

8th August, 2023

Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G. Block,
Bandra- Kurla Complex,
Bandra East, Mumbai-400 051

Corporate Relationship Department
BSE Ltd.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001

Symbol- DHANUKA

Scrip Code : 507717

Sub: Transcript of Conference Call held on 2nd August, 2023 with Analysts/ Investors to discuss Un-Audited Standalone & Consolidated Financial Results of the Company for the Quarter Ended on 30th June, 2023.

Dear Sir,

In pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015, Please find enclosed the Transcript of Conference Call held on 2nd August, 2023, which was hosted by Antique Stock Broking Limited through virtual mode with Analysts/ Investors to discuss Un-Audited Standalone & Consolidated Financial Results of the Company for the Quarter Ended on 30th June, 2023.

Please take above information in your record.

Thanking You,

Yours faithfully,

For Dhanuka Agritech Limited

jitin

sadana

Jitin Sadana

Company Secretary and Compliance Officer

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by jitin sadana
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“Dhanuka Agritech Limited
Q1 FY’24 Earnings Conference Call”

August 02, 2023



MANAGEMENT: **MR. M.K. DHANUKA – VICE CHAIRMAN AND
MANAGING DIRECTOR – DHANUKA AGRITECH
LIMITED**
**MR. RAHUL DHANUKA – JOINT MANAGING DIRECTOR
– DHANUKA AGRITECH LIMITED**
**MR. HARSH DHANUKA – EXECUTIVE DIRECTOR,
ALLIANCES AND SUPPLY CHAIN – DHANUKA
AGRITECH LIMITED**
**MR. V.K. BANSAL – CHIEF FINANCIAL OFFICER –
DHANUKA AGRITECH LIMITED**

MODERATOR: **MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING
LIMITED**



Moderator:

Ladies and gentlemen, good day, and welcome to Dhanuka Agritech Limited Q1 FY '24 Earnings Conference Call, hosted by Antique Stock Broking Limited.

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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Mahawar from Antique Broking. Thank you, and over to you, sir.

Manish Mahawar:

Thank you, Seema. Warm welcome to all the participants on the 1Q FY '24 Earnings Call of Dhanuka Agritech. From the management, we have Mr. M.K. Dhanuka, Vice Chairman and Managing Director, Mr. Rahul Dhanuka, Joint Managing Director, Mr. Harsh Dhanuka, Executive Director, Alliances and Supply Chain, and Mr. VK Bansal, CFO on the call. Without further ado, I would like to hand over the call to Mr. MK Dhanuka for opening remarks, post which we will open the floor for Q&A.

Thank you, and over to Mr. M.K. Dhanuka.

Mahendra Dhanuka:

Thank you, Mr. Manish. Good afternoon, ladies, and gentlemen. Myself M.K. Dhanuka, Vice Chairman and Managing Director of Dhanuka Agritech Limited. I hope all of you are doing well. Thank you for joining us in the conference call for results of Q1 FY '23-'24 I have with me Mr. Rahul Dhanuka, Joint Managing Director, Mr. Harsh Dhanuka, Executive Director, and Mr. VK Bansal, CFO of the company.

Dhanuka Agritech is a leading agrochemical company in India, focusing on branded sales in the market. The company's strength lies in manufacturing and marketing of formulated products. The product portfolio is spread across insecticides, herbicides, fungicides, and plant growth promoters. Dhanuka Agritech is working with the vision of transforming India through agriculture. Our belief is that means when we transform the lives of farmers by enhancing their productivity and quality and in turn, enhancing their income, we are making a small contribution in transforming India.

We work in all major crops in India and have implemented the best-in-class technology to ensure a smooth and efficient supply chain. Dhanuka has a pan-India presence through its marketing team and warehouses in all major states across India. With three manufacturing units and 41 warehouses across India, we cater to around 6,500 distributors and dealers and around 80,000 retailers. Through this extensive network, Dhanuka reaches out to approximately 10 million Indian farmers with its products and services. Dhanuka has more than 1,000 techno-commercial staff, supported by a strong sales and marketing team to promote and develop new products.

Dhanuka's strong R&D division has world-class NABL aggregated laboratory as well as an excellent team for new product registration and development. Dhanuka has international collaboration with 10 leading global agrochemical companies from the US, Japan, and Europe, which help us to introduce the latest technology in India.



Recently, we have established a modern R&D facility with the research farm in Haryana for faster development and commercialization of new products. Delay in the arrival of the monsoon led to rain deficit up to mid-June and affected the performance of all agrochemical companies, including Dhanuka.

However, the good news is that good rain since the last week of June have supported in catching up the demand of agrochemical over last five weeks, especially in case of herbicides. The degrowth of first quarter has been converted into positive growth in July month. The sowing of rice, cotton and oilseed has also gained momentum after a slow start. Planting is still lagging behind in pulses, which are down by about 10% in acreages.

Now moving on to financial performance for the last quarter. Our revenue from operations stood at INR369.07 crores in Q1 of FY '23-'24 versus INR392.73 crores in Q1 of FY '22-'23. EBITDA stood at INR43.61 crores in Q1 of FY '23-'24 versus INR68.33 crores in Q1 of FY '22-'23. Profit after tax stood at INR32.94 crores in Q1 of FY '23-'24 versus INR49.11 crores in Q1 of FY '22-'23. Last year, Dhanuka has INR12 crores other income from sale of real estate due to which the PAT was higher than last year in comparison to the current financial year or first quarter.

The zone wise percentage share of turnover for Q1 FY '22-'23 is North India, 30%; East India, 9%; West India, highest 41% and South India, 20%. Product PAT figure-wise share of turnover for Q1 of FY '23-'24, Insecticides 27%, fungicide 10%, Herbicides highest 54%, more than half sales is coming only from herbicides because initially, the consumption is of herbicides and others 9%.

The shareholders of the company in the 38th Annual General Meeting held today at 11:00 a.m., declared the final dividend of 100%, that is INR2 per equity share, having face value of INR2 per share. The company has already rewarded equity shareholders with buyback of 10 lakh equity shares at a rate of INR850 per equity share, absorbing INR85 crores plus income tax.

Dhanuka have introduced new molecules, Implode a maize herbicide, Mesotrax, a herbicide for maize and sugarcane defend insecticide for paddy VPS and six biological projects. It is expected that these new productions will add good volumes in the top line of the company.

Next, I would like to share the progress on our technical plan at Dahej. While final production is delayed by one month and now expected in third week of August, I'm excited to share that we have entered the final phase of trials with commencement of 16 trials as a unit. This was only possible with our continuous effort of the team to obtain all necessary government approvals, leading to successful initiation of boiler operations last week.

As shared earlier, we will start our production with bio-cyhalothrin technical and will soon add Lambdacyhalothrin technical as well. We are expecting a combined production of around 350 metric tons in the current financial year with annual production capacity at around 600 metric tons. The new plant will support Dhanuka in our long-term business objectives and revenue growth because there is huge potential for export from India, you must be aware that India has become now the second largest country in agrochemical exports leaving USA behind. After



China, India exported \$5.5 billion, Agrochemicals this year, while the US exports were \$5.4 billion. So that's why India has become the second largest exporter of agrochemicals.

We consider ourselves responsible towards sectoring the farmers welfare and preserving food security of the nation. We continue to strengthen our association with the farmer producer organization, Krishi Vigyan Kendra, and other critical institutions to increase our business expertise and boost our market presence.

Thank you very much for your kind attention. We would now like to open the forum to take the questions. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Preet Malde from Centra Insights. Please go ahead.

Preet Malde: I just wanted to know our inventory levels for this quarter.

Vinod Kumar Bansal: Inventory level is around INR395 crores.

Preet Malde: INR395 crores, okay. And what is our net working capital days right now?

Vinod Kumar Bansal: Net working capital is generated by four days as compared to the first quarter of the previous year. Excluding current investment is 152 days.

Preet Malde: Sorry?

Vinod Kumar Bansal: 152 days.

Preet Malde: Okay. And have you seen sales returns in this quarter?

Mahendra Dhanuka: Sales return is general phenomena in the industry. And when the reduction in the prices trend continues, the distributors are having inventory of higher age and they have the tendency to return the products which they have purchased at high rates and then we buy back the product at the current market rates, which are lower. So that's why the it's a normal phenomenon and all the basically companies are taking back the goods from the dealers and distributors. In this quarter also, the goods return has increased because of the trend of reducing prices. We hope that the same should be normalized in the second quarter because now the trend is either increase in the prices or the prices are stagnant reduction has basically stopped now.

Preet Malde: Okay. So you're saying that the sales return for this quarter has increased. Can you quantify can you give me a number?

Vinod Kumar Bansal: Yes, you see sales return increased substantially as against around INR14 crores is by around INR24 crores.

Moderator: We take the next question from the line of Mr. Tarang Agarwal from Old Bridge Capital. Please go ahead.



Tarang Agarwal:

So just wanted to get your sense on the outlook as you see it today for the rest of the year, particularly for Q2? And just wanted to hear your perspective in terms of how did this quarter that just went by, how did it pan out for you? Because from what we understand is that there was significant inventory lying in the channel. And in that context, you guys have done relatively far superior. So just wanted to get your thoughts on this.

Rahul Dhanuka:

Thank you so much for the compliment that you have done far superior with minus 6% like we really don't feel so superiority is obviously subjective. Now the outlook till June was actually not very positive, at least in mid-June was not positive. And IMD forecast and the global forecast around El-nino was actually panning out the way it was. However, July gave us a turnaround and July has been really good in terms of both volume and value. So volume has certainly shown a turnaround in July. Value is also, like MD sir said, is now stabilizing.

The outlook for August is looking really bright. And the groundwater is recharged, commodity prices are good. Channel inventory has eased out in the month of July. Prices have either stabilized or showing an upward trend. Supplies are stiffening. All these are positive signs for August to be performing really good. And going forward, with the groundwater and commodity prices being in tow, I think, so we are looking at a great Q2, and that should prevail for the rest of the year.

Tarang Agarwal:

Sure. And from what I could gauge is you're not expecting any significant returns right? Or whatever had to come in must have already been captured in the reported results, correct?

Rahul Dhanuka:

That's right.

Moderator:

We take the next question from the line of Mr. Viraj from SiMPL. Please go ahead.

Viraj:

A couple of questions. First is, if you could just give some perspective for the inventory for us in the channel? And how does it compare for the industry? If you want to compare to a normal environment?

Rahul Dhanuka:

Right. So inventory in the channel in the year beginning was high, and the channel was very of taking any more inventory in Q1. That's how I believe Q1 results would have gone down for the rest of the industry. Also for us, it was negative 6%. However, July gave a real big bump to liquidation and consumption at the farmer end. So the inventory at the end of Q1 would have been reasonably there. However, by end of July, the inventory levels have come down significantly.

Viraj:

But you said significantly, will it be compared to what a normal environment would be, say, at the end of March, typically much...

Rahul Dhanuka:

Normal environment because Q1, the uptake from the channel was pretty low.

Viraj:

Okay. Because the reason I'm asking is that it's not just a Q4 but even before that, there was already a buildup considerable buildup in the channel and the consumption at the farmer level user way was very low in Kharif last year and the Rabi because the infrastructure itself was not that high. So hence, I was just trying to understand where are we when compared to a normal?



Second question was largely on the gross margin. So I understand there is some return back increase of INR10 crores. But if I have to just understand our gross margin. So if I were to compare versus what we used to do earlier, the margins are still at the lower end. So other than this high-cost inventory impact, is there any other factor which is driving this?

Vinod Kumar Bansal: You see, large sectors was the goods returns and the high-value inventory was liquidated in the Q1. And some impact was because of product mix. But however, as we shared earlier in the our May months call, we are very much hopeful given this year, our gross margin should see a good improvement. So from July, the things have changed, and we are sure that in Q2, you will see a good improvement in our gross margins.

Viraj: So if I would just on the portfolio mix part, earlier many years back, our share of portfolio -- specialty portfolio used to be two-third after this mix. If I look at 23% or even, say, for Q1, what would that be like?

Vinod Kumar Bansal: It is almost similar for you see within the same portfolio. There is shipped product some products and good margins, some are less. And because of the inventory prices at one particular year, the margin is less and more within the same category, there is a change in the -- basically in the product most basically -- the higher margin product volume is not great in quarter 1 of this year as compared to the previous year.

Viraj: Sir, but if you -- just a last follow-up on this. So if you look at our ITI index close to 20, it's the highest green for last many years. And typically, the new generation products, they give you the best contribution margins. So despite that, the gross margin is at the lower end. Hence, I was just trying to understand is some erosion in base business-based molecule, is that quite significant? Or just trying to understand the reasons behind it.

Vinod Kumar Bansal: Because of that, we are able to maintain the gross margin as compared to the previous year. Otherwise, there could be a case or a little hit in the gross margins. That ITR having good product margin and that category has really helped us.

Moderator: We take the next question from the line of Mr. Siddharth Gadekar from Equirus. Please go ahead.

Siddharth Gadekar: Sir, just one clarification on -- in terms of this quarter, how would you relate the performance to the farmers' income and how do we see that shaping up going ahead, given that we have seen a significant drop in input prices also now in the domestic market. Secondly, in terms of the realization decline, do we expect any significant decline even in the second quarter?

Rahul Dhanuka: Actually, your both the questions are not clear to me. Could you repeat the first one in reference to farmer income?

Siddharth Gadekar: The performance in this quarter at mainly related to the weather-related issues and high channel inventory or was it more to do with the farmer income plan? Secondly, in the second quarter, we will see even further rise declines? Or how should we look at the realizations going ahead?

Rahul Dhanuka: Okay. So let me take the second one first. So price decline is appearing to be stabilizing now. So price decline appears to getting arrested. Maybe a few products are showing an uptick also.



So that's about price decline expectations in Q2. Now talking about farmer income. So we saw tomato prices rocking the parliament and various other assemblies all over the country. Various other commodity prices have also been on a high government had to come in and ban the export of all non-basmati rice, which is again an indicator of how the food availability and commodity prices in general would -- commodity availability in general would be behaving.

Now farm income is dependent upon various factors. One is, of course, the input cost. Another is the commodity prices and commodity availability. So in general, commodities are expected to be on a positive side. And agriculture agrochemical as a cost of input is a significantly lower percentage. That is not going to impact the farm income significantly. At Dhanuka, our specialized products actually help the farmers save on labour cost save on upgrade their productivity and also upgrade the quality of their produce. So that way our products are not about the cost centricity. They are about the value centricity for the farmer. And at Dhanuka, we are committed to increase the value for the farmer significantly.

Moderator: We take the next question from the line of Mr. Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, first question is on our new project for synthetic pyrethroids. We have mentioned that it's going to start commercial production from August and about 350 metric tons of order for production is what we are looking for this year. Based on the current pricing environment, what will it translate to in terms of revenues. And when we are saying that our growth guidance for this year is about 10%, does it include the income from the exports as well this project as well?

Harsh Dhanuka: The revenue objective from this production from the synthetic pyrethroids plant is about INR50 crores for this year. And when we talk about the annual forecast, it does not include the revenue from the Dahej.

Rohit Nagraj: Second question is in terms of Q1 performance, what was the volume growth and value probably decrease on a Y-o-Y basis?

Vinod Kumar Bansal: Yes. The volume growth, it was around negative 3.5%. So the difference between volume and value is around 2.5%.

Rohit Nagraj: Okay. So the value was down by about 2.5% and volume was about 3.5%.

Harsh Dhanuka: Yes. Right.

Rohit Nagraj: And just one last clarification. During last quarter, in Q4, we had mentioned that we had done some placements probably slightly prior to the period. So was there any impact because of those placements instead of coming in Q1 were shifted to Q4 of last quarter?

Vinod Kumar Bansal: I think there is no such impact.

Moderator: We take the next question from the line of Mr. S. Ramesh from Nirmal Bang Equities. Please go ahead.



- S. Ramesh:** So we would like to understand in terms of the inventory impact, what would be the inventory loss you would have taken in first quarter?
- Vinod Kumar Bansal:** You see -- I think that could be in the range of around 1% sort of 1.5% approximately.
- S. Ramesh:** Okay. So 1.5% of the decline is from there Okay. So if you're looking at the second quarter, in terms of the placements with channel and the actual consumption from farmers, what is the trend you saw in the first quarter? How do you see the actual consumption when farmers increasing in the second quarter? Can you give us some color on that? Because there's a lot of concern about the placement not happening because of the reluctance of farmers to buy. So are we behind -- is that phase behind us? And do we see the consumption by farmers incurring the trade to lift material? And how do we see that in terms of the placement as well as the consumption?
- Rahul Dhanuka:** So Q1, we witnessed a lower consumption from the farmer, and that's why a lower uptake by the channel also. However, in Q2, beginning in July, the good range, there has been huge uptake from the farmer across the country and across all the crops and across all the geographies. So the consumption level has really gone up in the month of July. We hope to see this trend continue for almost entire Q2 with good rainfalls and good groundwater, good reservoir waters.
- The agriculture is going to be on a rebound in Q2 as compared to Q1. We have also witnessed this in terms of the sowing data all over India. Sowing data was lagging far behind by the end of Q1. There is in the month of July, we have seen sowing not only catching up but actually exceeding. So all those are positive indicators for agri input consumption.
- S. Ramesh:** So in terms of your gross margins and financial performance based on this improvement in consumption, how do you see that compared to first quarter, will there be an improvement in margins? Obviously, the top line will grow, but is there any expectations in margins in second quarter because of the large effect of the ability to pass on prices would cost? Or will the margins improve?
- Vinod Kumar Bansal:** Yes, definitely, we are absolutely hopeful in Q2 margins will improve.
- S. Ramesh:** Okay. Sir, broader question in terms of the concern about China dumping material and the overall supply chain for the industry, both in India and overseas. So are we at the bottom in terms of price correction? And have you seen the worst in terms of the inventory and supply unloading from China? Or will that continue for some time?
- Rahul Dhanuka:** Well, it seems that we touched a bottom in many products we're concerned about price correction. Yet I don't know this dumping of finished product from China is practically not possible because that is a significantly regulated industry and central insecticide Board and the registration process really controls who is able to bring that, which also adds as an economic barrier for any dumping in the country. So having said that, there could be a scope of price correction for a few more products, but mostly, we are seeing price stabilization and some products are even demonstrating some price increase. Some products are getting challenged on the availability side. So all those indicators are positive and favourable when it comes to the price and probably the gross margin going up.



- S. Ramesh:** One last related question. So in terms of supply chain for intermediates and AIs, you are well placed in terms of availability and the Chinese situation is not going to impact the supply of materials for the growth of the industry.
- Rahul Dhanuka:** Yes, I think so India is well placed on that front.
- Moderator:** We take the next question from the line of Richa Agarwal from Equi Master. Please go ahead.
- Richa Agarwal:** My question is regarding Dahej plant. You -- I think you said INR50 crores kind of revenue we expect this year. Just wanted to know, will it contribute to margins positively this year? And do you expect utilization by next year? And if yes, then what kind of revenue potential do we expect an and margin for utilization?
- Harsh Dhanuka:** Yes. So if you look at the gross margins from the Dahej technical plant in this year, we'll expect some contribution at the gross profit level. And if we talk about the next year, we can see anywhere we are expecting the plant to be at 80% capacity in next year. And that would lead us in the revenue around INR80 crores to INR100 crores from the existing plant.
- Richa Agarwal:** Okay. And so let's say it takes two more years to come to -- I mean, is it a fair assumption for us to let's say it two more years? What kind of margins do you expect from this? I know some part is the captive consumption, but whatever incremental revenues like we get, any guidance or idea on that?
- Harsh Dhanuka:** See, over two years, we are looking at some further capex on the plant for establishing more production capacity. And it will depend on the market forces at the time. As currently, the market forces are completely unfavourable. But over the next two years, as the prices are now already stabilizing, and we expect the prices to improve over the next two years the margin profile been improved.
- Richa Agarwal:** And sir, every quarter, your mix between Herbicide and fungicide etc, keeps changing. I just wanted to understand that is there any particular category that has high margins that you would like to contribute more. If you could just give us an ascending order of margin profile of the mix that you have?
- Rahul Dhanuka:** India is predominantly an insecticide market. And in terms of the generics offerings from Dhanuka and from the industry is significantly higher on the insecticide front. However, Dhanuka has been able to create a niche over the last few years with our various Japanese collaboration, and we have introduced many specialty herbicides and its variants. For example, Targa Super, Sakura, Chempa, terminal, Dozo Maxx and so on. Then we introduced Sempra.
- Last year, we had introduced Cornex -- we have introduced Tysom this year, which is another herbicide for sugarcane. So our entire portfolio on the front of herbicides have become extremely strong, specialized targeting specific crops and specific problems which gives us a very different leverage in the market vis-a-vis competition. In general, I don't think so. We can categorize margins based on insecticide, fungicide, or herbicide as categories. These margins are dependent more about individual products and the competition there in rather in the category itself.



- Richa Agarwal:** Okay. And sir, there is a significant increase in ITI index. So do you expect to maintain it at these levels, like it's up from around 13% to 19%. And assuming that you didn't have the challenges related to inventory. What kind of margin expansion do you expect because of this? If this can be sustained?
- Harsh Dhanuka:** So ITI index is an outcome of years of effort in terms of trying getting original registrations and good products, sustainable products from our principal companies from Japan -- so it is this outcome, which is playing out favourably in the interest of the farmer and for the organization also. We really hope that our efforts will be playing colourfully with our new products coming in back-to-back and commercializing faster, which will also give a boost to the margins overall.
- Moderator:** We take the next question from the line of Darshita from Antique stock Broking. Please go ahead.
- Darshita:** I just have one question regarding the export business, what kind of revenue that we see in the first quarter from export, if any? And what kind of contribution are we seeing for the full year business?
- Harsh Dhanuka:** So in fourth quarter, I think you asked first, the fourth quarter, the contribution was best in first quarter, there has been demand challenges in the international market for our products. For the entire financial year '23- '24, we are expecting revenue of about INR30 crores, but that is already included in the revenue guidance given earlier.
- Darshita:** All right. And this will largely be a formulation portfolio that we have, or would it also consider the bifenthrin and Lambda that you plan on manufacturing?
- Harsh Dhanuka:** So this is part of the formulated products bifenthrin and Lambda technical, like for opportunities over and above that.
- Darshita:** So are we expecting any of that in FY '24? Or it would largely it would be in FY '23?
- Harsh Dhanuka:** No, of course, we are expecting good revenue from exports from the technical plant side.
- Darshita:** So I mean are we looking at Nepal, Bangladesh these regions? so are we looking at any other -- and have we received registrations from any other regions for bio cyhalothrin, firstly? And secondly, do we have any discussions going on with any of the counterparts and for selling bio bifenthrin in India?
- Harsh Dhanuka:** So as of now, I cannot share any specific geographies, but we are looking beyond the neighbouring countries, and we are looking at opportunities in different countries across the world.
- Moderator:** The next question is from the line of Mr. Himanshu Binani from Prabhudas Lilladher. Please go ahead.
- Himanshu Binani:** So my question was largely on the commentary which you made in terms of a better growth which you witnessed during the month of July. So just wanted to have a sense in terms of which, June has been like contributing to this sort of like growth because the question behind asking



the and the reason basically behind asking this is when I actually look into the last five years, second quarter performance, so it is the West India, which has like contributed to a high chunk of the overall revenues.

And what we have been like seeing in the recent past is that the West India has been like going through some sort of like adverse climate condition in terms of like heavy rains, etc. So how should actually one look into the second quarter and the performance, particularly from the Western India during the second quarter?

Rahul Dhanuka:

Actually, good rainfall is mostly appreciated in agriculture because it contributes to the upgradation of groundwater, it upgrades the irrigation system. It upgrades the wells; reservoirs and it substitutes for the irrigation by the farmer in its field. Heavy rains do cause damage to life and property, but mostly in urban and marginalized areas in urban communities. These damages are mostly caused by uprooting of trees and such.

Now agriculture relatively is not so damaged because the water gets absorbed in the soil and is also drained out relatively faster. This rainfall actually, the way we look at it is as the water receives is going to be favourable for Kharif, which is the second quarter as well as for Rabi, which is the third and the fourth quarter. This is going to play out favourably in entire West India, Central India and also in the Southern Peninsula and North where it has rained favourably or almost all the crops.

Himanshu Binani:

Got it. Because, sir, one follow-up basically regarding this only. So what we have been like reading in terms of like the government recently banning the non-basmati exports also and the reason behind that was we have like witnessed some sort of like crop losses, particularly in the Western India due to the higher rainfall.

Rahul Dhanuka:

Sorry. I didn't come across this news. Because Western India does not contribute towards paddy production in the country. Madhya Pradesh is the largest paddy producer, and that's Basmati.

Himanshu Binani:

So because the new news article, what it was stating is that there has been like some sort of like heavy rains into the Eastern U.P. belt, and then there has been like a rainfall into Punjab, Haryana, which in turn has like resulted into this sort of action from the...

Harsh Dhanuka:

Right. Yes. So let me link up all these dots together. So the ban on non-basmati paddy is because government expects global food constraint. Global food constraint coming out of the grains embargo being broken between Russia and Ukraine. So if you would have followed that news, Russia had allowed grains export from Ukraine -- and there was that treaty, which has now been broken, so that treaty no longer exists, and Ukraine is not able to ship out wheat and other agriculture produce, which will lead to food shortage globally, sooner or later. Now we don't want our country to be falling in the trap of food shortage. And that's the reason government has put an embargo a ban on non-basmati export. That's one.

And North India saw some good rainfall. You are aware that good rainfall is actually beneficial for Paddy crop unless it damages with its high speed and flow. So that has not happened in Punjab, that has not happened in Haryana. So that rainfall has actually been good for paddy.



When we talk about the Western part, the western part, the heavy rainfall has caused some damage to cotton, soybean, and groundnut in the parts of Gujarat and Maharashtra.

That losses actually are recoverable and are going to turn out to be favourable for the farmers in Gujarat and Maharashtra. Maharashtra is also the catchment area for dams and rivers in Karnataka. So this is going to be favourable, significantly favourable for Karnataka agriculture also. So overall, these rainfalls are going to give a boost to the agriculture production in the country.

The crop damages are there. They are relatively in smaller pockets. The impacted farmer is certainly there, and government should be creating a mechanism to reach out and support such impacted farmers. Agriculture, in general, country in general, stands to benefit.

Himanshu Binani: One last question, basically from my side, and that would be largely regarding the inventory position. So maybe you can comment anything on the zone-wise inventory position in the country as on like July end.

Rahul Dhanuka: Well, July end would be a tricky place because it's just ended, we have not even rated in that part. However, across the country, the consumption has been on a high in the month of July. So I think so whatever inventory -- the channel was inventory shy in Q1. But in July, it has been a fast movement coming in and getting consumed. So I think so the inventory levels in the channel shouldn't be very high by July end. Actually, channel is asking for more material and a speed which -- with which industry cannot service.

Himanshu Binani: So maybe any color on the zone-wise inventory level?

Rahul Dhanuka: I don't think so. We have that now. Not now.

Moderator: We take the next question from the line of Mr. Prashant Biyani from Elara Securities. Please go ahead.

Prashant Biyani: I had one question. We have been looking for some tie-up with Japanese companies for our technical plant. If we can share any update on that where we...

Harsh Dhanuka: Not now, we can't share any update now at the right time, we will.

Prashant Biyani: Without -- I mean, without any update, but what sort of association are we looking with from them if something on that front can be shared?

Rahul Dhanuka: I think so this would be a larger question in terms of how the chemical industry globally is behaving. So if you'll be aware, a few European countries have given out a mandate to their chemical and other industries to necessarily establish our China Plus One supply chain. Now that directive is going to be really favourable for chemical industry in general in the country, supported by various government initiatives, including PLI. So, I think so this question of yours in terms of Japan, Europe, America, looking at India as a chemical manufacturing hub is a more bigger opportunity rather than the kind of opportunity of reclassifying the type of opportunity that we are working on. So that classification would probably just be very limiting.



- Prashant Biyani:** Sure. And is it possible that many of those multinationals are already operating in India. So rather than asking the Indian entity of those multinationals to expand the business they associate incrementally from here on with companies like us or any other company?
- Rahul Dhanuka:** Yes and no. because, yes, many entities are existing in India, but you would be following the various other chemical companies, prices and yields the way they are behaving on the share market and otherwise. So anybody's guess on what side this is headed.
- Prashant Biyani:** Sure. Any outer timeline which you can share for this?
- Rahul Dhanuka:** Not on this one, not on this one, I think. So this would also be restricted in terms of what we can share.
- Moderator:** The next question is from the line of Mr. Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Sir, just one clarification on the China front. So we've been hearing from competitors as well as from the industry that in the last few months, the ingress of Chinese agrochemicals is also significant. What is your perspective in the recent times, whether that particular phenomenon has stopped in the month of July or whether it has reduced significantly.
- And an allied question to that, we also hear that in the last 1.5 years, there have been a good amount of capacity additions in the generic market in China. So does that have any threat to any of our products in the portfolio?
- Rahul Dhanuka:** May I ask you which companies are giving this news? I need to answer that one. Yes. So yes, China is global chemical factory. So China is the largest manufacturers of dyes pigments, chemicals, pharmaceuticals, Agrochemicals and in all domains and directions, which is -- and the import and consumption in India for Agrochemicals has been pretty high and has been growing. China has become an important supplier of agrochemicals and intermediates for India. That is how it is in the current context.
- Agrochemicals import is a licensed business and is regulated by -- through registrations by central insecticide Board. So only registered entities can bring in their products in the country, which takes about six years to seven years to get one registration on that front also. So that continues unabated. That opens up the opportunity for us when we are setting up the Dahej plant that we can be producing various intermediates and technical gate products to substitute that import. So that's actually an opportunity.
- So -- and China capacities on the brand side are only favourable because that offers us competitive edge in terms of pricing and with the brand footing that we have in the market, we are able to create that value for the farmer.
- Rohit Nagraj:** Sir, just one question on the exports business. So on the synthetic pyrethroids, on a steady-state basis, what is the margins that we are looking at. I mean when the pricing normalizes when we reach, say, optimal utilization for the plant, what are the operating margins that we are sensing in?



- Harsh Dhanuka:** Yes, I believe since the prices are stabilized and with the current portfolio only, we can expect the gross margin in the range of 20% to 25%.
- Rohit Nagraj:** And at the EBITDA level?
- Harsh Dhanuka:** EBITDA level for the current financial year would be negative. But over a period of time, definitely the EBITDA should be positive in the next two years to three years.
- Moderator:** The next question is from the line of Mr. Rohan Gupta from Nuvama. Please go ahead.
- Rohan Gupta:** Sir, question is on procurement of some of the raw materials, which you were earlier also doing from China or also we buy a lot of materials from Indian players as well. With the significant dumping done by the Chinese player, I think that the in domestic market has also been under pressure. I mean I'm talking about the material supplier for you. So have we resumed to increasing our sourcing from China or the pricing there is right now is still better than the Indian sources or Indian sources are still matching up the prices of the Chinese manufacturers. If you can just give some sense on them?
- Rahul Dhanuka:** I heard this before also in the call about dumping from China. This is something not understood by me. What is this dumping by China?
- Rohan Gupta:** Okay. So I mean, sir, definitely they're selling the product at a much below cost or just because of the inventory liquidation, they have offered the many products at a much below prices what Indian player probably could match and therefore, that Chinese players have been able to push the inventory in the system.
- Rahul Dhanuka:** Right. So that's certainly been an advantage on that front that we get competitive products from China, most of the times. So Indian capacities for various products are actually now coming up in a very strategic way. So our procurement from India has only grown. And also our procurement from China remains the way it is.
- Rohan Gupta:** Okay. So my question was basically, yes, over a period of time, we have increased our sourcing from India. But we are an asset-light business model, and we depend more on the raw material supply from others. So just wanted to understand in the last six months, have we increased our sourcing from China more? Or is the Chinese prices are still at a discounted rate than the Indian players would otherwise have provided you?
- Rahul Dhanuka:** Chinese prices are now increasing gradually. So there has been -- we have seen an uptick on the Chinese prices also. And last six months, our procurement has been balanced in terms of what we procured from Japan, from China and from the domestic markets. We would have hardly done any substitution.
- Rohan Gupta:** Okay. So there has been actually no change in the sourcing arrangement? I mean.
- Harsh Dhanuka:** No change.



- Rohan Gupta:** And when you say, sir, that you have already started witnessing the increasing or reversal in the pricing trend. So this is across the generic or in some products, and you see that probably the bottom for most of the product line is made?
- Rahul Dhanuka:** Yes, I think so the bottom for most of the products is hit. So it's not only going to look up as a feeling we have. So those are in debt. Also coming out because of the global consumptions being in place.
- Rohan Gupta:** So sir, in that case, like how we were impacted negatively by the falling raw material prices now when the prices are reversing and we must be in the preparation of product Q2, we must be sitting on used inventory, which we would have bought in months of maybe it would have been low-cost inventory. Is there any fair amount of chances that now that we should be benefiting from the pricing gains or the low-cost inventory should help us in terms of gaining more market or at least improving some margin in a subsequent quarter if the demand scenario in the industry remains robust, which you have just indicated?
- Rahul Dhanuka:** We largely have an outlook on the demand scenario being positive, and we are looking forward to upgrading our margin by about 200 bps.
- Rohan Gupta:** So for the full year, you are saying that we are looking at gross margin expansion by 200 bps?
- Harsh Dhanuka:** Yes, that's right.
- Rohan Gupta:** Okay. Sir, in general, the prices still are lower on Y-on-Y, right? So compared to on a price-led decline, it still will be there in our revenues. It will be only probably volume growth, which will be having a positive impact, but the price impact still will be negative only for the full year basis, right?
- Vinod Kumar Bansal:** So far, it has been negative. Now Q2 consumption will decide the journey forward. But yes, I think the full year price will be around 1.5% to 2%, maybe yes.
- Rohan Gupta:** And sir, Rahul sir, you were saying -- and also just on one sense on the industry growth for the current year? I mean definitely, Q1 was bad, but that was for everybody. What is your sense of the industry growth in volume terms for this year?
- Rahul Dhanuka:** My forecast on this front has mostly gone wrong. So you really need that.
- Rohan Gupta:** You are dealing with the farmers and the Market Day in and day out. So definitely, your sense on that will be really helpful.
- Rahul Dhanuka:** If agriculture is doing good. I think for everyone associated with agriculture will be doing good. And you can see this as a matter of trend in fertilizer consumption in DAP consumption in tractors, movement and also in Agri import. So I think so, industry will witness a double-digit growth.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.



Mahendra Dhanuka:

In the end, I would like to thank all the participants for joining us today. We are looking forward to a great second quarter. Dhanuka is committed to transforming India through agriculture. Our purpose is to strengthen the nation by providing sustainable agricultural solutions and bring honour, pride and abundance for the farmer and farming. India ka Pranam, har kissan ke naam. Thank you.

Moderator:

Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.