RALLIS INDIA LIMITED

July 24, 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 quarter ended June 30, 2023

Further to our letter dated July 13, 2023, we enclose herewith a copy of the transcript of the Analyst/Investors Call on the Unaudited Financial Results of the Company for the quarter first quarter ended June 30, 2023 held on Monday, July 17, 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 NAIR Digitally signed by SRIKANT NAIR Date: 2023.07.24 12:58:58 +05'30'

Srikant Nair
Company Secretary

Rallis India Limited
Q1 FY '24 Earnings Conference Call
July 17, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Rallis India Q1 FY24 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day everyone and thank you for joining us on Rallis India's Q1 FY24 Earnings Call. We have with us today Mr. Sanjiv Lal, Managing Director and CEO, and Ms. Subhra Gourisaria, Chief Financial Officer. Before we begin, I would like to mention that some statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation. I now invite Mr. Lal to open proceedings of the call. Over to you, Mr. Sanjiv.

Sanjiv Lal: Thanks, Gavin, and good morning everyone. As mentioned, Subhra Gourisaria, our CFO, is also joining me on this call this morning. I will begin the discussion by providing a brief overview of the industry, post which I will comment on Rallis' specific developments.

The agrochemical sector has encountered a rather challenging external environment. Delayed progress of monsoons and uneven rainfall distribution has impacted sowing patterns in the domestic market. Further, high channel inventory and unprecedented price drop for a few active ingredients due to an oversupply from China has created near-term volatility. We have also witnessed distress selling by some of the parties, resulting in very low price levels.

As far as monsoons are concerned, we experienced a delayed start to the season due to cyclone Biparjoy, resulting in a rainfall deficit during the first half of June. However, there was an improvement in the second half of June, leading to a reduced deficit. Except for northwest India, other regions received below-average rainfall compared to the long-term average. The monsoons have picked up with cumulative rainfall being 2% above normal till July 12th. For the period up to July 12th, out of the 36 subdivisions, 15 have received deficit rainfall, 10 have received normal rainfall and 11 have received excess rainfall. We have seen monsoon picking up pace and are hopeful of a good rainfall for the remainder of the season, El Nino notwithstanding. The delayed onset of the monsoon had an impact on crop acreage, with paddy and cotton being most affected. As per the

Ministry of Agriculture and News reports, the overall Kharif sowing is showing a 4.29% lower than the previous year at the same time. Paddy cultivation, which constitutes a sizable part of the Kharif crop cultivation, decreased by around 9.8% and cotton has decreased by about 5% compared to the previous year. On the other hand, the acreage for other major crops such as coarse cereals and sugarcane increased by 15.9% and 4.7% respectively compared to the previous year. With the improvement in rainfall across regions, we can expect an increase in sowing activity and hope things will reach normal levels by the season end.

In terms of international business, there were challenges due to excess inventory build-up and pricing pressures on major generic active ingredients, which has affected business sentiments.

Moving on to Rallis-specific developments, starting with our headline numbers, revenue de-grew by 9% over the previous year, crop care business de-grew by 13% and seeds business registered a 2% de-growth over the previous year. EBITDA for the quarter stood at Rs.109 crore as against Rs.113 crore last year. EBITDA margins came in at 14%, higher than the 13% of the previous year. There were concerted efforts to improve margins through timely pricing actions, better product mix and control on fixed costs. Our actions of timely liquidation of high-cost inventory in the past have also helped us during these turbulent times. Profit for the quarter stood at Rs.63 crore as against a profit of Rs.67 crore reported during the corresponding period last year.

Moving on to the individual businesses, as mentioned earlier, domestic business was impacted by the delayed onset of monsoon. This impacted the sowing activities coupled with excess channel inventory, which we have been indicating in our earlier calls as well, which has restricted the volume growth during the quarter. Channel inventory continues to be on the higher side, primarily due to higher carryover inventory from the previous year, led by low pest infestation in the Rabi season. Due to the expectations of drop in prices, the trade is expectedly cautious and are more likely to decide on their purchases closer to consumption. Q1 is largely a placement season and clearer liquidation trends will become evident during Q2. Besides new product launches, we have also been working towards expanding our distribution network and continue to work with e-com channels as well. Our distribution network for domestic crop care business stood at 4700 with a retail footprint increasing to about 61000 as of end June.

Moving on to international business, as mentioned earlier, excess channel inventory coupled with sharp price erosion across major generic active ingredients have impacted the overall growth sentiment during the quarter. Prices of certain key products like Acephate and Hexaconazole continue to trend lower. Prices for Pendimethalin have been somewhat stable. Overall, volumes during the quarter have been significantly lower compared to the previous year and we continue to remain positive on Pendimethalin for which we have secured 'technical equivalence' in EU.Also, for Pendimethalin, as indicated in our earlier calls, raw material supplies for the product have been secured and the outlook remains positive due to our new access to the EU market.

Moving on to contract manufacturing, the business remains steady with revival of PEKK after a gap of nearly two years. Our teams continue to engage with overseas partners for further expanding contract manufacturing partnerships. As mentioned in the earlier calls, we have signed three new contract manufacturing opportunities and we have commenced the dispatch of one intermediate during the last quarter.

At Dahej SEZ, trial production has started at MPP plant. We have expanded the capacity for one of our key formulations both for domestic and export markets. On the digitization front, we have strengthened our planning process by deployment of SAP integrated business planning solution. We expect this to enable more agile and precise decision making while also digitizing many of our processes.

Moving on to seeds business, we have had a good start with revenue marginally lower over the previous year. Our placement efforts were quite satisfactory with support from all teams. We also had a good marketing engagement for most of our regions. In terms of the new hybrids, we are pleased with the performance of Diggaz, our north cotton hybrid which has seen a good volume growth. In terms of absolute numbers, this season we sold 4 lakh packets as against 1.5 lakh packets during Q1 FY23. As far as other crops are concerned, we are waiting to see clear trends in liquidation with rains picking up only now. Our distribution network for seeds business stood at 2750 and retail footprint increasing to 47000 retailers as of end June.

To conclude, while the year has started on a challenging note, we are hopeful that the situation will ease in the second half of the fiscal. Our efforts are directed towards strengthening our product portfolio across businesses, our domestic formulation business, our seeds business and international business as well. We are also working towards widening our distribution reach. With these opening remarks, I will now hand over to Subhra for a detailed analysis of the financials. Over to you, Subhra.

Subhra Gourisaria: Thank you, Sanjiv. Good morning, everyone and thank you today for joining us for our Q1 Earnings Call. Let me quickly walk you through our financial performance for the quarter, post which we shall commence the Q&A session. Starting with the top line, our revenue for the quarter was Rs.782 crore as against Rs.863 crore during the previous quarter same period. The degrowth in the revenue was primarily on account of volumes and sharp drop in prices as mentioned by Sanjiv.

As such, performance of both domestic and international business was somewhat benign. Seeds business was broadly flat with revenue of Rs.262 crore during the quarter. EBITDA for the quarter stood at Rs.109 crore as against Rs.113 crore during corresponding period last year. While the absolute EBITDA is lower, however, the EBITDA margin stood at 14% vis-a-vis 13% in Q1 FY23. Our teams have displayed agility in navigating through these turbulent times by ensuring market linked pricing and superior product mix. Profit for the quarter stood at Rs.63 crore as against Rs.67 crore for the corresponding quarter in previous year. PAT for the quarter at 8.1% vis-a-vis 7.8% in Q1 FY23.

Moving on to business wise performance, delayed monsoons coupled with high channel inventory impacted volumes and realization during the quarter. We had also indicated in our previous calls that the channel inventory has been higher and the sales growth will be impacted in the near term owing to the same.

The trade is in a wait and watch mode and are likely to firm up their decisions closer to the consumption period. We are committed towards improving our product mix by launching new and innovative products. These new products are targeted towards not only strengthening our existing position but also helping us plug the crop and regional gaps in our portfolio.

Moving on to international business, we remain cautious. Prices of input materials have been very volatile with some of the raw materials witnessing drop of more than 50% since their peak couple of years back. As you can expect in this situation, it is exceedingly difficult to predetermine the right purchase price.

We are working on shorter purchase and pricing cycles and are taking portfolio calls to liquidate inventory even at a lower margin wherever necessary. Also, globally some of the players in the industry have been holding very high inventory and delaying purchases till they are able to liquidate the old stocks.

Moving on to seeds, early trends are positive, especially the liquidation of North Cotton. However, we will get clear reads on the balance crops only by the end of current season. Our cash flows have improved with specific focus on inventory reduction and collections in the domestic and international market.

During the quarter, we repaid Rs.25 crore of working capital loan. We envisage capex would be in the region of Rs.150 crore for the year. To conclude, we are hopeful that efforts towards improving product mix and distribution network coupled with efforts towards lowering our dependency on China for raw materials will contribute meaningfully in the coming years.

That concludes the opening remarks. We can now commence the Q&A session.

Moderator: Thank you very much. Our first question is from the line of Prashant Biyani from Elara Securities.

Prashant Biyani: Yes, thanks for the opportunity. Sir, 2% increase in crop care EBITDA in this sort of a subdued environment is quite commendable. What were the drivers in that, if you can just highlight for the start?

Sanjiv Lal: So, you know, the prices have been quite volatile, as you would have also got from your own network. So what we have been trying to do is taking more frequent pricing calls, downwards when it's necessary and upwards, when necessary, and also ensuring that we are not pushing too much into the trade because the trade is already overloaded, not with our product, but I'm saying generally the trade is overloaded. And we've also been taking these pricing calls and also been looking at our portfolio in terms of the more relevant products for the current period of time. So that is the portfolio choices that we are making for pushing appropriately. So largely, these are the actions and we had already started the work on our network expansion a couple of quarters back, and we had spoken about it. And that is also helping in sort of increasing our reach and width of our network.

Prashant Biyani: Secondly, sir, how post Q1, in the first 17 days of Q2, how has been the demand from the trade as well as the actual liquidation at the farmer's end?

Sanjiv Lal: See, actually, what is happening is that the northwest of the country where the sowing initially starts, as you are aware, that is having excessive rainfall. So, the consumption of many of these chemicals is still going to have to wait. So I think consumption may take some time for picking up, but since the overall acreages have now increased and come to within 5% of the same period last year, I think the overall sentiment seems to be in the right direction, that gives us some optimism.

Moderator: Thank you. Our next question is from the line of Tarang Agarwal from Old Bridge Capital.

Tarang Agrawal: Hi, good morning. Three questions from my side, mainly on the Diggaz seeds. What are the attributes of the seed which are driving offtake?

Sanjiv Lal: Well, I think what is driving offtake is that this is a slightly early variety and it is shown very good yield and this is what is finding favor with the farmers. Last year also we had a very positive response, although the volumes which we sold were limited by what we had, which was about 1.5 lakh packets and we had scaled up to about 4 lakh packets, which practically we believe have all got sold out. So this has come out as a good product and the farmers are appreciating the performance over the last two years, which is helping us scale it up.

Tarang Agrawal: Okay, and I mean, how do you see it for next year?

Sanjiv Lal: Well, we believe that this particular product is going to grow even further. So we are hopeful of being able to get enough acreages for planting for the next season. So that is the work currently underway for securing acreages for expanding the availability for next year.

Tarang Agrawal: Okay, and how is it priced? I mean, is it priced at par, slightly at a premium?

Sanjiv Lal: No, no. We are not doing any value extraction through a premium. It is sort of priced at a similar level to what our products have been.

Moderator: Our next question is from the line of Rahul Veera from Abakkus Asset Manager.

Rahul Veera: Hi sir, so I just want to understand our new launches, Gateway and Gateway GL. Are we making the technical by ourselves or are we procuring it from outside?

Sanjiv Lal: No, no. This is currently insourced. We are going to be making the technical, but that is some time away.

Rahul Veera: Okay, is it a domestic manufacturer?

Sanjiv Lal: Yes. It is a domestic supplier.

Rahul Veera: Okay and sir, coming back to the seed portfolio, are you seeing a reduction of spurious seeds in the cotton, where we are able to gain more marketable, because at the industry level data, we are seeing that the growing is down by 12%, versus our product has grown extremely well. But is it also because of these spurious seeds going down, particularly the industry or channel thing, sir??

Sanjiv Lal: So, Rahul, I am not very clear as to what is the level of the illegal cotton that has been sold this year, that we will know only more towards the end of Q2. But certainly, I think there has been a mixed experience of the farmers. This is from what our understanding is, that they have really not benefited from the illegal cotton that has been used by them.

All said and done, having seeds from a known company is giving a lot of assurance. So that has been our experience, where our products, at least in the North market, have moved well. Even Maharashtra, which is an important market for us, we believe that one of our very good hybrids, which unfortunately did not do very well in the last two years, has also done, I would say, reasonably well, although we will know the final figures after the liquidation only towards the end of Q2.

Moderator: Thank you. Our next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Yes, good morning. Thank you. So is it possible to share the breakdown between price and volume between both the domestic crop care and the export for the quarter, please?

Subhra Gourisaria: Yes. So Abhijit, domestic crop care business volumes were largely flattish, and price was the one which had led to this de-growth. And as far as international crop care business is concerned, the large part of the de-growth was led out of volume, with the mix of the portfolio, we were able to manage at an overall level the price, but the large part of the de-growth was coming out of volume.

Abhijit Akella: Okay. So the extent of price decline, is it possible to share a rough range there for the export side?

Subhra Gourisaria: It would be sub10%.

Abhijit Akella: Okay. Got it, and also, just on the pricing actions now, were there further price reductions taken during the quarter, and should we expect any lagged impact of that for the upcoming September quarter as well?

Subhra Gourisaria: So, there will be definitely carry-forward, because some of the price changes, as you know the prices or the material cost has been on a downward trajectory, and that's where we will have a carry-forward impact further in Q2.

Moderator: Thank you. Our next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: So first question is from the demand from global markets. So on the exports front, are there particular geographies where the inventories are higher and other geographies, where it is normal? Any sense on this? Thank you.

Sanjiv Lal: So, Rohit, in terms of our portfolio, Pendimethalin is one of our important herbicides, and the demand for that, we have seen largely stable, although there has been some price correction. On the insecticides, which is where Acephate is, one of our big insecticides that we export largely to Brazil, there we find that the price erosion has been very, very significant. As well as the inventory of herbicide, our understanding is also on the higher side, although Metribuzin is a smaller volume for us in that market presently.

Rohit Nagraj: Right. Got it sir. Second question is in terms of the increase of Chinese generics in the domestic market. So what is your sense, how this is affecting the domestic market and will it have a significant impact during the Kharif season because there is just a placement quarter and second quarter will see the actual impact in terms of any returns? Thank you.

Sanjiv Lal: We have a number of Multinationals and Indian companies in the domestic formulation business and basically the competition is in this set only. So many of these Chinese generics are being procured for formulation by the Indian companies as well as some of these Multinationals. So nothing has changed as far as that is concerned. The issue is that, the prices are coming down and there is already overload of inventory in the market and if the consumption picks up as the season progresses, then the industry will also have a positive outcome.

Moderator: Thank you, sir. Our next question is from the line of Viraj Kacharia from Securities Investment Manager.

Viraj Kacharia: My first question is on the inventory part. If we can just probably give some perspective, both in India and in international markets, what is the extent of inventory in the system? Sir, if an annual consumption is 100, then are we at 30 or 60? So any perspective you can give both for the market or, key regions, India and abroad and for us?

Sanjiv Lal: I had mentioned in my earlier comment, that for the products that we are dealing in, we are finding that Pendimethalin, the demand is stable, plus we also expanded our technical equivalence in EU. So that is also helping in us, being able to maintain the volumes as far as Pendimethalin is concerned. We do have issues with Acephate, more so on the pricing. And Hexaconazole, which is another big molecule of ours, which we are selling into Southeast Asia, we are seeing some revival in terms of consumption, off-take in particular. So this is largely it and Metribuzin, I would say, more or less flat with maybe some slight uptake in terms of volume that we are expecting going forward.

Viraj Kacharia: Okay, so basically, what I was trying to understand is, Q1, if you see our, especially the domestic business, so these are the factors, which you outlined in product mix, more dynamic pricing, and, but product mix per se doesn't change in a quarter, right? I understand, we've been trying to launch new products and trying to scale them up. But there's also a factor of the key product prices, especially in generic, being on a downward trajectory. So in terms of Q1 performance, is there something, were there any one-offs in this? Or how should one really understand the performance in domestic business, which helped us both in our sales and profit?

Subhra Gourisaria: There are no one-offs.

Sanjiv Lal: There are no one-offs. I would just say that, we've tried to be a little prudent in terms of, how we are doing our pricing. Also, on the procurement side, we've been reducing the quantities that we are buying at any particular point in time so that it has limited impact on the, in case the prices come down further. So we've been trying to navigate through this, in a manner, which I would say has been helpful. And what has also been mentioned is that, last quarter we were sitting on higher cost inventory, which we had liquidated even at very, very nominal margins. So that has also helped.

Moderator: Thank you. Our next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management Company.

Arjun Khanna: Sir, thank you for taking my question. Just on the export front, we talked of in the previous quarter's export of PEKK, the molecule coming back for the aerospace. Has that come through or do we expect it to take further time?

Sanjiv Lal: No. I also mention that, we will be exporting some of the PEKK during the current financial year from practically zero in the last two years. So we will be doing some volume this year. Our understanding with our customer is that, this volume is expected to steadily pick up over the next couple of years to where it was before this pandemic started. So it is, in the right direction now.

Arjun Khanna: Did we see any revenues in the first quarter?

Subhra Gourisaria: Yes. We saw revenues in the first quarter. In fact, we commenced dispatches from Q4 of FY23.

Arjun Khanna: Sure. No, because we've yet de-grown 30% of this. Obviously, the scale is smaller? Sure but…

Subhra Gourisaria: Yes. The scale is not at peak capacity.

Arjun Khanna: Sure. The second is in terms of the MPP that's come through, in terms of the products, we're going to fill it in, do we have a sense of roadmap, when we could reach peak sales and which products we're going to fill in?

Sanjiv Lal: Yes, so this year, we've already commencing with Difenoconazole, for which trial production is currently going on. And all going well, we will be doing one contract manufacturing molecule towards the end of Q3 in the same plant. Again, there's another intermediate that we are going to do in that plant. So, that may also happen towards Q3. So, Q2 will largely be Difenoconazole in the multipurpose plant.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Sir, a couple of questions. One is on this sharp fall in prices and especially our supplies, which are coming immediately from China, where we have seen a sharp price reduction. Are we seeing that definitely when the high cost inventory is over, we see that the benefit of low availability, this low cost from Chinese material will help us in margin expansion? Or do you see that, everything will be passed on in the current competitive environment and no opportunity for the margin gain?

Sanjiv Lal: The prices have been coming down quite sharply and practically there's been new pricing which is being offered on a day to day basis. So, the issue is that, even the customer is seeing this declining price trend and for our products also, they are demanding lower pricing. So, in a declining market, it becomes very difficult to sort of get any kind of upside if that's what you are alluding to, Rohan. And our view is that in this kind of uncertain market, it may be better to take shorter procurement calls rather than taking a position and then you find that the price has fallen even further.

Rohan Gupta: Sir, my question was more basically, we at least procure close to 45% to 50% of our raw material requirement from the China market. So, which is pretty high compared to other players. So, when the Chinese prices have corrected so much, so I was just expecting that are we in a position to gain some benefit in terms of the low pricing environment because we are still dependent on China market?

Also, another question is that we have a backward integrated in an intermediates of Pendimethalin and Metribuzin. In a current environment, do we see that the Chinese raw material availability is much attractive price than manufacturing by ourselves or in terms of if we have to keep any of our plant, we may lose in terms of the pricing advantage, which otherwise would have been offered from China?

Sanjiv Lal: This is again that question of make versus buy. So, if there's a better pricing that we are getting from imports, we will certainly look at that. And wherever we have got commitments because you developed a domestic manufacturer, we will stick to our commitment only that is very clear. There could be some low pricing that may be happening out of China, but we have certain tie-ups and commitments with some of our partners. We are also discussing with them about the correct level of pricing for the intermediates that we have shifted from import to domestic.

Subhra Gourisaria: And on to your first question, I think, the prices will ultimately reach to a level of equilibrium. So, I don't think that anybody having an index to a major source will help over a period of time. It will be market-determined pricing.

Moderator: Thank you. Our next question is on the line of Ankur Periwal from Axis Capital.

Ankur Periwal: Sir my first question, on the overall revenue growth both in the domestic as well as international market, given the on-ground scenario in terms of elevated inventory, what are our thoughts both on domestic and international considering that there are certain product launches that you have done already and probably are planning going ahead also?

Sanjiv Lal: Ankur, if I have understood your question, it is on revenue growth?

Ankur Periwal: More focusing on the volume part here

Sanjiv Lal: Yes, okay. So, in terms of revenue growth, pricing growth I think is unlikely to happen in the near term because currently where the prices are. The main thing is volume recovery, so that is going to be a key driver for overall growth. And for the international market, we are a little cautious because the inventories are on the higher side, which is really putting a huge amount of pressure on all pricing.

As far as domestic is concerned, we expect that as the season is progressing, the consumption of these chemicals/products will start happening, which will help in bringing back the volume growth. So we are really pushing for volume growth with new product being introduced as well.

Ankur Periwal: Sure, and the contribution from the new products, especially in the domestic market, will still be hovering around 10%, 12% or it will be improving?

Sanjiv Lal: We have been tracking what we call as the Innovation Turnover Index. Last year it was at around 13%. And I had mentioned in earlier calls that if we are able to get to about ITI of about 15%, we will be in a good position. So we are still very much focused on getting our new products to be scaled up. And in that context, not only in the crop protection business, we have launched some new products this season in the crop nutrition and seeds category as well . So we are looking at across our portfolio to be able to bring in new products for driving the Innovation Turnover Index.

Moderator: Our next question is from the line of Chintan Modi from Haitong Securities India Private Limited.

Chintan Modi: Sir, the de-growth that we have seen in the international market, do you think this is more or less in line with the market trends or do you think that Chinese companies have got very aggressive and gaining market share there?

Sanjiv Lal: I don't have a very clear answer. I guess that will emerge as the time progresses, exactly who is winning and who is losing. But you know, I am sure you also come across these various news reports of very serious inventory and pricing, even with the multinationals which is likely to impact their overall revenues and growth during the current calendar year.

Chintan Modi: Sure. And second is with respect to the MPP, when should we expect this to be like full utilisation levels?

Sanjiv Lal: So this year, we are out looking, maybe we will get to about 60% capacity utilisation and next year, it should be much better. So this is the first year that we are going to be using it. So we have to bring in the new products and I had mentioned that one we have already started and one more intermediate and one more molecule we will be producing towards Q3.

Moderator: Our next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: Just one question. Sir, can you give us some general sense of the situation in China and when do you see this entire inventory problem subsiding? Any thoughts on this situation?

Sanjiv Lal: Well, I can only sort of go with what I have heard and also some of the inputs that we have received following the CSE, which was I think very well attended by many global companies. So the sense is that the Chinese industry is also trying to get back to a growth path, which I think is perhaps putting a lot of pressure on availability out of China. But with the inventories being where they are globally, that is pushing prices downwards.

So I guess there will be some amount of stability, which will come once the inventory of many of these input materials in China also starts building up because unless there is consumption of these intermediates, they will also have to curtail their production. If they all continue to produce the way they are, then there is going to be a serious issue on even inventory of some of these materials in China.

So our sense is that there could be some price stability that may start emerging in the next month or two. We have already seen it in some of the products which seem to have now touched the bottom because some of the offers that are coming are at a slightly elevated price. So there seems to be some stability that is now coming, at least for some of the intermediates.

Archit Joshi: Sure, sir. Actually, there were a few companies, obviously global companies, some of them saying that the inventory situation can alleviate a bit probably in the first half of this calendar year. And there are some companies who are calling out for a complete washout for this entire calendar year or probably financial year. So I know that this will go, it will be product specific and it might differ from one product to another. For our company specifically, whatever we are exporting in the international market, for that, do you see, as you mentioned earlier, would that in some situations like Acephate maybe, the bottom has already reached, would that be like a safer assumption going forward and that there may not be any more deterioration in terms of prices?

Sanjiv Lal: As far as the season in Brazil is concerned, it is going to be picking up now in Q2. So if that season goes well, then there could be a huge demand coming back. And as far as our portfolio is concerned, I would say that we need to be a little watchful largely for Acephate, the others, I think, we will be able to manage. So Acephate, the price erosion has been fairly sharp and we are a little cautious on that particular product. But others, I think we should be able to navigate.

Moderator: Our next question is from the line of Abhishek Jain from Arihant Capital Markets Limited.

Abhishek Jain: Couple of question sir, firstly what will be the incremental revenue come from the capex completed in Dahej, if you can throw some light on the same?

Second question, apart from Dahej capex, what is the additional capex timeline for next two years, if you can give a little more of an accounting?

Sanjiv Lal: The revenue from our new MPP, there is nothing in Q1 from the new product because we have started the trial production in the month of June. So there is no revenue, but it will start accruing from Q2 onwards. And as far as capital is concerned, we expect to be incurring a capex of about Rs.150-odd crore during FY24. We will be spending some part of that on our new R&D facility as well, and also for perhaps some de-bottlenecking that we would like to do for one or two of our products where we see some good opportunity.

Abhishek Jain: Sir, going forward, any numbers like what kind of revenue, like asset turnover, you will be looking out once that is completed in the next three years?

Sanjiv Lal: So, typically as we mentioned in the earlier calls also, we look at our investment decisions slightly on the longer term using the internal rate of return for the investments that we make. So the asset turns and all, we have to see in a slightly longer period of time. Subhra, unless you would like to add something?

Subhra Gourisaria: This is a multi-purpose plant and it's for seeding new opportunities. So it will take some time as we try to reach the full capacity utilization. So I think, it will be early for us to talk about asset turns on this plant now.

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

S Ramesh: So in terms of the gross margin expansion in the first quarter, can you explain how you have been able to achieve that? Because of the decline in the international business, where you may possibly be enjoying lower margins. What is the reason for this?

Subhra Gourisaria: So one factor, as you said, is of course the mix, which is domestic versus international. But more importantly, it is within the products that we sold within the international business and the domestic business. So that has helped in terms of margin expansion. Plus, we have been able to sell off our high price inventory. We do have a small proportion even now, but not a significant one that has helped in terms of not coming under pricing pressure in terms of being on a very low margin. We have indeed taken some pricing calls at a low margin, but at a portfolio level, we have been able to be at a similar margin level or slightly better.

S Ramesh: As a follow-up, are we in a position to sustain this gross margin reported in the first quarter for the rest of the year, adjusted for seasonality of course? And on this base for next year, will you be able to maintain this sort of margin assuming prices are stable, so that if there is a volume growth, you can show earnings from a broader trajectory perspective?

Subhra Gourisaria: See, you yourself have said that there are multiple factors which are going to depend on margin. Plus, more importantly, you should remember that Q1 is a seeds business where the margins are relatively better. So if the domestic business does well, which makes better gross margin for us, the margin should continue to improve. But it's too early or too premature to say, because it's dependent on various factors.

S Ramesh: Just one last thought. So if you're looking at the MPP and the new product, incrementally, our understanding is a long-term decision, but incrementally, do we see growth coming more from volume growth or would you also be able to improve your margin profile?

Sanjiv Lal: I think, in the near term, it will be more of the volume growth, because the price volatility is such, I don't think we can get huge revenue growth coming from pricing, at least in the near term.

Moderator: Our next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar: I wanted to understand how the current demand trends, especially the fact that we are facing excess rainfall in certain regions and very deficient rainfall in the southern central. If you could just help us understand all this?

Sanjiv Lal: We just have to wait for some time because the consumption really needs to start now. Q1 largely is placement for crop protection and it is the main season for our seeds business, which we have already said has gone off well in our context. So the agrochemical consumption will just about now be getting started.

Vishnu Kumar: So are there any early trends that you're picking up, sir, because at least in the southern markets, the rainfall deficiency seems to be much higher.

Sanjiv Lal: That is true. So actually, if you see the offtake by trade, I think that is now picking up slightly because in anticipation of good planting, which is happening, the trade is also picking up material now. So we expect things to become clear in about a week, 10 days time.

Vishnu Kumar: Got it, sir. And also, sir, you mentioned that the price, I mean, the price erosion is continuing. Is it more or less passed through at the retail level or you still expect that the retail pricing can come down a little bit further to accommodate for the price reduction that is happening currently?

Sanjiv Lal: So in terms of our inventory in the market, I think we are okay. There will be no further reduction that we will see because we sort of, as I mentioned, done very, very measured placement in the market with the pricing that we believe is right.

Moderator: Our next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Just a couple of questions on the technical business. This is more to do with trying to get a sense on Acephate and Pendimethalin where you guys are big players. So on the market, the global market, right, is the pricing impact on account of incumbent manufacturers liquidating the stock that was already lying in their factories, maybe because of COVID, they were not able to supply? Or is it because of some sort of aggression on their part wanting to garner higher market share irrespective of whatever price it comes at? That's one.

Number two, I mean, given your scale in manufacturing these technicals, right, you all are fairly well aware of the cost structures and the current pricing and how they both interact. So at current prices of Acephate, Pendimethalin, do you think these are sustainable prices for any player?

Sanjiv Lal: In terms of Pendimethalin, I think, the pricing has been a little more stable. So we don't see any major issue there. But yes, in terms of Acephate, we have seen a very, very sharp reduction in pricing. Just to give you a sense of some numbers, the DMPAT is one of the key starting materials for Acephate, the price has come down by over 40% since its peak last year, which has led to the price of the product itself declining very, very sharply. So I would say that the price for Acephate is largely being driven off the price of the starting material, which is forcing the product to be sold at much lower pricing.

Tarang Agrawal: Okay. And do you see this? I mean, whatever action that we are seeing, whether it's on the technical or the intermediate, that action is on account of the manufacturer trying to liquidate the stock that was already lying? Or is it on account of some aggression of them wanting to come back on the horse and really gain market share irrespective of whatever price they gain market share at?

Sanjiv Lal: No, I think, there is some additional capacity which has come up and perhaps the newer players are trying to establish themselves with some of these intermediates, which is also adding to the lower pricing.

Moderator: Our next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Thank you for the follow-up. Just one question. For the domestic crop protection business, could you, is it possible to share the percentage of revenues from the top five products? And second, just on the new products, Chlorantraniliprole the two formulations that we are launching. If you could, you know, just help us understand your outlook for that market, I believe it's very large, but there's probably a lot of generic competition that's creeping in now. So what sort of market share would you potentially aspire to get in that? Thank you so much.

Sanjiv Lal: Well, you're absolutely right, that this Chlorantraniliprole is a fairly large market as far as India is concerned and more recently, we've seen a number of products getting launched in this category. So we are also going to be participating in this particular segment with this particular product.

And initially, we will have, a product introduction and we will maybe take a year to scale it up. As you rightly pointed out, that many competitors have now come up with similar products.

Subhra Gourisaria: I don't think at the quarter level we can look at the revenues for top products. But it's not that any of our products, it's not over-indexed on any specific product. So we have top 10, 12 products which contribute some 40% for the revenue. So it's a fairly diversified portfolio.

Moderator: Our next question is from the line of Gagan Thareja from ASK Investment Managers.

Gagan Thareja: Sir, last year you took significant write-offs and provisions on seeds. I think there was something in the first quarter of last year as well. Would a reduction there or elimination altogether of that have had a favorable impact on the seeds business for the quarter and for the full year this year?

Subhra Gourisaria: Firstly, we didn't take any material write-offs in Q1. It was all in Q4, you would have seen the numbers. We have not had any reversal of that in Q1. So nothing of one-off which has helped the process. No write-back.

Gagan Thareja: But for the full year?

Subhra Gourisaria: A bit early to say whether there will be a write-back or a further write-off, it will all depend on how Kharif goes.

Moderator: Our next question is from the line of Dheeresh Pathak from White Oak Capital.

Dheeresh Pathak: So for the export markets, where the industry in general and we are also experiencing higher inventory in the channel. So if you can give some better quantification, let's say for Acephate in Brazil, which we have a larger market. If the baseline inventory in the channel for Acephate in the Brazilian market is let's say 100, where is the industry in aggregate at? Is it at 200? Is it at 150? Something like that would help me get a better sense of the magnitude and the severity of the channel. Because everybody is saying there is too much channel inventory. But there is not enough understanding at least from my side. What is the extent of the problem?

Sanjiv Lal: I think, Dheeresh, that issue is certainly there. This is all qualitative information. This quantitative information is not available.

Dheeresh Pathak: Sir, that's why I am picking a particular product and particular market. Because that you would know, right? Because you are so, Acephate in the Indian market is an important product for you. From your sales team, you would have some sense of what kind of channel inventory is there, right?

Sanjiv Lal: As far as Acepthate is concerned, the issue is not that we will not be able to sell the entire production volume during the year. The issue for us is largely the pricing which is being forced downwards.

Moderator: Thank you. Due to time constraint, that was the last question of the question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Sanjiv Lal: Thank you, Zico. As you would appreciate, we are facing significant challenges in the near term due to sharp price reduction and global demand reduction due to inventory overhang. We discussed quite a bit about that during the call today. We will continue to monitor the volume-led growth across our portfolio.rice-led revenue growth,that is certainly going to be a challenge. However, focus will be on improving realizations through better product mix and dynamic pricing actions. Our diverse portfolio with presence across domestic and international markets, crop nutrition and seeds business does offer the business enough stability to navigate through these challenging times.

Absolute EBITDA and cash flow will also continue to be a key priority across our teams. We will further focus on improving collections across geographies in Q2. Investments over the last couple of years in R&D, product development, manufacturing will certainly enable us to drive our growth agenda in a sustainable way.

With that, thank you all for joining and we will connect again three months from now with our Q2 outcomes. Thank you very much.