"UPL Limited Q3 FY18 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and Welcome to the UPL Q3 FY18 Earnings Conference Call, hosted by IDFC Securities. As a reminder, all participant lines will be in 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 telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you and over to you, sir.

Nitin Agarwal: Hi, Good afternoon, everyone. And a very warm welcome to UPL Limited's Q3 FY18 Post Results Earnings Call, hosted by IDFC Securities. On the call today we have representing UPL Management, Mr. Rajendra Darak – Group CFO, Mr. Ajit Premnath – COO and Global Business Head, Crop Protection, Mr. Anand Vora – Global CFO, Mr. Nitin Kolhatkar – VP, Finance; and Mr. Ashish Narkar – Senior GM (Finance). I hand over the call to the UPL management team to make the opening comments, and then we would open the floor for questions. Please go ahead, sir.

Anand Vora: Thanks Nitin, thanks for the introduction. Good day, everybody. And welcome to the FY2018 Q3 Earnings Call.

We continue to deliver a robust volume growth of about 12% for the quarter. However, appreciation in the Indian rupee pulled down the revenues by 3%. This, despite the fact that the industry is expected to decline for the calendar year 2017, and this would be third straight year of de-growth for the industry at a global level. The revenues further were down by about 2% on account of price pressures attributed to the weak market conditions in some of the key markets like Latin America and India. But the quality of UPL business continues to remain robust as is reflected in the improvement in gross margins by 21 basis points, taking it to 43% as a percentage of sales, and an improvement in EBITDA margins by 43 basis points, taking the EBITDA to 19.8% of sales.

Mr. Ajit will shortly elaborate on UPL's performance by region and he will further talk about the sales revenue and growth in different regions.

I will now take you through the key financial numbers for the third quarter:

The gross revenues for the quarter ending December 2017 are at Rs. 4194 crores as compared to Rs. 3919 crores in the same period in the previous year. During the quarter the sales volume grew by 12%, the price decrease was 2%, thereby at a constant currency the growth was 10%. Of this 10% further 3% was shaved off due to unfavorable exchange impact, resulting in a net growth of 7%.

The gross margins are at 43%, a 21% basis points improvement over previous year same period. In absolutely value terms the gross margins grew by 7%. EBITDA at 19.8% showed an improvement of 43 basis points over the same period last year.

Provision for tax is Rs. (-14) crores, this has been primarily on account of two factors, one, pursuant to the completion of income tax assessment for earlier periods of UPL Limited India, Rs. 98 crores of provisions for tax has been written back, this is an income. Second, due to revision in corporate tax rates in the US from 35% to 21%, deferred tax asset has got reduced by 55 crores, this of course is an expense in P&L. After considering the charge for income tax for current quarter, it has resulted in an income of Rs. 14 crores. As a result, the net profit after tax is 13.7%, an increase of 198 basis points over that of the previous year of profit after tax of Rs. 459 crore. Against that, this year's profit is Rs. 574 crores.

The revenue breakdown in terms of geography is as follows:

Indian region grew by 10%, from Rs. 560 crores to Rs. 614 crores. Latin America had a growth of 4%, from Rs. 1736 crores to Rs. 1806 crores. Europe grew by 14%, from Rs. 330 crores to Rs. 374 crores. Rest of the world has grown by 9% from Rs. 633 crores to Rs. 687 crores. And North America, revenues grew by 8% from Rs. 660 crores to Rs. 713 crores.

Now, I will take you through the results for the nine months from April to December for FY2018:

Gross revenues for nine months ended December 2017 stood at Rs. 11,687 crores compared to Rs. 10,970 crores in the same period previous year. In the first nine months of financial year 2018, volumes were up by 11%. The impact of decrease in prices was 2%, thereby constant currency we grew by 9%. Besides this the unfavorable exchange impact resulted in further reduction in revenue by 2%, thereby the net sales grew by 7%.

The gross margins are at 42.8%, a 90-basis points improvement over previous year for the same period. In absolute value terms, the gross margins grew by 9%.

EBITDA at 19.7% showed an improvement of 54 basis points over the same period last year. Profit before tax at Rs. 1516 crores show an increase of 22% over Rs. 1239 crores being the profit of the previous year.

Net profit after tax after exceptional item is at Rs. 1286 crores this year as compared to Rs. 986 crores in the same period previous year, an increase of 30%.

I will take you through the region wise breakup of revenues for the first nine months:

India at Rs. 2729 crores represent 23% of the total revenue, and an 8% growth over that of the previous year. Latin America revenues at Rs. 3927 crores comprise of 34% of the total revenue, 5% above that of the previous year. Revenues in Europe at Rs. 1322 crores were 11% of the revenues and represents 7% growth over that of the previous year. Rest of the world at Rs. 1922 crores, 16% of our revenues and a growth of 8% over that of the previous year. And North America at Rs. 1787 crores represent 15% of the total revenues, showed a growth of 7% over that of the same period in the preceding year.

The working capital performance for December 2017 versus December 2016 in terms of number of days of sales is as follows: Net working capital reduced by 15 days to 113 days. Inventory at 117 days have decreased by 4 days. Receivables at 115 days have decreased by 10 days. And payables at 119 days have increased by 1 day. Thereby net working capital stands at 113 days, a 15-day reduction over that of the previous year.

Debt and cash levels at the end of December 2017 are as follows: Net debt is at Rs. 5389 crores, net debt as of March 2017 was Rs. 3481 crores. Gross debt is at Rs. 7025 crores, the same number of gross debt as of 31st March 2017 was Rs. 6361 crores. Cash level is at Rs. 1636 crores as compared to that as of 31st March 2017 the cash levels were at Rs. 2880 crores.

I will now request Ajit Premnath to provide business updates by region for the quarter ended December 2017 as well as for the nine months.

Ajit Premnath: Thanks, Anand. Good afternoon, everyone. Let me give you a bit of an analysis of various regions. But before I do that, let me say that the last nine months in particularly 2017 has been a difficult year for the industry. And the fundamentals have not really changed, the crop prices, the commodity prices continue to be low. The last season production has been quite good, so overall global inventories really are not changing much, or there is no reduction in global inventories as of now. There is some improvement in soybean prices, but not too much, while corn still continues to be very low. This definitely continues to put pressure on farm incomes and their ability to invest in inputs.

So, with that background let me start with India region. So in India we had a growth in the quarter of 10% and nine months 8%. The Rabi season in India was definitely better than Kharif, especially in the southern part of the country. For us, wheat being an important segment our herbicide portfolio has been doing very well and has driven growth in Q3. And also the products that we launched late last year, where this year was the first full year, a couple of fungicides have been accepted very well. We are very pleased with the performance of these two products.

Some of our power brands, mainly insecticides have also seen increased sales, grown considerably over last year. And this is mainly on cotton. Overall, I think good news is that over the last couple of months the commodity prices in India are higher than the MSP, which is good for the farmers, though they are still holding inventory. And it bodes well for the next season that starts in April. So, overall, good last three months for India, with the Rabi crop doing well for us.

If you go to Latin America, we had a growth of 4% in the December quarter and nine months' growth of 5%. Latin America actually started off with very high inventories in the market place, and one good thing that has happened is that as of now the industry has been able to reduce the market inventories considerably in important countries in Latin America, which again is a good start for the next season.

As far as UPL is concerned, we had a couple of launches. And one of the launch in Brazil of an insecticide has been received very well. Although we introduced the product late because of registration, we still managed to have significant sales and we expect this product to really grow well.

As far as soybean rust is concerned, which is an important segment in Latin America, the disease pressure has been, I would say low, to in some pockets moderate, slightly higher than last year. And since the planting was delayed, the season consumption is still going on, and we expect the consumption to go on till at least mid-February, so we have some more time of consumption on our hands.

Seasonal conditions in Argentina have been a little unfavorable, because they have had heavy rains in the middle of the season. And also, in some southern parts of Brazil, which is affecting spraying. But overall, we expect the season to continue till mid-February. Commodity prices as I mentioned are putting pressure on profitability of the growers.

As far as Europe is concerned, we had a quarterly growth of 14% and nine months of 7%. Now, this quarter was a start of new sugar beet season, and since we started the season with almost zero inventories of herbicides it has been a good start. Early purchases have been as per plan, and that has given us a good start as we have a significant presence in sugar beet market. We also introduced a couple of new products in Europe, which in itself is an achievement. And these products, we expect them to pick up as we go forward next year.

Southern Europe was not particularly good, it is an interesting fungicide market for us on vegetables and fruits, but it was a very dry year and therefore affecting sales on crops like grapes and other vegetables.

As far as the rest of the world is concerned, I think our Southeast Asian countries and Africa really grew significantly in quarter three, although a small base but very interesting growth. Our attention to these markets in terms of focus is, I would say, paying dividends. And we expect continued growth in these geographies. Again, new products have contributed significantly to growth in most of these countries.

Australia which was an excellent season last year is going through a dry weather, and if it goes this way for some more time it is going to affect our summer crop prospects for the coming season, and that is not good news. But that is Australia, normally one in six years is all good and rest are always dry, so it is not a surprise.

North America, 8% growth for the quarter and 7% for the nine months. Again, the growth is driven by the herbicide portfolio, glyphosate-resistant segment in soybean and corn is driving our portfolio which addresses this problem. Lifeline and Tricor are just two examples of good growth, significant growth. Fungicide sales was also very good and was high disease pressure year in certain pockets where it was quite wet weather. Rice, which is also again a focus crop for UPL in the US, last year was a very bad year because of reduction in acreages, now it is coming back. Our preseason sales in this quarter are a signal of a normal year, which means that the rice acreages will come back, and the sales was as per plan. And of course, commodity prices again affecting overall situation in North America.

So, overall a good quarter. And we hope that with reduced inventories going forward, things should improve in 2018. On the other hand, high inventories and low crop prices still a botheration and until the farm incomes really increase it will be difficult to have high growth for our business.

Anand Vora: Thanks, Ajit. The team now will be happy to take questions. So, back to you Nitin.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Sonali Salgaonkar from BOB Capital Markets. Please go ahead.

Sonali Salgaonkar: Sir, my first question is, now that up till nine months FY18 we are at a 7% revenue growth, would you like to revise your full year guidance or maintain the same?

Anand Vora: So, if you remove the currency part of it or now from 7% if you add back the currency, we are at about 9% growth in terms of volume and price. And we would like to still maintain between 10% to 12% growth for the end of the year, agnostic of currency.

Sonali Salgaonkar: Sir, so with currency, because I guess last quarter you mentioned the revenue growth at 8% to 10% considering the currency part of it?

Anand Vora: That is right. So, if it would back off another 2% of currency we will be at 8% to 10%.

Sonali Salgaonkar: Okay, alright. Sir, what is the kind of tax rate that we should assume for the full year?

Anand Vora: Well, we generally guide between 18% to 20%, so we will be in that range. This is a one-off which I just shared with you when I shared the quarterly number.

Sonali Salgaonkar: Sir, and my third question is, in the opening remarks you mentioned that the global agro-chem industry, this is the third straight year for de-growth. So, going forward how do you sense the industry growth? And also, which geographies in your opinion could drive the growth going forward?

Ajit Premnath: So, as you mentioned we are in the third year of de-growth probably, the numbers are still not out for 2017 but this is what we believe. And I think we are the bottom of the cycle. And one of the positive factors that I see is that the industry has reduced their market inventory significantly. And in the big markets like for example Brazil and other Latin American countries, Argentina, India for example, so this itself is a good start and we believe that 2018 should be a year of recovery. And if commodity prices little bit helps us, then it could be even better. But for sure, it looks like 2018 would be a year for the recovery to start.

Moderator: Thank you. We have the next question from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar: In the Latin American market you mentioned that there was a delay in the season, so does that mean the sales that we have lost to some extent will be recovered in the subsequent quarter? And on a full year basis what is your assessment for Latin American market for FY18?

Ajit Premnath: So, to answer your first question, yes the plantings were delayed because of again delayed rains. And on an average the delay was about 15 days, that means the season gets extended by 15 days. And therefore, I mentioned the active spraying season should continue till February end. But you should also remember that a lot of area under soybean is moving to short-cycle crop, and that area continues to increase. So, short-cycle crop has now been harvested or is getting harvested now, and what would be left in the field will be the medium-cycle and long-cycle crop. So, yes, the spraying season goes on and some of the inventories which are already in the market would get consumed. And it all depends on how the disease really builds up. As of date the disease pressure is low to moderate as I mentioned, so if suddenly that changes, yes, consumption will go up and therefore probability of resale. But we have to wait and watch next 30 days.

Aditya Jhawar: But what is the growth you are looking for FY18 from Latin American markets?

Anand Vora: For the nine months we had about 5%.

Ajit Premnath: I think it should be, I would say, 5% to 7%.

Aditya Jhawar: Okay. So, Ajit, generally when we are seeing that farm economics are under stress we see a lot of down trading from innovative product to generic. Are you not seeing similar situations where you are talking about lower commodity prices and higher raw material prices? So, are you not seeing similar kind of down-trading in these markets?

Ajit Premnath: Sorry, could you please repeat the last sentence?

Aditya Jhawar: Generally, we have seen down-trading when the farm economy is under stress. This season and the previous season are you not seeing a similar situation where farmer trend from innovative product to generic molecule?

Ajit Premnath: What has happened is in the meanwhile the innovative products have also let's say gone down in value, and the price at which or the cost per acre of innovative product that was two years back or one year back is not the same, and they have also reduced prices. So they are under tremendous pressure. But you are right, the replacement is just not on price, it has to be the right product that you need to use. And in many cases you need to still use innovative products. And therefore some movement happens but it is not significant, you just move from product A to product B just because of price.

Aditya Jhawar: So, are you also seeing some kind of increase in competition from other generic players?

Ajit Premnath: It is always there you know. Generics keep on coming in, new registrations keep on happening. But you will see that UPL might be one of the few companies which are growing in Latin America. And one of the reasons is that our products provide more value to the farmers, clearly. And in a situation where he is stressed for margins we do definitely offer a value proposition in the segment that we are active. And that is one of the reasons that we have been able to grow our business in a market which probably is de-growing, clearly.

Moderator: Thank you. We have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, how is the season looking like for the US and Europe for the upcoming fourth quarter?

Ajit Premnath: It is too early to say because this is really not the season, it is the pre-season sale that happens now because stocking happens much early. Season really will start in April, May in terms of consumption. I think as on date one has to presume that it will be normal, everything is starting as normal.

Chirag Dagli: Okay. Sir, and in Latin America for the Asian rust issue, as it stands today what are the options that the farmer has, sir?

Ajit Premnath: There are various products in the market. So, you should understand that for Asian rust in the high rust probability countries farmers spray on an average three times, but could spray four to five times even in the worst cases. So they have to use various products. So there are several products from various companies, including the innovator companies which are in the market place and several class of fungicides, so SDHIs are there now, pretty active in combination with strobilurin or triazole. And we have our position as anti-resistant solution and our products really support even the new technologies on the farm. So, yes, so there are various class of chemistries available for rust control.

Chirag Dagli: And sir last question was on the tax front, so there is a Rs. 55 crores deferred tax adjustment, there is also something Rs. 14 crores, sir I was not clear what that is exactly?

Anand Vora: Chirag, what I said is we have got Rs. 98 crores reversal of provisions because the assessments have come through for four, five previous years, that is in India. You are aware that in the US tax rates have been reduced from 35% to 21%, and as a result the deferred tax asset which is sitting there had to be adjusted for this tax reduction, and that gave a hit of about Rs. 55 crores. And of course there will be provision which we have to do for the current quarter. So, after considering the income of Rs. 98 crores, the hit of Rs. 55 crores and the provision for the quarter, the net impact is a Rs. 14 crores negative tax hit on the P&L for the quarter.

Moderator: Thank you. We have the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is around the gross margins. what we are hearing from a lot of these companies in the agro-chemical space is that prices of technical, especially from China, is moving up pretty sharply. So, when I am actually looking at the gross margins we have done fairly well on a year-on-year basis, we have shown some improvement. I am just trying to understand how are we backward integrated and going forward are we seeing any kind of an impact in terms of our gross margins?

Anand Vora: I think, Sudarshan, thanks for raising this question. I think this is where our strategy to have our own manufacturing and the amount of investments which we have been doing in the assets year-on-year has really helped. I would not say that we are not complete, I mean we do not buy anything from China, we buy still few raw materials, few intermediates and few finished products from China, but largely because we have put up our own assets we have been insulated with these sharp increases in prices because we have our own manufacturing and this has really helped us. But there is some impact, I would not say that we are completely insulated from the price increase.

Sudarshan Padmanabhan: Okay. Sir, in terms of understanding the industry, I mean probably as you move as you mentioned that this year could see a recovery globally as well, most of the players are not backward integrated and they would be taking price hikes. So to that extent should I understand that as we move towards 4Q and FY19 we are actually till date used to seeing this negative price impact on your numbers, so this shouldn't reverse going forward and we should actually benefit from higher gross margins from being backward integrated?

Anand Vora: Yes, Sudarshan. In fact, we were hoping that to happen in Q3, but because of the excess inventory, particularly in the Latin American region where the main season picks up during this time. But as Ajit mentioned, because of the inventories in the market we could not take the price increase as one would have expected to happen. We definitely are hopeful that because of the higher cost everybody should be taking price increases and certainly we should be in a position to take the price increase.

Moderator: Thank you. We have the next question from the line of Prashant Tiwari from SBICAP Securities. Please go ahead.

Prashant Tiwari: Sir, my question was around this high channel inventories that we keep hearing about. Is there a way to quantify how much above the demand is that number in certain key regions? I keep hearing that may be in Brazil it might be as high as 40% or 30% of the current demand. Is that so?

Ajit Premnath: This is very difficult to quantify, we are talking of the industry here. Yes, if you look at the beginning of the season the inventories were very high, but as we go forward now and going forward in the next quarter I am sure it is coming down. There are a lot of companies who have taken back a lot of inventory which we know, which they have officially announced. And also they have not put as much as to use, they would normally put in December. So all these things give us an indication that at the end of the season the inventory levels would be lower than what it was last year. Now whether it will be 20% or 30% or 10% to 15%, which is I would say normal. Because see, consumption is also still going on, it is not the end of the season.

Prashant Tiwari: Okay. And this late sowing or late planting that we are talking about in LATAM, how would that have had an impact on our growth numbers in this quarter? Like if that late planting would not have been there then could we have moved to a number say Latin America 6%, 8%?

Ajit Premnath: Yes, it could have. But when I say late planting it was about 15 days, so it was not very late.

Prashant Tiwari: Severe impact was due to mainly pricing issues.

Anand Vora: And inventory.

Prashant Tiwari: And sir about the power brands like Mancozeb, are we facing some competition around these brands or are we seeing any slowdown in any one product that is very large?

Ajit Premnath: Not really, I think competition was always there. So, nothing so significant that should be mentioned.

Prashant Tiwari: Okay. And just one thing, when you said that manufacturing saves you from these raw material increases up to a certain extent, so can you highlight in which of the regions where local manufacturing is high that shields you from raw material and also gives you a natural currency hedge?

Anand Vora: I am sorry, can you just repeat because I could not quite comprehend what you said.

Prashant Tiwari: So, I was thinking let's say in Brazil what percentage of your products or sales, you manufacture locally, so that shields you from any Brazil Real currency impact and also gives you help in raw material price management? So a definite reason I just want to find out.

Anand Vora: So, Prashant, in Brazil we do not have any significant manufacturing happening there. I think the point which was raised by Sudarshan, the earlier gentlemen who asked the question was basically that we do a lot of manufacturing by ourselves, when we say ourselves is we have fair amount of investments in manufacturing plants and in some cases we are also backward integrated where we do from the basic raw material we manufacture the intermediates as well as the final products. Most of these assets are in India and this is not the case with some other companies. As a result, we have the advantage because we do our own manufacturing, we have the advantage of regularity of supply. At the same time when Chinese costs are going up this helps us to insulate against these cost increase.

Prashant Tiwari: So, sir, aren't any way most of the raw materials coming from China?

Anand Vora: No, not necessary.

Prashant Tiwari: Okay. So, with better efficiency in your manufacturing processes that way you can lower your cost?

Anand Vora: Plus, the supply is being available, you see a lot of plants have shut down in China because of environmental issues. So that has created some shortage also, resulting in increase in cost.

Prashant Tiwari: And do you have any view on how long can it continue, this China thing? Is it here to stay or can we see certain reversal for may be next six months or so?

Anand Vora: It is to stay, because China is trying to project itself as a first world country now, as a developed economy, so they will want to do away with some of these low-end chemical manufacturing, that is our reading.

Moderator: Thank you. We have the next question from the line of Basanth Patil from HDFC Securities. Please go ahead.

Basanth Patil: Sir, the thing is, just wanted to understand particularly the raw materials which are produced in India are significantly higher, that prices have gone up significantly than Chinese raw material, is that correct sir?

Anand Vora: I do not think so, that is not what we are seeing.

Basanth Patil: Okay. Chinese raw materials are also in line with how the Indian raw material prices have gone up in the same way, it is not much higher, there is no any significant delta between the local availability and Chinese import?

Anand Vora: Yes, that is right.

Basanth Patil: Okay. Sir, can you comment on your capital expenditure plan for FY19? Even for 2018 you have indicated Rs. 1000 crores, so how much we have incurred till now and what is the plan for FY19?

Anand Vora: So, as of now we have spent close to about Rs. 900 crores odd for this year. For FY19, we generally give these numbers when we meet up in person and when we announce the annual results at our capital markets day, which is when we announce our annual results, we give guidance for the following year.

Moderator: Thank you. We have the next question from the line of Akshay Bhor from Kotak Securities. Please go ahead.

Akshay Bhor: First one is, how much exposure do you have for soy in North America and Latin America? And just wanted to understand as to what kind of impact have you seen from Intacta seed of Monsanto?

Ajit Premnath: So, we are not a significant player in that segment, so we really have not been impacted by Intacta. We are more into bugs and sucking pest segments and not the caterpillars.

Akshay Bhor: Understood. The other question is, we have seen two years of consistent pricing pressure in the market and understandably so. But given what is happening in China and raw material price increases, and you have mentioned that you might not be exposed to that kind of pressure, should we see some sort of a pricing relief going forward in the next one year or so for you, that could mean margin increase?

Anand Vora: Well, that is anybody's guess. But as I said, the good part is we continue to make investments in assets. And at least in few molecules where we have taken a strong position in the market, we manufacture them ourselves and this helps us to manage the costs as well as supply chain better.

Akshay Bhor: As part of your overall portfolio, like what percentage is still coming from outsourced or let's say China in terms of both intermediates and raw material, just broad numbers?

Anand Vora: The percentage should be in the range of 10% to 15% of our cost of goods sold.

Moderator: Thank you. We have the next question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Sir, only the question I had was on China, given that so many capacities are shutting down in China, is there a likelihood that you guys can also look at putting more capacities to take advantage of that situation and probably gain more market leadership in terms of manufacturing some of these key large molecules, like say may be an Acephate or a Glyphosate, or any other molecule for that matter?

Anand Vora: That is what we are doing exactly.

Ritesh Gupta: Okay. So, my point was more like on your distribution side you are fully integrated maybe, but even say in terms of B2B supplies could there be an opportunity which you might seek at?

Anand Vora: I mean, we always sell in bulk also because when we put up capacities it is always a step up, you cannot put up based on demand capacity. So, generally wherever we have surplus capacity we try to sell in bulk. And as our branded sales increases then we reduce the bulk and our objective is to sell more and more of branded. But as I said, we put up capacities in step-up, so the surplus capacities which are there we sell in bulk. So we continue those investments.

Moderator: Thank you. We have the next question from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

Amit Kadam: Sir, I had two questions. One is, we planned a foray into biological pesticide and we also had launched two in India. So I just wanted an update on it, how has that been successful in India and future prospect of it? And second is, in the last annual meet we spoke about entering into specialty chemical market where you said it is still on drawing board. So, after nine months where do we stand? Thank you.

Ajit Premnath: Okay, so let me answer you on the biological first. I think we are very pleased with the results we have on our biologicals foray. We have really focused in the Indian market to start with because that is our home market, and we have now a bunch of products, more than two. And they have been really received very well, and we are very happy with that. And we are also now planning to go to other markets outside India. So it has been quite encouraging for us.

Anand Vora: On the specialty side we have identified certain chemistry, work is going on. And we hope to narrow down and finalize our plans in the next year for putting up capacities and other things.

Amit Kadam: On this both bio pesticides and now specialty, can you just quantify both parts, the successes and in specialty any numbers broadly what we are looking at to our total, like how it can be to us down the line five years as a percentage of sales, something like that?

Anand Vora: Well, as I said on specialty we have identified certain chemistry and we are hopeful, these of course would be decent size molecules. But it is too early for us to give any indications in terms of five years what it would be, I mean, once we finalize something, as I mentioned sometime next year, we should be in a position to share some details on numbers or something. But we have plans of course, and I would say it is a bit early to give any indications on the numbers.

Amit Kadam: And sir on this bio-pesticides, will it have a significant impact on our top-line, at least from India side down the line, three years?

Ajit Premnath: It will not be significant on the top-line but it will make a lot of strategic sense to have it in the portfolio for niche segments, by definition for niche markets. And therefore given our size it will not be sizable in that sense in the next two to three years.

Moderator: Thank you. We have the next question from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.

Tejas Sheth: So, at one end we are seeing that the cost of procurement is increasing from China but at the same time the pricing pressure is persisting. So is it that the industry is taking a margin cut or is it the inventory so old that they need to lower the prices before it is not of any use?

Anand Vora: I believe it is a latter, second piece, which is the inventory in the system.

Tejas Sheth: Okay. So it is carried forward inventory where more kind of dumping is happening which is leading to pricing pressure?

Anand Vora: I think yes, it has happened, but we do not see it now happening.

Tejas Sheth: Okay. Sir, second question is, what is the cash generation for nine months?

Anand Vora: Roughly about Rs. 1,700 crores

Tejas Sheth: That is operating cash flow?

Anand Vora: Yes.

Tejas Sheth: And what would be the CAPEX?

Anand Vora: CAPEX is, up till now we have spent about Rs. 900 crores odd, our budget was about Rs. 1200 crores, it includes both the intangible and the tangible assets, intangibles being the registration of products.

Moderator: Thank you. We have the next question from the line of Rahul Jagwani from SKS Capital and Research. Please go ahead.

Rahul Jagwani: Yes. So, we had this tie-up with Bayer, so how has that progressed and what are the expectations basically going ahead for this tie-up?

Ajit Premnath: So the tie-up happened for joint promotion with Bayer in Brazil. And since it started only in October, which is late actually, you have to plan much early, even as it started in October we are very happy with the results and the trade is quite excited and interested and we will see the full impact of this in the next season.

Moderator: Thank you. Our next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Sir, most of the questions has been answered, thank you for the opportunity. just needed one bookkeeping thing, can you share your gross and net debt figures nine months ended?

Anand Vora: Sure. So, our gross debt for nine months as of 31st December is Rs. 7,025 crores and the net debt is Rs. 5,389 crores.

Moderator: Thank you. Ladies and Gentlemen, we will take the last question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: From a medium-term perspective, wanted to understand for next two, three-year perspective what kind of growth rates are we seeing over the next two, three years in the Latin American market?

Ajit Premnath: Since we think that the cycle will now change to growth, we expect 10% to 12% growth in the medium-term.

Vishnu Kumar: Okay. You did mention that some part of the soya crop is moving to short cycle, would that mean in general if there is a switch in acreage then farmers will no longer focus on little of soya, or within soya you are talking about some short cycle?

Ajit Premnath: Within soya.

Ajit Premnath: There are varieties of soya which are short-cycle, there are varieties which are medium and long.

Vishnu Kumar: Okay, the pest infestation is relatively lower on the short cycle part?

Ajit Premnath: I mean, the idea here is that you plant in October and you harvest it before pest pressure really builds up. But you know it is kind of a mechanism to escape, but pest pressure really also depends on the weather conditions. So if it starts raining early, even the short cycle crop comes under pressure.

Vishnu Kumar: How has been the last one, two weeks of pest pressure, has it picked up or is it okay?

Ajit Premnath: Well, as I mentioned, from low it has become moderate, so it has picked up let's say. But it is in pockets and the number of pockets has increased, higher than two weeks, three weeks back.

Vishnu Kumar: And also wanted to understand, in your manufacturing investments what is the typical payback period we are looking at now the price have also risen, what is the kind of payback we currently foresee on our investment?

Anand Vora: We typically look at over three to four years of payback period.

Vishnu Kumar: Just one final question, sir. We have been talking about looking at certain inorganic growth opportunities, just wanted to understand anything that we looked at, anything that looks interesting?

Anand Vora: We like to keep ourselves busy so we continuously evaluate opportunities. And we are in most cases port of first call why most investment bankers approach us. But until something is really moving forward we generally do not like to talk or comment on it, but we keep evaluating opportunity on regular basis.

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

Anand Vora: Thanks, Nitin. Thank you very much, everybody, for joining us on the call. And in case you all have any further queries, you can feel free to reach out to either Ashish or myself and we will be happy to take the questions. Thank you very much.

Nitin Agarwal: Thanks everyone for taking the time out and participating in the call. And thanks a lot to the UPL Management team also. Thank you. Have a good day.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of IDFC Securities that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.