



“UPL Limited Q2 FY 2018  
Earnings Conference Call”

October 30, 2017



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**Moderator:** Ladies and gentlemen, good day and welcome to UPL Q2 FY2018 Earnings Conference Call, hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijayaraghavan G from IDFC Securities. Thank you, and over to you, Sir!

**Vijayaraghavan G:** Very good afternoon to everyone and thanks for joining us today on the call. I would like to welcome the management team of UPL Limited and thank them for giving us this opportunity to host this call. Representing UPL Management Team today we have with us, Mr. Jai Shroff, CEO, Mr. Rajendra Darak – Group CFO, Mr. Ajit Premnath, COO and Global Business Head of Crop Protection and Mr. Carlos, CEO Global Head of Strategy and Innovation and Mr. Debabrata Gupta, COO Supply Chain, Mr. Anand Vora, Global CFO, and Mr. Ashish Narkar, Senior GM – Finance. As always, I request Mr. Anand Vora to give initial remarks about this quarter performance and business outlook, which we will follow it up with a Q&A session. Mr. Anand, you can take over now.

**Anand Vora:** Thanks Vijay. Thank you very much. Good afternoon everybody. Welcome to the financial year 2018 Q2 earnings call. I will take you through the financial numbers for the second quarter and the H1. I will start off first with the Q2 numbers.

The gross revenues for the quarter ending September 2017 are at Rs.3770 Crores as compared to Rs.3541 Crores for the quarter ending September 2016. As GST has been introduced in India from July 1, 2017, the revenues for the quarter ending September 2017 are net of GST. To make the figures comparable, the revenues for the quarter ending September 2016 are therefore considered net of excise duty.

The gross margins increased to Rs.1610 Crores from Rs.1431 Crores in the previous year an increase of 13%.

EBITDA went up to Rs.719 Crores from Rs.640 Crores, a growth of 12%. EBITDA as a percentage to revenue was 19.1% showing an improvement of 100-basis point over the same period last year.

Profit before tax of Rs.406 Crores is an increase of 37% over that of the last year. The last year number being Rs.296 Crores.

Net profit after tax was at Rs.237 Crores as compared to Rs.165 Crores in the previous year an improvement of 162-basis points.

The revenue breakdown in terms of geography is as follows.

India region grew by 10% from Rs.909 Crores to Rs.997 Crores. Latin America had a growth of 5% from Rs.1317 Crores to Rs.1385 Crores. Europe has grown by 7% from Rs.341 Crores to



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Rs.363 Crores. Rest of the World has grown by 5% from Rs.599 Crores to Rs.632 Crores. North America has had a growth of 5% from Rs.375 Crores to Rs.393 Crores. During this quarter, the sales volume grew by 11%, the price decreased by 2% leading to a constant currency growth of 9%. The exchange impact was unfavorable by 3%, translating into a net increase in sales of 6%.

Now I will move on to the numbers for the first half of the year. Gross revenue for the first half was at Rs.7493 Crores compared to Rs.7051 Crores for the same period last year. Similar to the numbers for quarter ending September, as I mentioned in the beginning, to make the numbers comparable, revenue for H1 of financial year 2018 and H1 of financial year 2017 are both net of excise duty. Gross margins went up to Rs.3199 Crores from Rs.2919 Crores in the same period last year an increase of 10%.

EBITDA increased to Rs.1469 Crores from Rs.1339 Crores in the previous year. EBITDA as a percentage of revenue was 19.6% an improvement of 60-basis point over that of the previous year.

Profit before tax of Rs.961 Crores shows an increase of 32% over Rs.729 Crores last year. Net profit after tax of Rs.712 Crores this year as compared to Rs.527 Crores in the same period last year.

Region wise breakup of revenues for the first half are as follows:

India at Rs.2115 Crores represents 28% of the total revenues, a 7% growth over that of the previous year. Latin America revenues at Rs.2121 Crores comprised 28% of the total revenues, 5% above that of the previous year. Revenues of Europe at Rs.948 Crores were 13% of the total revenues and represents a growth of 5% over that of the previous year. Rest of the World was at Rs.1235 Crores represents 16% of the total revenues and a growth of 7%. North America at Rs.1074 Crores represents 14% of the total revenues and a growth of 6% over that of the preceding year.

In the first half of financial year 2018 volumes were up by 11%, the price decrease was 2% and the constant currency growth was 9%. There was an unfavorable exchange impact of 3% leading to a net increase in revenues of 6%. So pretty much very similar to what we find in Q1.

The working capital performance for September 2017 versus September 2016 is as follows:

Net working capital increased by three days, where we saw a reduction of four days in inventory. Receivables were up by 11 days and payables also increased by four days - thereby a net increase in net working capital days by three days. The working capital days for both the periods are based on trailing 12 months sale.

Net Debt and cash balance as of September 2017 were as follows:

The gross debt was at Rs.6424 Crores. The same number as of March 31,2017 was Rs.6361 Crores. Cash levels were at Rs.1642 Crores - as of March 31, 2017 the number was Rs.2880 Crores. The



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net debt is at Rs.4782 Crores - as of March 31, 2017 the number was Rs.3481 Crores. I will now request Mr. Ajit Premnath to provide business updates by region for the quarter ending September 2017. Over to Ajit!

**Ajit Premnath:**

Before I go to the regions, quick comment on the overall situation, global situation and the industry. FY2018 is turning out to be a challenging year for the industry, as you would have seen from some of the results already announced. The factors that are really making this year difficult - of course the farm prices still remain depressed and that does not leave any incentive for the farmers to really spend money. US had a very bumper corn and soybean crop, which will actually keep this pressure on price to be down, very strong and it will continue to be low that is what we believe.

That situation does not change, also globally speaking there were very high market inventories, to start with, to carry over from the previous season in several big markets. That has two implications, one is the fresh purchases of the trade were not happening, early purchases normally in Latin America and some other markets, the trade really purchases pretty early, which we did not see and secondly it does not allow prices to go up in line with the cost increases that are happening due to tight supplier situation mainly from China on finished products as well as raw materials. So the costs are going up, which are not getting reflected in the market place because of high inventories and now the major season in the southern hemisphere is starting. There is already a delay because of lack of rains in Latin America. It is still not very late, but there is some delay in the planting. Hopefully the planting should happen now in November, that is the overall situation. I think the market is pretty challenging from the output prices point of view, from inventories point of view and supply point of view.

Coming to UPL performance, North America, we grew in the quarter by 5% and H1 growth is 6% and this is really driven by the herbicide portfolio. I think the resistance management requirements of the farmers, weed resistance management, we have nice portfolio for that and that is showing the results. There was also a resistance to the new technology introduced by Monsanto, which the Dicamba Resistance Technology, which because of our portfolio was an opportunity for us and we hope it will continue to be. I mentioned to you about the corn record yields is driving the prices down. There was impact on our rice business in US because of floods in the Mississippi Delta. We just had about two-thirds of the normal acreage this year for rice.

Coming to India, from a rainfall point of view, India was mixed bag. Northern half of the country was fine, but coming to Maharashtra and Southern States I think we had erratic rainfall, not at the right time, not in all the places and therefore there is an impact on the business, on the consumption. There have been some late rains, which also affected the Kharif standing crop in Andhra specially; however, these late rains are good for the Rabi crop for Tamil Nadu and Karnataka. So, there is a silver lining at the end.

We had a good business on cotton in the northern state and soybean and some of our power brands have performed extremely well. This gave us a second quarter growth of 10%, which is the major consumption period in India and overall H1 growth of 7%.



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Coming to Europe, southern Europe has been very dry, Spain, Italy and this is a repeat of last year. This has affected consumption, especially of fungicides. UPL business on some of the specialty crops like potato, Oilseed rape and cereals. Cereal herbicide was a driver of the growth. We had a very nice sugar beet season last year, which ended in this current financial year and we are expecting the coming year to be also very good and there is a hope that the acreages of sugar beet will go up and market will demand more product.

Latin America, Mexico is an important market for UPL. It was a very bad start this year because again of lack of rains in the early corn season, but that improved over the season, over the next months and finally we had a good six months in Mexico.

Our new launch of fungicide in Latam has got very good response and we see that as a big brand going forward. As the season is now starting in Latin American countries, we expect the distributors and farmers now to respond and start placing orders for the season. We have also got into a collaboration with Bayer in Brazil for joint promotion of our fungicide along with their product on Asian Rust. This is a good opportunity for UPL, as it will open up distribution doors for us. Their penetration levels are very, very high and those customers are now available for UPL products, so that is a positive there. We had a 5% growth in the quarter and for the first six months in Latin America.

Rest of the World, I think we had a good growth in some of the Southeast Asian markets, Philippines and Indonesia to name two of them. Good season on rice and also good business on banana and other vegetable crops in these countries gave us decent growth. Vietnam and Thailand continue to be a challenge. We have registration issues, since new products are not getting registered, so our portfolio sort of remains the same as it was with no new products coming in.

Australia is another dry year after a fantastic last year. Last year was a fantastic year. This year is very, very dry and we have launched a sugar beet product in Japan, which also added to the quarter sale. With this we have a half-year growth in ROW of 7%. So we have sort of a balanced growth across the region in the first six months of the year. Anand.

**Anand Vora:** Thank you very much Ajit. With this, we have pretty much completed the commentary from our side on the financial results and now we would be happy to take questions.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

**Chirag Dagli:** Thank you for the opportunity. Sir, I have two questions. One is on the India season growth for the first half you have grown about 7%, what is in your estimate the industry growth for the Kharif season?



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- Ajit Premnath:** From whatever results we are seeing, there does not seem to be growth. We think that the growth rates will be in very low single digits or close to neutral, zero. That is what we are expecting and some of the companies have reported in that direction.
- Chirag Dagli:** So, we would have still gained market share in India?
- Ajit Premnath:** We think we have outperformed the market and therefore would have gained market share.
- Chirag Dagli:** Fine and Sir second question is on Brazil, Sir if you can give us a rough crop mix for the full season or for the full year as a whole of what is our dependence across crops in Brazil, just a ballpark should help Sir.
- Anand Vora:** Chirag we have Mr. Carlos Pellicer here, he will answer.
- Carlos Pellicer:** Our sales in Brazil is very well balanced. Our main crop is soybean but we have a very good position in cotton, corn, sugarcane, and coffee, but the main crops are soybean, cotton, corn and sugarcane. There are the main crops.
- Chirag Dagli:** Sir, can you give me the exact contribution, just ballpark numbers?
- Carlos Pellicer:** It is hard to define that in the context, but we can say that soybean is the number one and number two would be corn, number three would be between cotton and sugarcane, it is almost at the same level, both of them. These four crops represent about 80% of our sales.
- Chirag Dagli:** With this Bayer deal, how should we view growth in Brazil for this fiscal, Sir?
- Carlos Pellicer:** This Bayer agreement is something very unique in Brazil, never happened before. It is something very interesting and we closed this deal now, in October it is just finalised. What is the most important point there I say is really, that for both companies this is very beneficial. Because Bayer needs our product to really manage resistance and their team will promote our products and we will work together on that. We expect that this will help us to be closer to the farmers, to end users and it is hard to predict now how big would be that, but for sure, will be important part because we are increasing our presence in the field and touch point to the farmers would be increased, see we do not have visibility now how much will be the impact but for sure it will be important.
- Chirag Dagli:** They will distribute our branded products or will they have their own branded product?
- Carlos Pellicer:** No, they will sell their product and we will sell our own product. We have developed a kind of reward program, they will recommend our product together with their product and we will reward their dealer when they sell our products, then we will gain We will recommend their products to our dealers and when they sell their product, then our dealer will receive reward for that. It is like a combined work together.



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- Anand Vora:** So Chirag, both products will be sold under their respective brands.
- Carlos Pellicer:** Yes, for their respective companies.
- Chirag Dagli:** Okay Sir. Thank so much. I have more questions I will join back the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Bank of Baroda Capital Market. Please go ahead.
- Sonali Salgaonkar:** Thank you for the opportunity. I had just one question. At this point in time, would we maintain our guidance that we set out at the start of the year in terms of topline and EBITDA margin?
- Anand Vora:** Well, I would say that as far as the volumes are concerned, we are on track for the guidance which we had given at the beginning of the year, difficult to forecast on the currency. So we would say that if one is looking purely at the revenues - without price, currency and the volume impact that probably we would be in the range of 8% to 10% but if it is volume driven then probably at volume levels we still maintain at 12% to 15%.
- Sonali Salgaonkar:** Okay, all right, so if I understand it correctly at the revenue end you are giving, rather revising our guidance right now to 8% to 10%, is it?
- Anand Vora:** Yes, in light of what we heard from Ajit on the industry and other things, it seems a third consecutive year where the industry has degrown and also we are seeing some headwinds on currency because the rupee appreciating. Our Balance Sheet, P&L and everything is in rupee terms, so we cannot predict that, so the volume terms we will maintain but otherwise on plain revenue it will be between 8% and 10%.
- Sonali Salgaonkar:** And what about the EBITDA margins?
- Anand Vora:** EBITDA margins we retain, we had given guidance for about 50-75-basis point improvement and we are on track.
- Sonali Salgaonkar:** All right and the rest for example capex and capital as in working capital we maintain the guidance right?
- Anand Vora:** We maintain the guidance, absolutely.
- Sonali Salgaonkar:** All right. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.
- Viraj Kacharia:** Thanks for the opportunity and congratulations on a good set of numbers in the challenging environment. I just had a couple of questions; we have this particular molecule Mancozeb which

used to be close to high single digit or low teens of our overall sales mix and we also in the Capital Markets Day you highlighted that you might be looking at capacity expansion given the kind of global demand supply situation we have in that molecule. So if you can just provide some update in terms of what is the market situation and where we are with respect our capacity expansion in that particular molecule?

**Anand Vora:** Ajit, you want to brief on the markets.

**Ajit Premnath:** On the market, the market continues to be good. We are looking at this product to play a major role in resistance management and the problem of resistance in the weed resistance is really strong in certain geographies and we see this product playing a big role going forward as there are not too many choices left and now our cooperation with Bayer is because of the same reason that Mancozeb really adds a lot of value to their brand where they are market leaders. So to defend their position they really need Mancozeb. We are also getting into several mixtures of Mancozeb, adjusting various segments in various crops, so we expect the demand for Mancozeb to be very strong going forward.

**Anand Vora:** On the capacities as we had planned we continue to be on track and we do not share specifically in terms of what capacities are there, but we are on track from the capex which we were incurred for the last year.

**Viraj Kacharia:** Okay, just two more questions from me, if I may. On this particular molecule, what we are also hearing is where other large player who also have the capacity and the registrations for this molecule, they have also expanded the capacity from in the tune of 20% to 50% in the last six to 12 months, Sir when you say the market situation is improved, is it in the deficit and is it enough to account the increased capacity expansion from us and the other industry players that is one and second we are also seeing a case of increased raw material pressure, so is the margin profile pretty good in this kind of molecule, can you just provide some colour on that?

**Carlos Pellicer:** We have in terms of position very strong positioning in the field. See we are very close to the farmers in the key geographies and with the very broad product portfolio in terms of mixtures; you have to get registrations in many countries. As Ajit mentioned, in Latin America, we got the registrations in many countries, successfully launched in this season and we have got one more mixture registration, just about 30 days ago and now the mixture is planning to come at the end of the year for these platform. If you compare to the competitors in Mancozeb platform, we are the company that we are really in the field and close to the farmers. Most of the others, they need to sell through another company to sell in the market, they do not have their own footprint in the key countries that we are present in, where it is really the problem is there and we have IP protection applied for some of these technologies and we are enforcing that. We are working to enforce that. We believe that we have a very important advantage in the way to compete in the marketplace because of the IP protection and because of our footprint in the market and because of our diversification as we have developed many different mixtures to approach the market.



**Viraj Kacharia:** Just one more question, in the starting of the call you have mentioned that you have seen increased pressure on the raw material side across the crop protection segment and given the weak demand scenario we have not so far taken any price increase yet, correct me if my understanding is right? So basically how are we going about meeting the overall margin profile, which we typically have maintained around 18 to 19%?

**Ajit Premnath:** What we are saying is that we have not been able to pass on the cost increases in the market place in certain markets because of the high inventory levels; that does not mean that we have not passed on cost increase, we have in certain products and certain markets, we have been able to raise our prices, but not to the extent that we would have liked and now since the season is starting, the major season is starting in the bigger geographies. We expect the inventory to move and higher prices to be accepted, so in Q3 and Q4 we do hope to get in those markets good prices.

**Jai Shroff:** But also lot of our important brands and new products which we have introduced in the last few years have increased market share and we have grown substantially in those, which has improved our margin profile. So there maybe a price increase but that is substituted by higher value added products. We have gained market share in our brand business, particularly if you look at the numbers in India and some of the other countries where we have introduced in the last few years' new products, so those are giving market shares and those have higher margins.

**Viraj Kacharia:** Okay. Thank you. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life Insurance. Please go ahead.

**Trilok Agarwal:** Good evening Sir. Congratulations Sir on a good set of numbers. I have two questions. One is on the debt side. What are your thoughts on the debt going forward, given that the first half you have managed pretty well and second is in the wake of this slower growth globally like you have mentioned about higher volume growth but lower base realization growth. I mean we would assume that the new introductions, the new product introductions, which Jai mentioned, had rapidly grown for us in the last couple of years. They would also continue to do in a similar manner because we were outpacing the industry but the newer introduction could actually be much faster and given our very low market share in Brazil if you can share some thoughts on those?

**Anand Vora:** Trilok I just want to clarify. I did mention basically about 8 to 10 is keeping in mind the currency impact because the first half we saw a negative impact coming out of currency of almost 3%, because of the rupee appreciation, so I think it was more in context of that. Volume and price probably we believe we will still be in that range of 12% to 15% is what we had indicated. So that is on the second question. The first on the debt, I think, let me just share with you that we had issued bonds last year and we are an investment grade rated company and by virtue of that we need to maintain certain debt levels as well as the net debt to EBITDA as well as net debt to equity levels and we pretty much will be far below those ranges, but the ranges which are determined based on

investment grade by itself are stiff and we will be within those ranges of both net debt to EBIDTA and net debt to equity.

**Trilok Agarwal:** So 1.25x was a broad guidance that we had, so we are well within that number right?

**Anand Vora:** Yes that is right.

**Trilok Agarwal:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Alok Deshpande from HSBC. Please go ahead.

**Alok Deshpande:** Good afternoon. I just wanted to confirm this on the guidance Anand, so you are saying 12% to 15% for volume and pricing put together right so that means that it has not changed from what you have guided earlier, is that the right understanding?

**Anand Vora:** Yes. In terms of volume we are saying, we will be in that 12% to 15% range. Prices, yes we had a negative hit of -2% in the first half and the currency is -3% so we believe that we should be as Ajit mentioned that we should be in a position to take some price improvement as the season begins in key geographies, but at this stage we are saying that on the revenue front that is after giving impact of the volume, price and mainly giving impact of the currency and of the pricing, we would be in the range of 8% to 10%, keeping in mind of overall industry situation.

**Alok Deshpande:** Okay but Anand previous guidance was volume plus pricing right. So I am just trying to compare apple to apple?

**Anand Vora:** You are right.

**Alok Deshpande:** Previous was volume plus pricing 12% to 15% and now you are saying that volume plus pricing can be actually little lower. Is that?

**Anand Vora:** That is right 8% to 10% is what we are thinking.

**Alok Deshpande:** Okay. Fine and also this currency impact can you just help to understand where, is this coming from one major region where the majority of the impact is coming from or is it like spread across one or two or three regions?

**Anand Vora:** It is a rupee balance sheet, so therefore it will come from all the regions if rupee keeps appreciating.

**Alok Deshpande:** Okay, so the revenue impact has not come from any one big region is it?

**Anand Vora:** No. I just want to reconfirm, I think let me rearticulate it. Price and volume put together will be in the range of 12% to 15%.



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**Alok Deshpande:** Okay, so that means, the guidance does not change, nothing has changed. So if you just factoring the currency impact which has happened 3%.

**Anand Vora:** In the first half we have seen negative 3%.

**Alok Deshpande:** So guidance is same as what it goes?

**Anand Vora:** The bankers would know better and you are from different division, but they are all taking about rupee continuing to be on appreciative march.

**Alok Deshpande:** And just one last question on Mancozeb, so you are saying that Bayer's product and Unizeb will be sold together, but what is the readiness of the farmer to use two products for the Asian rust?

**Ajit Premnath:** Let me explain what we are trying to do there. Bayer has a product, which is the market leader and they are facing challenges because the performance of the product is not as good as it used to be and what we have established is that if they use that product with our product, the performance is better. So we have both realized the benefits of each of these products, therefore we have come together and there is a joint incentivization of the trade and the farmer if he buys both products together and uses them together. that is the thing and therefore we get access to the Bayer distribution network, the Bayer customers and we expect this to give us the benefit in terms of our penetration in the market place.

**Alok Deshpande:** But Ajit in this case I understand on Bayer feels that Unizeb in this case helps their products but do they not feel a threat that the farmer will just use Unizeb and stop using the other product?

**Ajit Premnath:** No, he cannot do that. Alone, Unizeb is not the answer.

**Jai Shroff:** So I think in this whole environment where you have such an aggressive disease, which impacts the yield of farmer, the farmers are anyway using not a single product, they do a number of activities including mixing, doing constant improvement. In the last few years we have worked with Bayer and come to a conclusion that product applied together works far better for the farmers and this is giving them better control. So they are using this. All the other benefits of working together with a more established company, are that you worked with their teams. We are very closely working and both the teams are excited about the opportunity to access each other's market presence. UPL is not a small company anymore, we are in the top five companies in Brazil, in the last four years we have been able to build that position and I think it is well accepted that our whole strategy, to develop a much stronger and a long-term solution using our platform of technology to improve the resistance management is well accepted. I think most of the companies are also global companies who have a very specific fungicide for Asian rust are also in discussions about findings solutions to better manage and finding, looking at opportunities to find better solutions for managing Asian rust, because it causes a lot of havoc when it comes and it can have a huge impact on the profitability of the farmer. I mean in the last four years we have been taking about this and I think the government as well as the industry players across appreciate what we have done in terms



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of this whole resistance management strategy and so we have working closer with not only Bayer with other companies also. We have invested in this whole program, and it is a protectant and it has actually gone down very well and the whole industry is working together to help the farmers find better solution.

**Alok Deshpande:** Sure. That is very good and is Unizeb the only protectant in this Asian rust category or any Mancozeb product can be also protectant?

**Carlos Pellicer:** We have the best solution. We invent, we apply the protection in terms of IP. We have worked on the platform as Ajit has explained, internally we named MMX platform. We have invented that these segment of crop protectants in soybean, corn and cotton, before we discovered it, we created the segment today, we lead the segment, we are leader of the segment, our product works better because of the formulations and structure and we have now the platform, of Unizeb Gold, we have Unizeb Glory, we have Triziman, we have a platform of products that works in that segment. We are the leaders thus by far, but today there are generics, as generic as Mancozeb, generics and all other kind of products in that segment but we are the leaders and we have a lot of innovation to come in the next year or so.

**Alok Deshpande:** This Bayer product is Fox right?

**Carlos Pellicer:** Yes.

**Alok Deshpande:** Okay. Fine. Thanks a lot Sir.

**Moderator:** Thank you. We will take the next question from the line of Pavitra Sudhindran from Nomura. Please go ahead.

**Pavitra Sudhindran:** Thanks for taking my questions. I just wanted to check on the reason for the increase in the net debt from Rs.3481 Crores as of March to Rs.4782 Crores as of September. Because as you said that the EBITDA is coming pretty strong and working capital requirement is also not too large so if you can just help us understand what is the reason for the increase in the net debt? Thanks.

**Anand Vora:** Some of the capexes we have advanced at the beginning of this quarter and second is also the working capital, the seasonality, which is associated with the business resulted in the increase in the working capital.

**Pavitra Sudhindran:** Got it. On the capex front, how much of capex was done in the first half?

**Anand Vora:** Roughly about Rs. 600 Crores.

**Pavitra Sudhindran:** Got it. Thank you.



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- Moderator:** Thank you. The next question is from the line of Abhijeet Akela from India Infoline. Please go ahead.
- Abhijeet Akela:** Thanks a lot for taking my question. The new fungicide you have launched in Latin America which product is that?
- Anand Vora:** It is called Glory. It is a fungicide, it can be used on multiple crops, it is very wide crop spectrum and it has been launched in several countries. So therefore the ramp up of the volumes has been happening pretty strongly.
- Abhijeet Akela:** Including India?
- Anand Vora:** Also has been launched in India, yes and some Asian countries too.
- Abhijeet Akela:** And is this a Mancozeb combination product?
- Anand Vora:** Yes. It is a Mancozeb combination.
- Abhijeet Akela:** Which are the product would that be?
- Anand Vora:** It is Mancozeb plus **Azoxystrobin**.
- Abhijeet Akela:** Okay. Thank you and this Bayer collaboration is only on one product of theirs, is it?
- Anand Vora:** Yes that is right.
- Abhijeet Akela:** Second just on this loss from associate this quarter has gone up to Rs.62 Crores significantly so I presume that that largely because of Sinagro, is that correct and also what is the outlook on that?
- Anand Vora:** Basically it is the fixed cost. The first two quarters are basically expenses and farming and everything starts in the Q3, Q4, so that is the reason, as we ramp up our business.
- Abhijeet Akela:** So you think going forward you can control this.
- Anand Vora:** Yes and that would be the endeavor, season of course is an important factor, but we intend to control.
- Abhijeet Akela:** Right and in terms of price decrease we have seen this so far, 2%. Has there again been a price reduction in some of your key products or what is the reason for that?
- Anand Vora:** Yes. Partly you are right. In some cases, there has been a price reduction, but as Ajit mentioned in the beginning of the call, we are seeing pressures of cost increases and wherever we could pass on in some markets, we could, we were successful in passing on, but in other markets we could not and therefore we are seeing reduction, but moving forward, I think the industry across board is

facing pressures as we are seeing more and more price increases coming from material, raw material, or other intermediates, which we buy from China, so I guess most of the industry players would be impacted and we expect everybody to increase the prices as go in the next two quarters.

**Abhijeet Akela:** Got it. One last quick question and I will get back in the queue. Historically in the last few years, we have seen that main geographical growth drivers for your company have been Latin America and India whereas the western markets were slower growing. This year, it seems to be in kind of the opposite, both of these emerging markets have slowed down, and you are actually growing very well in North America, probably because of Glufosinate I guess is what you are mentioning and even Europe has started growing in high single digit. So, going forward, how do you see this shaping up? Do you think Latam growth and India growth can recover back to 15% plus or do you think will it continue to be driven more by the Western market?

**Ajit Premnath:** Yes, some of the western markets have grown for us and that is because of our product portfolio, some of the new products that we launched, it is not only Glufosinate, but of course Glufosinate is important. Also in sugar beet crop in Europe has been on the upswing and that is where it helped us in Europe and as far India is concerned, I think Kharif is a bigger season which has passed and yes so in the Kharif season we did have impact of several extraneous factors besides rains, we had the GST issue, we had the demonization, all of that has impacted us, but we hope that the Rabi should be okay, normal, and going forward, again the next year, the same story Kharif starts, depends on the rains, so that is the India story, but yes India and Latam, we expect to continue to grow for us in addition to US and Europe.

**Abhijeet Akela:** Got it. Thank you so much and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

**Girish Achhipalia:** Good evening. Thanks for taking the question. Just wanted to understand the inventory situation that we spoke about, I mean, which regions are we actually seeing inventory buildup happen a lot more, because on the earlier call of Q1, you had mentioned it was probably more specific to DuPont and Bayer, I mean, which you had mentioned, but any colour around which regions are we seeing it more than normal?

**Anand Vora:** I think if you were listening to earlier conversations what Ajit mentioned, he was talking about the industry. He was not talking about UPL.

**Girish Achhipalia:** Okay. So is it across the board in the industry, all regions we have seen an inventory increase happen?

**Anand Vora:** I do not think. There were a few specific pockets, some in Latin America and others where there was an inventory buildup and in India also and you would have seen results of other crop protection chemical companies and you could easily make out, which company has faced this pressure.



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**Girish Achhipalia:** Last year, if you look at the numbers, I mean, the volume growth was obviously much higher, 17%-18% and the pricing variance was 4%. This year, we are taking about 12%-15%, I mean, do we maintain our medium term outlook on growth in terms of how we see 12%-15% and India / Latam kind of being the key drivers in that medium term outlook?

**Anand Vora:** I think I did mention at the beginning of the call to some of the questions, this is the third consecutive year where the industry is degrowing, and I think one has to look at it in light of that, we continue to grow in the last two years and we are maintaining some of this even this year, but if this streak of degrowth continues for one or two more years, then it would be a challenging situation for anyone to comment and let us assume if things pickup, which we are seeing some in commodity prices although not much, then we should see industry returning back to normal in which case I think with whatever investment we continued to do both in terms of our tangibles and intangibles we hope to maintain this sort of growth.

**Moderator:** Thank you. The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

**Tejas Sheth:** Good evening. I have two questions. On the Bayer tie-up in Brazil, this tie-up will open what kind of market size for us where we were not able to reach?

**Ajit Premnath:** It is very difficult to quantify this. It is pretty subjective. Bayer, we know that they have a very good level of penetration in the market and therefore we hope that that it will help us, but if it is really not possible to quantify that.

**Tejas Sheth:** Is it more to sustain our current market share with the new registrations coming up from the competing companies or is it more of kind of an expansion of the market Sir?

**Ajit Premnath:** It should expand. It should help us expand that is the hope, that is the expectation.

**Tejas Sheth:** My second question is on Dicamba, we do understand that it has not seen the kind success, which we expected but has anything sustainably changed in last three months, which can really open up opportunity in the coming season of US?

**Anand Vora:** So they had a problem, I mean you are reading about that and it is not still very clear what this government states will decide for the next season, but the discussion is still on and we will see how it works out but the fact remains that drift issues were there and which did some damage to neighbouring crops etc., so we will have to really see how it pans out going forward and what action Monsanto will take to address this problem.

**Tejas Sheth:** Okay but has the issue aggravated or it more like sustained?

**Anand Vora:** Season is over now, so it is now into the discussion phase, they have a number of complaints from different states, they are addressing those, they are figuring out, what they should be doing for on



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the label, to reduce drift or to manage the drift and so there are lot of discussions happening, but there is no clear, let us say recommendation from the authorities that next year this is what is going to happen or this is how you are going to sell Dicamba that is not there yet. We have to wait and see.

**Tejas Sheth:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

**Vishnu Kumar:** Good evening gentlemen. Thanks for your time. Sir just I wanted to understand on the Brazil part what would be the current penetration of Unizeb on soya just an indicator on percentage?

**Carlos Pellicer:** Percentage of penetration is something complex because it is a new segment that we invented and let us say we have large possibilities. It is how you segment the market, you can have a lot of different answers to that, but there is a lot to happen in point of this agreement with Buyer to help us to increase this penetration. But it is hard to answer your question in terms of how much is the penetration today, but we expect that we have huge space for penetration.

**Vishnu Kumar:** Got the point Sir. Sir specifically in US I wanted to understand your current experience with the current mergers that are happening, are you really seeing the distribution concentration of these larger companies coming down and in certain molecules as we be read that lot of the competition commission there is asking companies to reduce or get out of certain molecules, how you are viewing that and are there any opportunities that we have already got into specifically in US?

**Ajit Premnath:** I think we are yet to see the impact of the mega mergers in the market place, it is too early. So we have not seen these companies operating together yet.

**Vishnu Kumar:** Okay so in terms of the mid west specifically we know that the concentration is quite high in distribution, are we able to get in or it is still early stages to break that market yet?

**Ajit Premnath:** We are already there with our products since last year. So we have made inroads, it is not easy, it is difficult, but we have made inroads, we have a nice portfolio, which the farmers need, and that is creating some kind of a pull and we are trying to leverage on that.

**Vishnu Kumar:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sumant Kumar from Emkay Global. Please go ahead.

**Sumant Kumar:** Sir my question is regarding domestic market. How is the performance of the new products launched recently and any other product is likely to come in the next quarter?



- Ajit Premnath:** Yes, so the products that we launched in the Indian market have been received very well. It is too early to again say. It is just the first year of the launch, in some cases not even the full season and in several geographies not good season, but the initial response is good and yes we have more products lined up for the next year.
- Sumant Kumar:** So next the H2 we are planning to launch any product and which crop?
- Ajit Premnath:** This will be multiple crops. This is not a specific crop, so when you have insecticide or fungicide, they go on many crops not one.
- Sumant Kumar:** Okay and you have mentioned that H1 FY2018 capex is Rs.600 Crores so what will be the capex for entire year.
- Anand Vora:** We have guided for about Rs.1100 Crores, at the beginning of the year we had said we would spend Rs.1100 Crores on tangibles and intangibles.
- Sumant Kumar:** And what is the tax guidance for FY2018?
- Anand Vora:** Generally we give guidance of about 22%-25%, that is the range.
- Sumant Kumar:** But still H1 it is very low compared to what you are guiding 25%?
- Anand Vora:** We always beat the guidance on tax front, but we are always careful on giving our guidance, so we give it in the range of 22% to 25%.
- Sumant Kumar:** Okay. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** I just had a question on the global consolidation activity where you had mentioned you could see some opportunities by the way of divestiture, so we have seen some activity there happening now, where do you think we are in this entire process, are we more than half way done with everything or do you think that there are still some more time before everything settles down?
- Anand Vora:** I think Prashant, you have raised two questions, settling down will take some time. I think as far as Bayer-Monsanto they are still awaiting the nod, but others have already got the nod, Dow-DuPont has been approved, so that piece is done, but to see impact in the market is going to take sometime. As for the divestitures, there are some assets, which have already been sold, and they are in the public domain, you know who have bought them, some being talked about for sale, but that is the situation as of now.
- Prashant Nair:** So far, if we would have looked at many of these assets, do you think the valuations are within the comfort range that you have spoken about in the past or so basically my question is have you



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walked away from some of these because of valuations or it is more an issue of not having the right fit or the right asset?

**Anand Vora:** I think you probably answered the question. Otherwise, we would have got it by now, right and there would be an announcement. I think some may not be the right fit and some may be we walked away because of valuation.

**Prashant Nair:** All right. That is it from side. Thanks.

**Anand Vora:** Thanks Prashant.

**Moderator:** We will take the last question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

**Viraj Kacharia:** Thanks for the opportunity. Sir I had a clarification on the Bayer deal, is it pertaining to particular region like only in Brazil or this can be expanded to other regions elsewhere? Is there a certain timeframe to it, I mean?

**Ajit Premnath:** Yes it is only for Brazil.

**Viraj Kacharia:** It is only for Brazil and is there any exclusivity agreement?

**Ajit Premnath:** No. There is no exclusivity agreement.

**Viraj Kacharia:** Thank you.

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

**Vijayaraghavan G:** Thanks. Mr. Anand would like to add any closing remarks.

**Anand Vora:** As always from the entire management team here, thank you very much for joining us on this call and if you have any further questions, please feel free to reach out to Mr. Ashish Narkar or myself and we will be happy to take those questions.

**Vijayaraghavan G:** Thanks a lot Mr. Anand.

**Anand Vora:** Thank you very much. Bye-bye.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.