talk now and ensuring that when they require that additional volume in second year, third year, fourth year, at that time we have the production facility to cater to that demand.

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

S Ramesh: Thank you and good evening. My first thought is after looking at the reduction in the inventory values in the overall price table, there should be a reduction in the top line for the quarter and first half. So, if you are looking at volume growth, how do you see the outlook for margins? Are you looking at margins per unit being maintained and thereby the (*inaudible*) helping you achieve the percentage margins? Are there benefits from the new launches which will give you some increase? Because if the top line is going down, logically your margins will fall. So, that is the thought behind this question.

Chetan Shah: Yes. So, it is a combination of few things. Definitely, we will increase the volume of new launches. That is number one. Secondly, the prices which are falling, obviously the top line will be affected. So, our strategy is very clear that wherever the top line or the prices have fallen of the products, our plan is to increase volume substantially in those products. So, that the overall margins at the end of the day is maintained.

S Ramesh: Okay, makes sense. And the second question is, if you are looking at bio-solutions, I think you started launching some products. So, what is the thought process from that and to what extent will you be able to get the benefit of the presence that SCC has in bio-sciences? Any thoughts on adding new products this year and next year in bio-products?

Chetan Shah: Yes, every year we are having some product or other. Even this year, in the late fourth quarter, we launched one VBC product in this segment and we got maybe half of the season to cater and the product is very well accepted in the market. So, we are looking forward to the full season for this product which is meant for apple in this financial year.

Also, there are one or two other products, two products from Valent BioSciences, which are under registration. We hope that we get the registration this year and that will also be launched. So, yes, bio is a, this segment is very, you know, strategic for not only us but for Sumitomo Chemical Japan and they are very, very insistent on this segment to grow and that is why they are making a lot of investments in, you know, M&A opportunities of bio companies. And as I mentioned earlier, this new acquisition that they have made, we have to make a lot of studies as to which of the products of that new acquisition can be brought into India.

So, all that discussion will start in maybe the second quarter in, I think there is a meeting, global meeting on this subject in the month of July, I suppose, and then it will be rolled out. So, it is going to take time but surely we are both Sumitomo and us, both are looking forward to having some good products out of that range to be introduced in India.

Moderator: The next question is from the line of Laxminarayanan from Tunga Investments. Please go ahead.

Laxminarayanan: Two questions. First is, that I understand that we don't have any royalty payment towards our parent right. So what's the thought process there because almost all of that Japanese companies that are listed in India have royalty payments. So how do you think about it? Do you roll out royalty for the next couple of years? What is the parent's thinking?

Chetan Shah: Well, I think I can best answer this question that Sumitomo Japan is very clear about the focus in India. India is a very, very important and strategic country for them. They have deliberately not asked for any royalty so far even for technology transfer products. However, I cannot say for sure what will happen in future. But I am sure that the royalty even if we have to pay will be such that it will not even hurt us at all.

So, it can be token royalty or it can be nominal royalty or it can be anything. But of course, yes, your presumption is right that as of today we are not paying any royalty to Japan. I can only assure you that I will on behalf of this company, I will try to maintain that status quo forever. But I cannot say that, you know, what Japan will think. But I am sure that Japan will, as India is strategic for them, I think royalty is not on their minds.

What is on their minds is how to grow Sumitomo Chemical India, how to make the best advantage of manufacturing base over here and how to supply the products globally at economical rates and how to increase the volumes. I think that is their strategy.

Kunal Mittal: And just to add here, I think the supplementary information, I think as Mr. Shah mentioned, this is the philosophy of our parent company SCC and wherever transactions are involved, we are not at all talking about royalty. However, in some cases where there are no transactions between our company and our parent company and we might be using some of the intellectual property of our parent company, there might be from the compliance and transfer pricing point of view, if there is some token royalty required, which may not be like any amounts or any kind of a token amount just from the transfer pricing compliance point of view.

If there are no transactions but only use of the intellectual property of our parent company, those kind of things can certainly be looked into in the future to make sure that we are 100% compliant. But apart from that, from fundamental point of view, as Mr. Shah mentioned, there is no expectation from our parent company to make any kind of a money or revenues out of the royalty from India.

Moderator: The next question from the line of Prashant Biyani from Elara Securities. Please go ahed.

Prashant Biyani: Yes, thanks for the opportunity. My question is for Mr. Uzawa. Sir, in your interaction with the SCC management from Japan, how do they plan to use the surplus cash of Sumitomo? And secondly, can SCC's association with Sumitomo India extend beyond agrochemical business?

Chetan Shah: Mr. Biyani, on the lighter note, you have asked a wrong question to right person, he will say give me all the dividend back. Sorry, jokes apart, Yes, Mr. Uzawa please.

Masanori Uzawa: Sure. As you know, SC India's management mentioned a couple of times. Here, the Indian market is a very strategic one for Sumitomo Chemical, the parent company in Tokyo. So what we're thinking now is spend the money by ourselves. Ourselves means the SC India to accelerate the growth here in India. So, invest in manufacturing, invest in new technology, invest in new products. That's the expectation from SCC Tokyo.

And the second question was money. Maybe that comment will cover the second question as well, I think. So, if you have further questions, email to SCIL later.

Moderator: We'll take the next question from Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: So again, my question is, Mr. Uzawa san. First is how much of global outsourcing for agrochemicals does SCC Japan do? And second is, again, a light question. Now, so we are at the fag end of completion of the first project, outsourcing project. Why are we taking so much time to consider for the next project, given that there will be a lead time of, say, three, four years before we commission the next project, which may be high-value projects that are capital-intensive projects. So between this timeline, there may not be a material growth from the exports opportunity perspective? Thank you.

Masanori Uzawa: Yes. You know, as Mr. Shah mentioned previously, Sumitomo Chemical Tokyo has not put any limitation to transfer our products into here in India. And then the reason why it takes time is the market evaluation is so important. And then, what kind of product should fit here in India from the marketability viewpoint as well as the manufacturing viewpoint. We need to carefully take a look at that part. And then once we build up the facility, we do not want to stop that, operation after three years or five years, whatever. So that's why we carefully see those two points.

And also, registration is another issue. It should be a goal in line with the manufacturing plan. I'm saying and we are not, you know, relying upon the third-party manufacturers. You know, strategically, the manufacturing site in Japan and the manufacturing site here in India are the two pillars for Sumitomo Chemical globally. So maybe there might be a (*inaudible*), but we keep putting high priorities on those two countries, Japan and India, as a manufacturing site.

Moderator: We'll take the next question from the line of Nitin Shakdher from Green Capital Single Family Office. Please go ahead.

Nitin Shakdher: All right. Good afternoon. And first of all, congratulations to Chetan Bhai, Sushil Bhai and Uzawa,san for another consistent quarter and the entire management. So we have INR 827 crores of cash. I understand INR 75 crores goes into maintenance and about INR 120-140 crores goes into the plant capex. Now, we've been indicating the plant capex over the last two or three quarters in relation to – can you give me exact specifics on the Tarapur expansion, which is supposed to be completed by the first quarter of 2024, and the exact things on Dahej? And then in specific to the Bhavnagar land parcel. So how much are we on and exactly what's the state of the capex in terms of the large cash position? Thank you.

Chetan Shah: So we have already capitalized around INR40 crores rupees of Bhavnagar plant in the previous year, in '22-'23, and around INR80 crores rupees of capex will be capitalized for the plant in Tarapur, which will go on stream, in latest by the month of July. And over and above that, of course, as Kunal also mentioned, that we have regular capex for improvement in process or capacity expansion or something of that sort, that will also continue. So, all in all, that is the capex distribution. And for the Dahej site, we feel that over a period of time, next three to four years, starting from this year or later this year, I think we will have the capex flow of almost INR300 to INR400 crores.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as a last question. I would now like to hand the conference over to Mr. Sushil Marfatia, Executive Director, for closing comments.

Sushil Marfatia: Namaste Everyone, thank you for asking some interesting questions, and thank you to our colleagues for replying the same. We hope, we would have addressed your queries to your satisfaction. While the commercial forecasters climate predicted below average range, the IMD predicted normal range for the current year. The IMD forecast is encouraging news, especially in light of the current uncertainties. It not only just bodes well for the agrochemical sector but also for the whole Indian economy. The performance of the agrochemical industry in the upcoming Kharif season will be determined by various factors, including timely onset of the monsoon, its progress across the country and equal distribution.

The Indian agriculture industry currently accounts for a modest portion of the global agrochemical production. The Indian agrochemical industry is poised for growth driven by the increasing awareness among the farmers about benefits of using premium agrochemical products. This trend is expected to result in higher crop yields and improved crop quality, which in turn will enhance the profitability of the farmers. The government and authorities efforts to enhance the agricultural productivity through various reforms, and initiatives are expected to yield long-term benefits for all stakeholders. The company's strategic initiatives to optimize its product mix, expand its distribution network and increase production capacities are expected to drive sustained performance forward.

We will continue to monitor the situation and take best efforts to achieve our growth. Thank you for taking your time and participating in this conference call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Sumitomo Chemical India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.