RALLIS INDIA LIMITED

November 1, 2023

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: **500355**

National Stock Exchange of India Limited
Exchange Plaza
Bandra-Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol: **RALLIS**

Dear Sir,

Sub: Transcript of Analysts/Investors Call pertaining to the Financial Results for the second quarter and half year ended September 30, 2023

Further to our letter dated October 11, 2023, we enclose herewith a copy of the transcript of the Analyst/Investors Call on the Unaudited Financial Results of the Company for the second quarter and half year ended September 30, 2023 held on Thursday, October 26, 2023.

The same is also being made available on the Company's website at: https://www.rallis.com/investors/Financial-Performance

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For Rallis India Limited

SRIKANT SHIVDAS NAIR
Digitally signed by SRIKANT SHIVDAS NAIR
Date: 2023.11.01 13:03:46 +05'30'

Srikant Nair
Company Secretary & Compliance officer

Rallis India Limited

Q2 and H1 FY ‘24 Earnings Conference Call

October 26, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Rallis India Limited's Q2 and H1 FY '24 Earnings Conference Call. Please note that this conference is being recorded.

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

Gavin Desa: Thank you. Good day, everyone, and thank you for joining us on Rallis India Limited's Q2 and H1 FY '24 Earnings Call. We have with us today Mr. Sanjiv Lal, Managing Director and CEO; Mr. S. Nagarajan, the Chief Operating Officer; and Ms. Subhra Gourisaria, the Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward looking in nature and involve risks and uncertainties. A detailed statement in this regard is available in the results presentation sent to you earlier. I now invite Mr. Sanjiv Lal to open proceedings of the call. Over to you, Sanjiv.

Sanjiv Lal: Thanks, Gavin, and good morning, everyone. I will begin the discussion by providing a brief overview of the industry as I typically do, post which I will discuss some of the Rallis specific developments. To begin with, industry had to navigate a challenging and volatile landscape, spanning both domestic and international markets. While erratic monsoon and El Nino conditions led to long dry spells and spatial distribution-related issues, which in turn impacted the overall volume growth in the domestic market, pricing pressures in international markets on account of excess supply and destocking has an adverse impact on the margins and profitability of the business.

India's rainfall witnessed 94% of its long period average with deficit rainfall in South and Northeast regions over the long period average. Of the 36 subdivisions, 29 received normal to excess rainfall, while seven received deficit rainfall. However, although overall sowing was largely satisfactory with higher acreages in paddy, wheat, sugarcane and coarse cereals, lower acreages were planted under cotton, pulses and oil seeds. Erratic monsoon had an impact in terms of water availability in the crucial stage of the plant growth. Reservoir levels as of end September was 79% of capacity. This is

18% below previous year's level and 6% below the last 10 years average. This could impact Rabi sowing adversely.

As far as international markets are concerned, channel inventory still continues to remain high across geographies, and the situation is slowly normalising, aided by a stabilization and drop of generic molecule prices. Commentary from some of the leading global agrochemical players indicate that they expect global crop protection market to decline by low double digit as against earlier guidance of low single digit on the back of significantly poor volume uptake coupled with price correction. Channel inventories are getting corrected very slowly.

Moving on to Rallis-specific development, we believe our quarterly performance is reflective of the challenging environment in the industry, the quarterly performance really reflects the challenge in the industry. Our revenue decline is owing to the subdued performance of our international business. Domestic business performed better with de-growth of 5% compared to the corresponding quarter last year. Volume growth was marginally positive and our cautious and calibrated approach to ensure right level of placement reflected in improving collections. EBITDA for the quarter stood at Rs. 133 crore, higher by 13% compared to the corresponding period last year.

Despite input and pricing-related challenges, we have been able to maintain our margin on account of better product mix and better cost optimization and rationalization. PAT for the quarter stood at Rs.82 crore as against Rs.72 during the previous period. During the quarter, EBITDA and PAT margins improved to 16% and 10%, respectively. In H1 for the current financial year, the company repaid Rs.100 crore of working capital loans, with this, Rallis has become a zero-debt company, except for a small sales tax deferral loan.

Moving on to the individual businesses, starting with domestic, as mentioned earlier, monsoon-related challenges, long dry spell and overall spatial distribution of the rains this season has impacted the business growth momentum. Furthermore, the industry has witnessed pricing pressure as well, pricing out of China and perhaps distressed selling by some payers. Having said that, we have seen some stability in the prices towards the end of the quarter, especially for a few molecules. Regarding segment-wise demand, key emergent herbicide started well. However, it did decelerate later due to the dry spell. Post-emergent herbicide demand was impacted due to low rainfall.

Given this background, our efforts have been directed on improving the product mix, widening distribution reach and plugging portfolio gaps. And with regard to product portfolio, we have launched one new 9(3) insecticide Benzilla. During the quarter, we launched an additional set of two co-marketing products and five 9(4) products as well. Besides new product launches, we have also been working towards expanding our distribution network and continuing to work with e-commerce channels. Our distribution network for domestic Crop Care business stood at around 4,900 distributors and our retail footprint increased to about 61,800 as of end of September.

We grew volumetrically in the insecticide category, although our fungicides category de-grew volumetrically over the last year and herbicides remained flat for our portfolio.

Moving on to the international business as indicated in our previous calls, overall volume growth remains muted against high channel inventory. Pricing pressures continue for some of our key products, especially for Acephate and Hexaconazole. Metribuzin continues to face overall pressure. Amidst this challenging situation, as indicated by us in Q1 earnings call, we have adopted shorter buying and pricing cycles, and our efforts in the past of clearing some of the inventory even at lower margins, if necessary, has helped us avoid any significant markdown in inventory. Having said that, Pendimethalin prices though have remained stable with volume witnessing reasonable pickup, and we are evaluating continuous expansion of capacity on this product as well.

Moving on to our contract manufacturing, the same continues to remain steady with the revival of PEKK. As mentioned previously, we have also signed three contracts and have started dispatch of one new intermediate during the previous quarter. One more CSM product is ready to be commercialized during Q3 from our Dahej multipurpose plant. And we are hopeful that with time, we will be able to scale up the contract manufacturing business with progressive utilization of the new multi-purpose plant.

Moving on to the Seeds business. As mentioned in our earlier calls, we are satisfied the performance of the business with Kharif season. Diggaz, our cotton hybrid has sold well in the northern markets, and Aatish, our cotton hybrid for South and Central India has also done well. Besides cotton, we are also making steady progress across other crops such as Paddy, Maize and Millets. In addition to the above, we are also increasing our market share in the North India market area.

The seed business, as you're aware, has gone to a rough phase in the last couple of years, but we are hopeful of this trend improving over the coming years. Based on the strategic review of the operations we have implemented steps that prioritize our resources and expenditures in development of the key geographies and crop segments with a view to improve the unit economics and the business. Our distribution network stood at 2,750 distributors and a retail footprint of around 47,000 as end of the quarter.

To conclude, we are positive about the growth potential of the business, and are undertaking the requisite steps towards ensuring steady and consistent growth over the coming years. In the near term, our focus will be on ramping up the multipurpose plant. Our new technical Difenoconazole has been commercialized, and also our new CSM product, we expect to commercialize during the current quarter. Over the medium to long term, through our strategic initiatives, coupled with debottlenecking and steady ramp-up of the multipurpose plant should help the company improve its overall growth. Our actions on the seed front should improve the economics of the business also. Meanwhile, our new product pipeline towards launching new technical is also progressing well through lab-scale, KG scale and pilot scale and we are confident of progressively launching new products in due course.

That concludes my opening remarks, I will now request Subhra for a detailed analysis of the financials. Over to you, Subhra.

Subhra Gourisaria: Thank you, Sanjiv. Good morning, everyone, and thank you for joining us today for our Q2 and H1 earnings call. Let me quickly walk you through our financial performance for the quarter, post which we can commence the Q&A session.

Starting with the top line for the quarter. Our revenue stood at Rs.832 crore as against Rs.951 crore for the previous year, lower by 12%. The de-growth was a function of uncertain weather, headwinds in the export market and pricing competitiveness prevailing in the market.

In terms of business-wise contribution, our domestic business has performed relatively well. International business continues to remain under stress. The seeds business contributed with a revenue growth of 237% during the quarter, mainly due to small base and lower sales return during the quarter. EBITDA for the quarter stood at Rs.133 crore as against Rs.118 crore during the corresponding period last year. Margins for the quarter stood at 16% as against 12% during second quarter of FY '23. Gross margin improved through superior mix, actions taken for improving cost efficiencies in the crop care and seeds business. Profit for the quarter stood at Rs.82 crore as against Rs.72 crore during Q2 of FY '23.

Moving on to business-wise performance, delayed and erratic monsoons coupled with pricing pressure impacted overall revenue growth during the quarter of the domestic business. Pricing pressure, as we have been indicating in our earlier calls, dented the overall growth in the business despite steady volume growth. Amidst all the challenges, we remain focused towards improving our product mix and plugging the portfolio gaps by launching new products across segments and geographies. We have overall introduced 11 products during the first half of FY '24. We'll continue our focus behind quality of sales, including conscious placement in line with the liquidation and collection of over dues.

Moving on to Seeds, we had our first half which was very good, driven by the success of Diggaz. In addition to cotton, we are also making steady progress across other crops such as paddy, maize, millets, etc.

As far as international business is concerned, we have been indicating the on-ground situation continues to remains challenging. We have been also seeing global players forecasting a tough period in the near term amidst high channel inventory and pricing volatility.

Pricing pressure for some of our key products especially Acephate and Hexaconazole continues during the quarter. Prices for Pendimethalin though remain steady, along with encouraging volumes. Channel inventory for Metribuzin is high. We expect to face continued volume challenges on the export front. Our contract manufacturing business performed well during the quarter, and the outlook looks encouraging on a long-term basis.

Our cash flows have improved with specific focus on inventory reduction and collections in the domestic and international markets. During the quarter, we also repaid Rs.75 crore of working capital loans. With this Rallis became a zero debt company except for the sales tax deferral scheme loan of

Rs.2.66 crore. As far as capex is concerned, we envisage that the spending for the year would be in the region of Rs.150 crore.

To conclude, I would like to reiterate that our recent strategic initiatives, coupled with commissioning of the Dahej unit should help us to deliver consistent growth over the coming years. That concludes the opening remarks. We can now commence the Q&A session.

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

Prashant Biyani: Sir, can you elaborate more on your product mix, what kind of products are you pushing right now? And on the cost optimization measures, which might have taken both of which are driving margin expansion for the last 2 consecutive quarters despite lower top line growth

Sanjiv Lal: See, on the cost side, we have been a bit prudent on the fixed cost side, so that, to some extent, it has helped. On the product mix side, we have had some new launches also, which we tried to scale up, not to the extent that we would have really liked, but there has been some good traction for some of the new products as well. Certain products which are in terms of providing certain schemes to the trade, we have also done that for certain products to get the volumes.

S. Nagarajan: If you were to look at the Crop Care business into the domestic business and the international business separately. In the domestic business, I would say that we have certainly had some good traction on the insecticides front, we had a volumetric growth on the insecticides. We have had a benefit in terms of the overall margin consequent to that. Herbicides, which are usually lower in margins, herbicides have been flat.

Fungicides, however, have had a volumetric de-growth. Yes, their margins are usually higher but I think they were more than offset by the gains that we made on the insecticide. When you come to international business, we have had pressures, but I would say that the pressure this year compared to what it was last year same quarter have been less in terms of the margin front. Some of the costs have also abated. So I think we have benefited on that front. I would say at this level, this is probably what it is. But in terms of detailed products, I would imagine that's a little bit difficult to share because it has a competitive element in it. But I guess this gives you a broad idea.

Prashant Biyani: Sir, secondly, on the seeds business, what happened this quarter, if you can elaborate because generally, most of the seed sales and liquidation happens in Q1? And a related question to this is, typically, what is the sales return quantum in Q2 every year. And this year, it has been how much?

Sanjiv Lal: So the way we record our sales is largely based on the placement assumption of sales returns for Q1. And in Q2, once the sales return has already been accounted for, that's when we get the overall revenues from the business. So there had been a special effort which we had put in during the season, Q1, especially, in terms of ground level activities, in terms of the demand generation activities as well, as well as engagement with the trade.

And as you are aware that we've had some difficulty in the business over the last 2 years. So this year, we did make that extra special effort in terms of the market-level activities. And that has helped. So we were able to demonstrate some of our product differentiation for the key hybrids, which has actually led to good liquidation at the market level, which resulted in lower sales return. And that, I think, is the benefit which is flown into Q2 results.

Subhra Gourisaria: On a first half basis, as where we have been positive by 21%. So Q2 may not be the only number that you should look at.

Moderator: We'll take the next question from the line of Tarang Agrawal from Old Bridge Asset Management.

Tarang Agrawal: Just a couple of questions, One, if you could give us a sense on what's the distribution overlap between your seeds and crop protection business?

S. Nagarajan: The distribution overlap was about 25% to 30% in the sense that we have common distributors between the 2 businesses. So that's the level of overlap.

Tarang Agrawal: Okay. The second question, if you could give us a split of your H1 seeds revenue between rice, maize and cotton? And what was it in the base period for us to understand really what has driven the growth? That's number one. And number two, my sense is in Q1, you anticipated that you'll be selling about 4 lakh packets of Diggaz, has that played out? Or you have outperformed your expectations?

S. Nagarajan: So without giving you a crop-wise breakup, the big contributor to the growth has been the cotton crop. You are right, Diggaz we had mentioned it even in Q1 that we were out looking at good level of sale, and we did end up, in fact, a little more than 4 lakhs. We also had a good performance of Aatish which we have also liquidated significantly this year. So these are the 2 big drivers. The other crops have been, you can say, let's say, plus or minus 3% compared to the base year volumetrically.

Moderator: We'll take the next question from the line of Viraj K from SIMPL.

Viraj Kacharia: So on the CSM contract, 1 of the molecules that we've just started out -- Difenoconazole. And if you look at the growth in that particular molecule, for last many years, it's been a very flattish or a very low single digit kind of a molecule, so just 3 questions on this. What are the thought process behind choosing this molecule? How do you see any perspective you can give in terms of the competitive landscape, say, in India or outside, who are the major players? And last is, is this an exclusive contract? It's more like an in-licensing kind of a contract? Or if you can just kind of elaborate more on the supply agreement?

S. Nagarajan: So the way we have identified the products that we would get into is a combination of multiple things. One is, of course, the size of the market, like you talked about the growth rate, the levels of margin potential, the similarity in terms of chemistries that we have in other products, the ability for us to access the markets relatively quickly because in certain products, you need to really wait for a long period of time for registrations to come through. So it's actually a multidimensional set of measures and Difenoconazole was one of the products that came through that.

And that is the first one that we have now introduced through our MPP. We hope to sell it largely in the Southeast Asian and somewhat likely unregulated markets to begin with, and thereafter expand it in other parts of the world. In India, of course, as you know, it does have a market that we have actually already got a couple of our products formulated products, which are utilizing that active ingredient. We hope to scale that up in India also.

Viraj Kacharia: Any color you can give on the competitive landscape for this particular molecule?

Sanjiv Lal: Perhaps you can keep that for later as we can give you a better answer for that.

Moderator: We'll take the next question from the line of Archit Joshi from B&K Securities.

Archit Joshi: So just continuing with the previous point on the CSM business, so you mentioned that you're targeting the Southeast Asian geography. So is it that there are multiple customers? I'm just curious to understand the nature of the supply contract. How do we look at the CSM business in general? Are the newer molecules also going to be in a similar way wherein we are looking at multiple customers for one molecules? If you can light on that front?

S. Nagarajan: So maybe I should clarify. The response that I have provided with respect to Difenoconazole is not for the CSM product. This is for our own pipeline product, and that is how we chose it, and we will be selling it to multiple customers. As far as the CSM product is concerned, that is something which beyond the products which we already started making, which are, of course, very small. We will be producing the first active ingredient in the quarter 3, in this quarter, and that is not for East Asian market.

Archit Joshi: And that would be a single customer?

S. Nagarajan: That is for a specific customer. You're right. That is for a specific customer. We are unable to reveal the name of that customer, on the product at this time, but it is for a specific customer.

Archit Joshi: Sure, sir. I have a second one. Sir, you alluded earlier that the success that we got in the insecticide portfolio and maybe a few other products in the domestic landscape was a function of the placement that we did that were quite proactive in nature. Sir, what are the thought process behind these placements?

Do we have some data management or any kind of software that kind of predict some insufficient supplies in certain catchments of a particular state wherein we can place these products properly so that the liquidation is stronger than what is happening on the industry level. What exactly did we do for us to get the placements right in the domestic line? The landscape, especially in this challenging high channel inventory sort of a situation.

S. Nagarajan: Yes, you're absolutely right. I think it was a very challenging period because as you would recall, there was a kind of a start, stop, start kind of a rainfall pattern, and at a fundamental level, I guess, we had to take a position or a stance in terms of the level of aggression that we would have in terms of stocking up, which I think we decided to stock up on these specific products. The second point, what you're saying in terms of data availability, you are probably aware that we mentioned it probably earlier also.

We are in the process of implementing what we call as Plan Guru, which is an SAP integrated business planning platform, SAP IBP, which seeks to get data from the field level and feeds it back to our planning and thereafter to our manufacturing teams to be able to produce the product and then make it available for supply. I wish I could say that this is something which we had made use of last quarter. That is not the case. We are in the process of implementing. But I guess this would be clearly an important lever as we go forward because we will be able to have much more ground level information much more easily available and much more easily analysable, I should say.

Moderator: We'll take the next question from the line of Chintan Modi from Haitong Securities India Private Limited.

Chintan Modi: Yes. So sir, my first question is with respect to gross margin. We have seen improvement in the first two quarters. Now going ahead, again, we are seeing that crude oil has started moving up, and this would have definitely impacted the base raw material prices. So do you think that spreads have largely settled or you think, again, there is some kind of a form of a risk to the spread? And second question with respect to the same gross margins, would it be that, say, in next two to three years, should we expect these gross margin levels to come back to like 40% to 43%, which we have done in the past also.

Sanjiv Lal: See, one of the ways that we've been trying to manage the gross margin, and I alluded to it in my remarks also is on the shorter purchase cycles that in a market the direction is not very clear. Sometimes it's declining, sometimes going up. We've been taking shorter purchase cycles which has helped us in any kind of margin erosion which could potentially happen. And we've had that kind of situation, especially for some of the international markets where we had to sell even at wafer thin margins. So we will continue to sort of keep a shorter purchase cycles, till we can see some stability in the overall market.

S. Nagarajan: And the risk of crude oil increase definitely is a risk that is important to keep in mind because many of the solvents that we use are dependent on crude oil prices. And the additional point I would also add is that we try and look at our business as an overall portfolio, comprising of the domestic business, international business, the CSM business, the crop nutrition business and the seeds business.

So at a portfolio level, I guess the attempt would always be to kind of improve the margins by having the right mix between these different categories. And even within the categories within the DF business, for example, as we call the domestic business, we do have the opportunity to sort of manage the portfolio between insecticides, fungicides and herbicides. So I guess these are the levers that we will be using to manage the mix to sort of do the best on the margins.

Chintan Modi: Sure sir, second question is with respect to your aspiration to grow international business to almost 40%, which implies that your international business has to grow at a much faster pace than the domestic business. Now I want to understand this from a perspective of ROE because we have seen a lot of volatility in the international business and generally in generic molecules where we deal, this volatility is generally there over long term also. So whether this will really help you in improving your ROE, taking this higher share of international business? Or whether this will be more ROE dilutive. If you can explain some thoughts on that.

S. Nagarajan: No, I think the way we are looking at it is not that it will be ROE dilutive we do think that each of these, what you characterize the international business and the domestic business has a certain combination of ROE and growth rates. I guess we would have to look at both of them together. As you are aware that the growth rates for the export business from India have been quite good.

I think the export business is now far higher, right, more than $5 billion, $6 billion compared to the domestic business. So we, therefore, would tend to look at it as a combination of the growth rate as well as the ROE. And the overall business level, between international and domestic, at an overall Rallis level, I should say, the aim is to obviously improve the ROE, not to dilute it.

Sanjiv Lal: And just to add that we have to look at this over a period of time, not in a one-year or two-year time frame. We have also said that for what we call Catalogue products which we are selling to multiple customers in different geographies. We will be introducing one new Catalogue product every year. So over time, these will also scale. And that is the approach that we have taken. And we have also mentioned earlier that when we are looking at our investments, we are looking at the over 10-year IRR for decision-making process.

Moderator: The next question is from the line of Amar Mourya from AlfAccurate Advisors Private Limited.

Amar Maurya: So sir, firstly, on the export business. Export, we were talking about liquidation of high-cost inventory into the system. So that got liquidated. Secondly, what is the progress on PEKKfront, and thirdly, like this Difenoconazole which we going to start from third quarter? What is the overall size of the opportunity? Are we going to supply the technical or formulation? These are three questions, sir.

S. Nagarajan: So in terms of the high-cost inventory, like it was mentioned in the opening remarks, I think we have been able to navigate through that without too much of negative impact in terms of markdowns. Most of our products are now down in terms of the high-cost inventory. There will be a few which may be a small quantum, which may be residually present, but we are confident that we should be able to liquidate that, either in the export market or in the domestic market under the branded formulations.

As far as PEKK is concerned, we do believe that it will have a bright future. At this point in time, it is slowly recovering. We are finding some positive movement on it. And over a longer period of time, we do believe that it will come back to reasonable levels. Difenoconazole, is largely targeted towards at this point in time towards the Southeast Asian and the likely unregulated markets and the Indian market. We are in the process of working through the registrations for some of the other markets.

And I guess it will be possible for us to kind of lay out a better road map in terms of its scale potential once we are little bit more advanced in the registration process. Right now, these markets are comparatively smaller, and we are in the first year of production in the MPP. And we do expect that this will scale up maybe in a couple of years.

Amar Maurya: And we will be supplying the formulation or technicals over here?

S. Nagarajan: Both. As far as the domestic market is concerned, we already have two products which were launched in this quarter based on the technical that we produced. As far as the international market is concerned, we will supply technical and if possible and wherever it is based on the registrations and all of that, we will be also aiming to supply formulation.

Moderator: The next question is from the line of Abhijit Akela from Kotak Securities.

Abhijit Akela: So first question was on the other expenses line, which has declined year-over-year. And even on a sequential basis, it has hardly shown any growth despite the seasonal heaviness of this quarter. So just sort of wanted to seek your perspective on what sort of controls we've implemented here and in what areas has expense cuts, if any, be implemented?

Subhra Gourisaria: So Abhijit, some of the expenses which sit in the other expenses, for instance, freight and distribution for our international products, which has seen a compression both in terms of volumes and also in terms of rate, because freights and the cost have come down. Secondly, the optimization effort we did in terms of various other core expenses, be it in terms of bad debt in terms of other expenses with traveling, conveyance, where we have tried to optimize it in line with looking at the efficiencies, which can be plugged in has helped in reducing it.

Sanjiv Lal: We also introduced some controls within the expense modules and also that there's better visibility to the operating team in terms of what is it that they can spend in a particular period of time.

Abhijit Akella: Understood. That's helpful. And the other question I had was just with regard to the export business. You spoke about continued high channel inventories and oversupply and pricing pressure across several molecules. But pendimethalin, you mentioned that volumes are experiencing a pickup and you're evaluating an expansion as well of capacity. So if you could please shed some light on what's happening in pendi in particular, maybe a little bit more broadly on some of the other products as well.

S. Nagarajan: So in Pendi in certain markets, we are finding the demand traction to be high. As you are aware, last year, we had received the technical equivalence for the European market, and therefore, that has afforded us the opportunity to sell in the EU market. There are also certain formulations, pendi-based formulations, mixtures, which are seeming to gain traction in the overseas markets. There is also a demand for the CS formulation, the capsule formulation that seems to be strong. So these are different growth drivers that are helping us to feel confident to expand our capacity.

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

Rohan Gupta: First question, you mentioned roughly 5% kind of volume decline from the domestic agrochemical. Can you give some share of volume and pricing decline in this?

Subhra Gourisaria: So domestic, Rohan, the volumes have been largely flat, as we said, marginally positive. And the 5% that we spoke has been coming from price alone.

Rohan Gupta: So you were saying that the total revenue growth from the domestic agrochemical which you're talking about is 5% only, volume has been flat. So minus 5% is only the price.

Subhra Gourisaria: Yes.

Rohan Gupta: Okay. Second thing is that in our seed business and in the current quarter, I think a lot of credit goes to significant improvement in the seed business profitability which earlier had roughly Rs.21 crore to kind of EBITDA loss and we ended the quarter with the profit. So seed being a very heavy Q1 business, do you see that there has been a structural change because the company has been striving to drive its non-cotton business to remove the quarterly volatility and to drive the business in the other non-season of cotton?

So do you see that there is a structural change and can expect that this going forward can have an EBITDA positive? Or it is just only season or in the current year, we have seen a less return of sales from the cotton business and that has driven this profitability in seed?

Sanjiv Lal: So Rohan, there is a significant skewness in our seeds business towards Kharif, right? And this skewness will continue at least for not only this year, but perhaps next year also, till we are able to sort out our Rabi portfolio in the seeds business. So that skewness will continue into this year for sure and next year, perhaps.

Subhra Gourisaria: In Q2, I think, Rohan, the impact that you have seen is largely because of sales returns accounting. Sales returns have been lower. There's intrinsically no change in terms of portfolio as such, major change.

Moderator: The next question is from the line of Somaiah V from Avendus Spark.

Somaiah V: Sir, in terms of this flat volume growth in the domestic front and the 5% price decline, can you just share some light? What are your thoughts on the industry performance and I mean how we would benchmark ourselves to the industry in the previous quarter?

Sanjiv Lal: So I understood your question right, there was a bit of break in the audio. Are you referring to the domestic industry performance? If that is your question, I think the results will play out. We don't think that there's significant growth in the domestic industry overall. Some companies which have had a more favourable portfolio will certainly do much better. But generally, I think it will be low single digit only, if at all.

Somaiah V: Yes. Sir, on the international front, the revenue decline, can you give some color on pricing versus volume decline there?

Subhra Gourisaria: The international business, de-growth was more in terms of volume. So around 10% to 15% is the price drop and the balance has come from volume.

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

S. Ramesh: Congratulations on what is a good performance given the challenging environment. The two thoughts I had. One is what is your reading of the excess supply coming in from China? Is it possible to give some timeline over which we can see that abate? And secondly, if you see the Indian -- the water situation, to what extent do you think now this monsoon can make up of the shortfall in the levels for the Rabi, what is your reading of the situation? And how do you see the investment on the MPP to our revenue can you give us a ballpark number in terms of capacity or full potential revenue from the MPP at full capacity, that will be useful.

S. Nagarajan: So as far as the channel inventory and the availability of stocks from China. I think it is something based on our interactions with our customers. We feel that it is quite some time away, which is why in the opening remarks also, it was mentioned that it will be at least after this quarter. Now whether it will happen in the Q4 of this year or whether it will be a renormalization, even later than that, we will have to really wait for some more time to see. But the channel stock levels are fairly high at this point in time. That is one.

And the second is in terms of the rainfall, yes, there is a challenge, particularly in Peninsular India, where the reservoir levels at this point in time are significantly lower compared to the long period average. We do think that there is likely to be an impact on account of this in Rabi and at least we are factoring that into our plans for the upcoming Rabi season. As far as the MPP is concerned, as we said, we have started with Difenoconazole, we will be getting into our first contract manufacturing product from there in the course of this year.

What we would do is to kind of wait after the execution of this to kind of arrive at some kind of a normative level at which we can have a good asset turnover ratio, It also depends on the progress of registrations that we are able to achieve. And we are also in the process of developing more pipeline products. So I would say that we will probably be able to aim for some kind of a reasonable ratio after we go through at least a year of experience on the MPP.

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

Rohit Nagraj: Sir, the first question is on the global crop protection market. You indicated in your opening remarks that the market is likely to decline by low double digit. Is there any volume impact? I mean, largely will be attributed because of the pricing. But is there any volume impact that we have seen in certain geographies because of weather-related anomalies?

S. Nagarajan: Not because of weather-related anomalies. It is more about we have seen significant volume impact. In our quarter 2 international business only about 10%, 15% of the decline is attributable to the price drop. The rest of it is actually volume drop. So we have actually seen volume drops in our international business, and we believe that this will be typical of most of the industry.

And this is more related to the stock levels in the channel. And companies not being able to place fresh purchases because they are already overstocked and have challenges down the value chain. It is not so much about weather-related challenges. The farming income level in many of the geographies are still robust. So we are not looking at it from a weather point of view, but more from a channel inventory point of view.

Sanjiv Lal: And additionally, I don't think there's any drop in consumption because in some of the markets, the season is going fairly decently, not that there is going to be demand disruption from the consumption level.

Rohit Nagraj: Right, right. I was actually looking from the consumption point of view, and it's clear now. The second question is in terms of the lower water reservoir levels for Rabi. Given any historical precedence, does that affect the consumption, does that affect the acreages, and obviously, it will have impact, so excluding the inventory-related impact from the sowing perspective, have we seen this kind of anomaly historically, whenever such a situation has happened?

S. Nagarajan: Yes. I think in terms of water shortage, definitely would have an impact as you are aware the level of irrigation in the country is 50% to 55%. So there is bound to be an impact as far as the domestic business is concerned. And as I said, that is why we are factoring that into our plan. We're trying to look at which geographies what kind of impact that could be and how do we sort of operate under that situation.

Moderator: The next question is from the line of Rishabh Shah from Dalal & Broacha.

Rishabh Shah: Two questions from my end. Can you just tell me about the export and domestic revenue mix for the quarter because that's not mentioned separately in the PPT? And possible to share the CSM margins, expected CSM margin, because usually it will be like a cost-plus margin model, right? So yes, that's it for my end.

Sanjiv Lal: So we won't be able to share the margin profile of our CSM products, but overall revenue stood to even the share between domestic and international.

Subhra Gourisaria: The domestic and International would be 4:1 you can say, for this quarter.

Rishabh Shah: And just if you can directionally guide on the CSM margin, is it better than the company level margins or in line with the company level margins?

Subhra Gourisaria: we can't give that level of detail as that's also something that partners do not encourage.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: Some of my questions are already answered. Just one question, if you can give us an overview on as we are saying that the export market is today impacted and volumes are down. Is it possible to just give an overview on region-wise specific thing that which regions are doing, I mean, which regions are under pressure? And where we are seeing some kind of improvement? And even going forward, where we are expecting some kind of green shoots in coming times?

S. Nagarajan: Green shoots at this stage is a little early, but certainly, the U.S. geography is quite a bit affected. EU is also affected and Latin America too a smaller extent. So I guess that could probably be the hierarchy of impact, but all these geographies are significantly affected. Green shoot is a little bit difficult to predict at this point in time. It all depends on how long it will take for liquidating the inventory and as you're aware, the global agrochemical business went up to $80 billion, from about $60 billion, $65 billion in two years. So there is a kind of a process of working out this flab, which is going to take some time. It's hard to predict when the green shoots will emanate.

Sanjiv Lal: At least the next quarter is not going to be easy, that's for sure.

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

Sanjiv Lal: Thank you, as you would appreciate, we are facing significant challenges due to sharp price correction and global demand compression as well due to the inventory overhang as we have articulated. We expect the situation to continue well into Q3 and perhaps for the rest of the financial year as well. We will continue to monitor the volume-led growth across our portfolio with pricing growth likely to be negative. Margins will remain a priority, and we will continue – on the path to improve on an annualized basis through better product mix and pricing actions.

Our wide and diverse portfolio with presence across domestic and international markets, crop nutrition and seed business does offer us some stability to navigate through these challenging times. Quality of sales and cash flow will continue to be a key priority across our business teams, and we will further focus on improving collections and controlling inventories during the second half of this year. Our investments made over the last few years in R&D, Product Development, Manufacturing and Capabilities will enable us to deliver our long-term growth agenda in a sustainable way.

That concludes my remarks, and we can conclude the call here. Thank you very much for joining.