



## “UPL Limited Q3 FY 2017 Earnings Conference Call”

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**ANALYST:**                    **MR. VIJAYARAGHAVAN – IDFC SECURITIES**

**MANAGEMENT:**        **MR. JAI SHROFF – CHIEF EXECUTIVE OFFICER – UPL LTD**  
**MR. SAGAR KAUSHIK – COO, GLOBAL BUSINESS - UPL LTD**  
**MR. ANAND VORA - CHIEF FINANCIAL OFFICER – UPL LTD**  
**MR. RAJENDRA DARAK - GROUP CHIEF FINANCIAL OFFICER –**  
**UPL LTD**



**Moderator:** Ladies and gentlemen good day and welcome to the UPL Limited Q3 FY2017 Earnings Conference Call, hosted by IDFC Securities 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 the conference call, please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vijayaraghavan from IDFC Securities. Thank you and over to you Sir!

**Vijayaraghavan:** Thank you Lizaan. Very good afternoon to everyone and thank you for joining us today. 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, we have with us today Mr. Jai Shroff, CEO, Mr. Rajendra Darak, Group CFO; Mr. Sagar Kaushik, COO, Global Business, Mr. Anand Vora, Global CFO of UPL and other senior members from finance and marketing team. So I would like to hand over the call to Mr. Anand Vora, we will start with initial remarks from the management team then which will be followed up with Q&A session. Mr. Anand!

**Anand Vora:** Thank you Vijayaraghavan. Thank you very much and good afternoon to everyone. Welcome to the Financial Year 2017 Q3 Earnings Call. We would like to highlight that in the accordance with the changes in regulations, the current year numbers are as per Ind-AS and the previous year’s numbers have been recasted as per Ind-AS to make them comparable. We will now take you through the key numbers for the third quarter.

The gross revenues for the quarter ending December 2016 are Rs.3987 Crores as compared to Rs.3377 Crores in the same period in previous year. During the quarter the sales volume grew by 18%, the price decreased by 3% leading to a constant currency growth of 15%. The exchange impact was favourable by 3% translating into a net increase in sales by 18%.

If one has to look at the same numbers under the Indian GAAP, the revenue growth would have been at 19%. The gross margins are at 41.9%, a 132-basis point improvement over previous year same period. In absolute terms, the gross margin grew by 22%. EBITDA at 18.7% showed an improvement of 217-basis point over the same period last year. The corresponding EBITDA under I-GAAP would have been 21.6% as compared to 19.3% in the previous year.

Profit before tax of Rs.509 Crores is an increase of 57% over Rs.325 Crores last year. Net profit after tax after exceptional items is 11.5% an increase of 319-basis points over that of the previous year. This year, net profit after tax stands at Rs.459 Crores versus Rs.281 Crores in the previous year.

The revenue breakdown in terms of geography is, India region grew by 20% from Rs.521 Crores to Rs.626 Crores. Latin America had growth of 37% from Rs.1270 Crores to Rs.1736 Crores. Europe grew by 8% from Rs.304 Crores to Rs.329 Crores. Rest of the World has grown by 2% from Rs.623 Crores to Rs.636 Crores. North American revenues were flat at Rs.660 Crores.

The numbers for the nine months for financial year 2017 are as follows.

Gross revenue for nine months ended December 2016 stood at Rs.11289 Crores as compared to Rs.9905 Crores in the same period for financial year 2016. In the first nine months of financial year 2017, volumes were up by 16%, the price decreases were 3% resulting in a constant currency growth of 13%. There was a favourable exchange impact of 2%,



leading to a net increase in sales by 15%. If the same numbers has to be reviewed as per I-GAAP, then the revenue growth would have been 11%.

The gross margins are at 40.5%, a 110-basis point improvement over previous year same period. In absolute terms, the gross margin grew by 17%. EBITDA at 18.4% showed an improvement of 116-basis point over the same period last year. The corresponding EBITDA under Indian GAAP would have been 19.9% as compared to 18.9% in the previous year.

Profit before tax stands at Rs.1239 Crores, shows an increase of 33% over that of the last year. Net profit after tax after exceptional items is at Rs.986 Crores this year as compared to Rs.746 Crores in the same period previous year, an increase of 32%.

Regional breakdown of revenues for the first nine months is as under: India at Rs.2846 Crores represents 25% of the total revenue, a 12% growth over that of the previous year. Latin American revenues at Rs.3750 Crores comprises of 33% of the total revenues and 31% above that of the previous year. Revenues in Europe at Rs.1232 Crores were 11% of the total revenues and represent a growth of 6% over that of the previous year. Rest of the World at Rs.1787 Crores is 16% of our revenues and a growth of 5%. North America at Rs.1674 Crores represents 15% of our total revenues showing a growth of 2% over that of the same period in the previous year.

Moving on to working capital. The working capital performance for December 2016 versus December 2015 is as follows: Net working capital was flat at 131 days. Inventory has decreased by five days, receivables have increased by 16 days and payables have increased by 11 days.

Debt and cash levels as of December 2016, net debt is at Rs. 5650 Crores, the same number as of March 2016 was Rs.4006 Crores, gross debt is at Rs.7709 Crores, the same number as of March 2016 was Rs.5195 Crores, cash level is at Rs.2059 Crores, and the corresponding number as of March 2016 was Rs.1189 Crores.

The higher cash levels were on account of the proceeds from issue of unsecured notes by UPL Corporation Limited in October 2016. We expect net debt to go down by around Rs.2000 Crores in Q4 of FY2017. This would be accomplished through a mix of reduction in working capital and operating cash, which will be generated in Q4.

I would now request Mr. Sagar Kaushik to provide business updates for the quarter ended December 2016.

**Sagar Kaushik:**

In terms of the market and the overall performance for UPL region wise, I am going to start with India, our home market and India as far as the quarter is concerned, we had a growth of 20% and for the first nine months, we have had a growth of 12%. Now from the market standpoint, we had good rains for Kharif, but later on the monsoon weakened more in the southern part of the country, Karnataka, Tamil Nadu, Gujarat etc., and especially Tamil Nadu, the rice area, Andhra Pradesh rice area has suffered, perhaps you people would have also read it. Tamil Nadu declared almost crop holiday for the rice area because of the deficient rain in Q3.

Overall, we also have witnessed in the first nine months that the cotton crop area got reduced and shifted to pulses, oilseed and therefore the portfolio of the industry and also of UPL shifted towards more pulses and oilseed, also in certain areas of corn. We have launched three products, one is a crop nutrient and other two are fungicides, which are well received to create either new segment or better performing products in the existing segment. So overall we have



also improved our position in soy bean for the herbicide, which is the largest segment in soy bean and same is the situation for pulses, these are the growing segments where UPL really increased participation with three branded products.

Now there was some impact, which happened during this year because of the disruption in banking, so the collections had been delayed, so that is due to the whole disruption in the banking sector, you people all have seen it and overall there is some decline in the seed business, which is just part of it, so that is about India.

In terms of Latin America that includes Brazil, so first the third quarter we had a growth of 37% and for the first nine months it represents a growth of 31%. So overall Brazil, within Latin America, this year was a good season from the weather point of view, though we have observed that Asian Rust, which is the major disease, the infestation level has been mediocre. On the other hand, we have seen that the insecticide segment has performed extremely well especially the sucking insect segment mostly these bugs, the infestation has been high and for us we have a portfolio, which is very specific to the sucking insect that performed extremely well, so we have also launched two new products, one herbicide, one fungicide in the Latin American market in Argentina, Mexico these are some specific markets where these new products have gone. So some difficulty we had in terms of the operations in Argentina because of the lower margin products we have not given so much of emphasis, but the overall profitability part becomes better. Advanta Seeds have done quite well, all their products in Latin America, specifically more in Argentina and other markets like Columbia etc.

Going to North America where for the quarter we have just plus/minus. While in the first nine months we have a growth of 2%. The North American Market is quite flat this year mainly because the growers have reduced their total spraying activities and the total use of the farm input. Last two years both calendar 2016 and calendar year 2015 have been pretty good for the field crop production from the farmer standpoint in the US, so they did high productivity for soy bean and corn in both these years, which is resulting into the higher level of stocks towards the end of the year and therefore, still the commodity prices are on the decline.

We have also witnessed that the insecticide season or the acaricide season had pretty lower consumption this year of these products, though we launched Acaricide Banter that has been well received, but the overall market consumption for insecticide, Acaricide has been lower. So non-selective herbicide where we are quite an influential player with our Glufosinate, there has been severe price competition for the whole year, but nevertheless we have witnessed that the volumes are growing for our products, that obviously means that the glyphosate resistant related weeds, they are actually becoming more penetrating in the different markets, so the demand for product like Glufosinate volumes are increasing.

We also witnessed that there is a now little bit price improvement coming back for the herbicide there both for Glyphosate, Glufosinate and the other non-selective herbicides. So that is about North America.

For Europe we have for the quarter 8% growth and the cumulative growth for the first nine months is at 6%. Overall good herbicide season we have seen especially for Sugar Beet, which is a very important crop for UPL and that helps us to increase our presence with our herbicide and overall the season, the rainfall has favoured the specialty crops where we are a good participant, crops like potato and vine, where the fungicide the consumption is higher and we benefited out of it.



There is a reduction in the fungicide for cereals, but we are not a very active player in the cereal fungicide so far, so overall we have been sharing with you that the market growth and the outlook for Europe is generally very static, but we are also now actively penetrating into the eastern European block, so that overall we are able to carry forward the growth for the Europe region.

Rest of the World shows 2% growth for the third quarter and 5% growth for the first nine months. After a prolonged drought period of almost three to four years, Australian market and also several parts of Southeast Asia have received good rainfall, it benefited mainly the fungicide business, new business as well as some of the channel inventories had been cleared for the industry.

In Australia despite the good monsoons, actually the early part of the year, which is March, April, May, which is a very active period for the pre-emergence herbicide because of the heavy rainfall, continuous rainfall, the consumption of the pre-emergence herbicide that window got much more narrowed, so the herbicide business actually did not grow much there.

Fungicide business has been pretty good especially on crops like chickpeas and wheat, which are also prominent crops in Australia. Southeast Asia the rice business had good recovery and the first season also was good for Thailand, Indonesia with some delays in Vietnam. Overall, we have been able to have geographical expansion of non-selective herbicide, our Glufosinate brand the new registrations and practically most of the Asian Countries we are covering with our market access for registration and distribution.

Overall, Turkey maintains still a good presence for us, the season is a little bit low, but we had growth due to our institutional business in the country. So overall business recovery in Africa with new products, where we continue to have more and more registrations and market access. Seed business has done quite well in select countries of Southeast Asia like Thailand and Indonesia. So overall the performance for Advanta in this region is pretty good. With this I hand over to Mr. Anand.

**Anand Vora:** Thank you Mr. Sagar. We will be now happy to take calls.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We will take the first question from the line of Chirag Dagli from HDFC. Please go ahead.

**Chirag Dagli:** Thank you for the opportunity. Sir, can you give us some color of how the upcoming consumption season looks like in Europe and in US, given that the fourth quarter is a very large part of the overall consumption and that we have already seen a month of the fourth quarter? How is it looking like for UPL?

**Sagar Kaushik:** So if your question is for Europe and the US, the consumption period I think is mostly over in the US, so therefore the preparations and all are much more from the distribution point of view for the distributors they buy, the early purchases they do depending upon how the spring season opens up there, if it is the early spring then they are able to sell more, so the consumption actually starts more from the March, April onwards there, so as far as Europe is concerned, I think the situation is more or less similar, they will also wait for the early springs to happen, so for the last quarter, it is more the pre-placement, which happens for consumption in early spring.



- Chirag Dagli:** What are the early expectations, Sir, of how the season will be?
- Sagar Kaushik:** I think, currently we see that it would be normal like compared to the earlier year, we expect more or less the similar sort of pattern, though we believe in Europe we have been able to sell faster this year than last year, so otherwise we expect normal pattern.
- Jai Shroff:** But we have been trying, we got to be little more cautious this quarter.
- Chirag Dagli:** In Europe, Sir?
- Jai Shroff:** Worldwide I think we want to be a little more, I would say careful on numbers, we think we should be able to achieve numbers, but it is a very tough market. We are cautious for the next quarter, we still will achieve growth, but we believe that the market conditions are pretty tough.
- Chirag Dagli:** And just last point if I may, sir. Does glyphosate price have any bearing on Glufosinate prices also?
- Sagar Kaushik:** Well not directly, but both the products are in the same segment, so therefore there is some competitive closeness, but not so directly.
- Chirag Dagli:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish Achhipalia:** Thank you Sir. Good evening and congrats on excellent numbers. Just in terms of guidance, revenue, margins and tax rate, any change to what you have guided for, I think 12% to 15%, 60 to 100 basis point and 18% to 20%. Any change over there?
- Anand Vora:** No, we maintain our guidance, we generally give annual guidance in the beginning of the year and we hold it through the end of the year.
- Girish Achhipalia:** Okay. And on slide nine of the presentation deck it appears that the margins in the nine months already have increased by 120 basis point as per Ind-As. So how should one read your guidance in conjunction with what is already achieved in the first nine months?
- Anand Vora:** We will strive to continue improving the margins, it is not that once we have achieved the guidance we will not make more margins, but as I said as a policy we generally give guidance at the beginning of the year and then we strive hard to outperform, but at least we hold onto the guidance.
- Girish Achhipalia:** Okay. And Sir, capex, what is the guidance? Is there any revision and how much have we done for the nine months?
- Anand Vora:** For the nine months we have done a capex of Rs.795 Crores, we had guided for about Rs.850 to Rs.900 Crores, we will be in that range. Some of the capexes, as we have indicated, would be in our overseas subsidiary and therefore, there is a bit of currency impact over there also.



- Girish Achhipalia:** Okay. Sir, just in terms of finally on the products side, there have been recent reports around your competitors in the state of Parana at least having some issues, I mean, this is the Asian rust, Unizeb platform I am talking about. So if you could just clarify how are you positioned in terms of manufacturing capacity, how big is Parana for you in overall context of Unizeb and just a question to Sagar Sir. I think I missed his comment on Glufosinate. You said the prices have started to recover. How material change has happened and how does it play out in Q4 in terms of revenue? That is the only question I have. Thanks.
- Sagar Kaushik:** Okay, thank you for asking this question. I think if you are referring to some of the steps the Ministry of Agriculture in Brazil has taken on reviewing a number of products, which have been used for Asian rust control, so there I think the review is done more from the bio efficacy point of view and these had been very conventional products, which have been used and so they have recommended to reduce the use of those products or taken out completely, so we do not have any significant product in that range of the product, so we have only one small product, but that is really insignificant, so we will not really bother. Our major product, which are really the stronger pipeline that is completely not impacted.
- Girish Achhipalia:** But do we get a positive flip because some of the competing products on Asian rust get suspended or are under review for some period of time now?
- Sagar Kaushik:** No I think these products may not be very let us say at a higher level of sales because the competitors they have also been able to bring some new products etc., there, so it does not really change, it is just the government initiative based on their own review of their pathologist, which products actually the rust has developed some resistance or lower level of sensitivity, so it is more from the bio-efficacy point of view and these are very conventional sort of products.
- Jai Shroff:** If your question is that do we have some upside, yes we do some upside in that, but it is something which we capture in our future growth because we believe that our concept, protectant concept is something, which is really helping the farmers to boost yield, so we do see an upside, we are not going to be specific on what is the upside.
- Girish Achhipalia:** Fair point. Sir, just on outlook on Glufosinate, if the prices are trending up, how do we see the product over the next six to nine months?
- Sagar Kaushik:** Well, I think basically we know that the benefit of this product to the grower is in terms of their ability to manage the resistance with glyphosate. So now we can only tell you the trend, the latest trend is that there is a bit of price increase, which is happening, but two months ago I think there was severe competition from the price point of view, so we expect that now the acceptance of the product in general in the US and other markets due to resistance will continue to increase and we are really leading to participate in this resistance management segment as per our marketing programs.
- Girish Achhipalia:** Just a final question on strategy here. Anand Sir mentioned in the last concall that we are going to closely follow the credit rating when it comes to acquisitions, in terms of what the covenants are. If you could just highlight in terms of, are there any serious antitrust issues that you foresee for the industry, which could probably give you some opportunity and what strategically are you looking at some specific brands or some specific geographies, if you can add any color on this?
- Jai Shroff:** No we cannot be specific, we do not know. The regulators are reviewing it right now and there is a lot of discussion, but it is too early to say, but in general, I think there will be two types of rationalization, one is portfolio rationalization



by the big companies, by the merging entities and also there will be forced disinvestment, but it depends on what they are. We cannot talk about that right now.

**Girish Achhipalia:** Thank you.

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

**Alok Deshpande:** Good afternoon gentlemen. My first question is for Sagar. You mentioned that the Asian rust incidence this year has been sort of mediocre in Brazil. I just wanted to know, is this because of this incidence has been naturally low or is this that the protectant category, in which Unizeb is placed, that category has expanded, farmers have adopted usage of Unizeb or other protective products as a protectant and that is why it has been low? Just wanted to understand whether this category has sort of grown this year or actually declined?

**Sagar Kaushik:** I think it is just due to the weather pattern and it is nothing new, there is a cycle of the fungus incidence, turbulence, etc., I would say that it is medium level of infestation, which also definitely the farmers take up the spraying. So instead of six spraying they may take five or something like that, so otherwise I think it is not that the virulence is so high that there is a panic about it, but I think it is sufficient for taking up good level of spraying activities. The good news is that it is across the entire area of soybean. Otherwise in the past, sometimes because the weather or the rainfall in part of Brazil is very dry and part is maybe good rainfall, but this year so far the weather conditions are pretty normal across Brazil, which is a positive part.

**Alok Deshpande:** Second question was also related to Latin America. You mentioned that the insecticides portfolio has done quite well. Can you just probably take us through a couple of our top products in this segment in Latin America, which have done well?

**Sagar Kaushik:** Well we have the sucking insecticide range, so we have Imida Gold is one product, which has done extremely well. We have Battus, which is Acetamiprid-based product has done very well. We have Perito, which is a very specific patented technology for Acephate etc., has done very well. So I think these are the three products, which have done extremely well there.

**Alok Deshpande:** Sure. And just one last question just wanted to know what are the seed sales this quarter as a percentage of total revenues or in absolute number?

**Anand Vora:** It will be less than 10%, the growth is about 13.7% vis-à-vis the same quarter in the previous year.

**Alok Deshpande:** Okay. So less than 10% means, 8%, 9% of the total revenue of Q3 is what you are seeing. Is it that?

**Anand Vora:** Yes.

**Alok Deshpande:** Thanks a lot, gentlemen.

**Moderator:** Thank you. We will take the next question from the line of Sumant Kumar from Emkay Global. Please go ahead.

**Sumant Kumar:** My question is the forex impact on other income and interest cost for Q3 FY2017?



- Anand Vora:** The forex impact on other income for Q3 has been, this year has been an expense Rs. 32 cr., last year has been an income of Rs.53 Crores.
- Sumant Kumar:** So there a loss of Rs.32 Crores, right?
- Anand Vora:** Yes.
- Sumant Kumar:** And interest cost?
- Anand Vora:** In interest cost the forex impact is Rs.2.5 Crores this quarter and the same number for the previous year quarter was Rs.82.78 Crores.
- Sumant Kumar:** Rs.82.78 Crores, so Rs.2.5 Crores is profit?
- Anand Vora:** Rs.2.5 Crores is also a hit.
- Sumant Kumar:** Hit. Okay. Regarding the product launches of Vesta, could you please throw some light on how it is performing in the market?
- Sagar Kaushik:** Of course it is doing well. This is not launched this year. This is launched already six years ago.
- Sumant Kumar:** Okay, so pan-India level, it is performing well?
- Sagar Kaushik:** Yes.
- Jai Shroff:** In the wheat growing area.
- Sagar Kaushik:** In the wheat growing area.
- Jai Shroff:** It is a specific wheat herbicide.
- Sagar Kaushik:** Maybe this year the sales are even better than last year. So that is what I was there some three weeks ago.
- Sumant Kumar:** Okay. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akella from IIFL. Please go ahead.
- Abhijeet Akella:** Good afternoon. Thanks a lot for taking my questions. First, just on Advanta, is it possible to give us the nine-month revenue for Advanta and the corresponding figure for last year's YTD?
- Anand Vora:** Yes, sure Rs.954 Crores for current year versus last year the same number was around Rs.875 Crores, roughly in that range. There has been this Ind-As impact, so I have to just come back to you all.
- Abhijeet Akella:** Okay. Sure. And on the debt, what is your expectation for where it can go by end of the year?



- Anand Vora:** I did mention in my opening commentary that we expect to reduce the debt by about Rs.2000 Crores in the Q4, largely coming from, you see our working capital is at 131 days and typically last year if one has to see by March we were at about 100 days, so this is because of the seasonality and the collections, which happened in the Q4 and besides that obviously the operating cash flows, which will be flowing in, so we expect a reduction of roughly about Rs.2000 Crores in Q4.
- Abhijeet Akella:** So you had Rs.5650 Crores of net debt as of December?
- Anand Vora:** That is right.
- Abhijeet Akella:** It can go down to Rs.3650 Crores approximately?
- Anand Vora:** That is our estimate.
- Abhijeet Akella:** Okay, got it. And on the tax rate, it was unusually low this quarter. You have been guiding to 18% or 20%, but it has been much lower than that this year. So what is a realistic number now for FY2017?
- Anand Vora:** I think you should hold on to the guidance of 18 to 20, you see the Q3, Q4 are typically good quarters for US and Europe markets and these are as you know are having better profitability compared to our normal average profit, so we would like to hold on to the guidance, it could be a tad lower than the guidance, but we still hold on to the guidance what we have given. So it is about 18% to 20%.
- Abhijeet Akella:** Last question. Latin America, 37% growth, again, this quarter. You have a bit of a high base. I think, in Q4 because I think in last year's Q4 you grew very strongly?
- Anand Vora:** That is right.
- Abhijeet Akella:** So now, how do you see the growth outlook here in subsequent quarters? I mean, can this kind of growth sustain? What do you think you can do in Q4 and then in FY2018 in LatAm?
- Anand Vora:** The overall growth as we have said we generally give the guidance of 12% to 15%, we believe that those numbers will be delivered. Yes, surely based on Q3 numbers, YTD Q3, we believe that we would be on the higher side of the guidance, which we have given that is more towards the 15% side.
- Abhijeet Akella:** Okay. Thank you very much. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.
- Amit Murarka:** Good evening everyone. So just a couple of questions. Firstly, on the EBITDA margin expansion, so let us say that the margin expansion has been extremely good at about 230 basis points. So I believe some of it would be on account of better sales mix, but the raw material cost is still coming down for you guys?
- Anand Vora:** I think you are aware the commodity prices are slowly inching up, so we do get the benefit of some of the purchases, which we have typically there is a lead time of three months. So we get it, but as you see there is a negative price variance also, which means that a part of the reductions in the raw material cost has been passed on to the customer,



but yes going forward we see a slight uptake in the raw material cost and we hope to - at least our guidance for the sales team has been that they should start pushing up the prices in the market.

**Amit Murarka:** Okay, understood. Secondly on M&A, so obviously it has been reported that some products from Dow, DuPont are coming to the market, particularly on the cereals herbicide side in Europe, which is one of the target segments for you. So any sense there, are you guys keenly looking at it this time?

**Jai Shroff:** We look at all the deals. It is still in the process, so difficult to comment right now.

**Amit Murarka:** Okay, but still any sense I mean, will the deal size be a large one or how will it be or to answer it in another - understand basically, what is your comfort level for net debt to equity.

**Jai Shroff:** No, we cannot comment on all these things, but we are very conservative as you have probably seen from the history.

**Amit Murarka:** Okay, but is there any target level of net debt to equity that you would not like to breach?

**Anand Vora:** I think that I mentioned in the earlier call and somebody alluded in this call also that we have an investment grade rating and we definitely want to ensure that we retain that and therefore, there are certain caps, which have been put, basically the two caps, which covers net debt to equity as well as net debt to EBITDA, so we would be in the range of not exceeding I mean rating agency, it is roughly net debt to EBITDA of about 2, for internal guidance's, we remain within 1.5 level and net debt equity is in the range of 1, but internal guidance is much lower.

**Amit Murarka:** Thanks. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** Thank you for the opportunity and congratulations on a good set of numbers. Hello?

**Anand Vora:** Yes.

**Viraj Kacharia:** Most of my questions have been answered. Just have one question. It is on, if you see sales of certain molecules like Mancozeb and Propineb, those have picked up really well in last one year for certain Indian players and what we understand is our company is also one of the major suppliers of those molecules globally. So just wanted to get a sense on the overall market size of these molecules on a global level and given the kind of constraints, if at all we are seeing on the capacity side across the board, so how are we placed with respect to that?

**Sagar Kaushik:** Well, I think your understanding is right that these products fall into the protectant segment and which have been accepted in especially Latin America and we will see this trend going to perhaps some other countries as well and you also saw the capex information number, which Mr. Anand just shared, so I think we take care of the demand and supply so that we are ready to be on time for servicing the potential demand. So I think we have sufficient preparation to have our capacities ready to supply the growing demand.

**Viraj Kacharia:** Sir, what would be the total market size of these two molecules put together, roughly?



**Jai Shroff:** Market size changes, so market size before our protectant segment was not there. So as resistance to the more specific fungicide increases, the market size is growing, but we cannot be more specific on specific numbers, but these are fungicide market generally in the world has grown and it is continuously growing and we are seeing more fungicides are used, it is impacting the yield on crop, usage everywhere is increasing. It is really impacting the yield, but we cannot be more specific on size of the market.

**Viraj Kacharia:** Okay. Because basically what I was saying, this is an opportunity like a plus \$1 billion or a plus \$2 billion opportunity for us because what we understand, there are only two, three players who have the registrations for these molecules in terms of and also the supply capability. So that is why I just wanted to get a bit more clarity from your side.

**Jai Shroff:** It is a growing segment and we continue to be dominant player in that.

**Viraj Kacharia:** Okay. So this is more like a multi-year trend, which we are seeing in these molecules?

**Jai Shroff:** Yes.

**Viraj Kacharia:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

**Rohan Gupta:** Sir, Rohan here from Edelweiss Securities. I think there was some confusion in that?

**Anand Vora:** Okay, go ahead.

**Rohan Gupta:** Sir, you gave a very cautious outlook for the Q4 and also mentioned about the weakness in the market, and though we have seen very strong nine-month numbers, but while you are maintaining your yearly guidance, it means that we are definitely going to see a challenging environment in Q4, while generally, Sir, Q4 is a very big quarter for us. So this weakness, which you are seeing, is coming from only in Europe and US market or there are overall challenges across the geographies?

**Jai Shroff:** I think we still think that we will hit our growth numbers, but we are a bit cautious, we have to just really see how the trends are, because it could easily push over into the next year. In general, this is our big quarter. It will be our big quarter. It will continue to be our biggest quarter, but we are seeing some headwinds, which we will have to be a little bit more careful on our growth, but we still are confident that we will achieve our guidance.

**Rohan Gupta:** And Sir, these headwinds you are seeing, that is why I asked that, whether it is in US or Euro markets or even emerging markets like India, Latin America?

**Sagar Kaushik:** Look if you take India, India the Kharif was very buoyant, and for Rabi, it is not that. I also expressed when I was giving the overview on India. So I think the Rabi crops are more prevalent also in the southern part of India, so the growth level, which we had or even the industry had, the industry performance we expect will be much lower in Rabi than what it was in Kharif.

**Jai Shroff:** But also we have been cautious on cash, as you can see that, all the demonetization is impacting some of the cash collection and also some of the other markets, so we are just tightening the cash because we feel that it is a good time



to tighten the thing. Plus all these mergers happening in the international market, we are just keeping an eye on how that is going to impact overall market.

**Rohan Gupta:** Okay. And Sir, just taking a clue from your conversation on lieu though you did a very strong growth of almost 20% in India, but it means that the demonetization impact is likely to come in Q4 more than what we would have seen in Q3?

**Jai Shroff:** More from collections point of view.

**Sagar Kaushik:** We can just say the same thing, it is the collection, otherwise the total size of the kitty in Rabi anyhow is much smaller than Kharif.

**Rohan Gupta:** So it will be only probably collections and do you also see in India market there is a huge inventory push up has happened because, I mean, the growth of 20%, which we have already delivered and other companies are also we are seeing in the similar range, then is there inventory has been pushed in the system or otherwise it was a good consumption during the quarter?

**Sagar Kaushik:** I think there is no extraordinary buildup, which we see, except in South, there has been much more supplies for the rice market, so depending on the policies of the different companies, there may be more inventories there.

**Rohan Gupta:** That is all from my side Sir. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Mohan Lal from Kotak Securities. Please go ahead.

**Mohan Lal:** Sir, thanks for taking my question and congratulation on a great set of performance. Sir, I had a few bookkeeping questions. First, I wanted to know about this revision of Rs.654 Crores in EBITDA for the last year. So under which items it is coming into and why this revision like this?

**Anand Vora:** We shared with you the slide, which shows the impact on EBITDA was Ind-As versus the India GAAP and if you see the impact it is essentially coming because of cash discount and NPV impact, which is almost around 2%. The ECL impact that is essentially related to the bad debt provision that is about 0.5%. As per the new Ind-As you need to make provisions based on your past track record and the third the excise grossing up impact, which is there, which is about 0.3%. So these are the two, three factors, which is affecting the EBITDA especially when you compare it with respect to the old GAAP that is India GAAP versus the Ind-As that we are following now.

**Mohan Lal:** Okay. Second question was on other expenses there has been only a 4% growth despite a very strong topline growth. So is there some kind of a postponement of certain expenses that will happen in Q4?

**Anand Vora:** No. There is no such postponement of expenses. We record all our expenses on accrual basis, so there is no question of any postponement of expenses. What is it that? Is there any specific point you are referring to?

**Mohan Lal:** No, I am just normally other expenses has grown in line with topline growth, and this quarter we have seen a topline growth of 18% and other expense have grown by just 4%. And that is a major source of margins expansion. So what really happened there and is there some kind of cost cutting or something?



**Anand Vora:** Sure, see there are sometimes, you know, quarter on quarter we review the ECL impact, which is there and therefore in case if the collections come by then obviously there will be some reversal, which would be happening on account of ECL. So it is a quarter on quarter basis, which we need to review and this is not only reviewed by us internally, but also verified by the auditors. So that could be one of the reasons where there could be a slightly lower impact of the overall expenses, because there could be a credit coming through the ECL. In other words there was an extra provision in the Q2 and Q3 we would have reversed some of the provisions.

**Mohan Lal:** Sir, on other income, there has been a lot of volatility on a Q-o-Q basis. So how should we project this line item? As per my understanding, this is where you booked your gains and losses from the expired hedges. And in Q-o-Q, we are not seeing much of a currency move, but the other income has moved quite significantly?

**Anand Vora:** Just one second, see the other income now there is a new component, which is coming in the other income and this you should be aware about is the NPV, the net present value on sales. You see what the Ind-AS requires us to do is that, for all receivables, which are beyond a certain period they need to make an estimate of the interest income on that, basically in other words what they are saying is that you are extending credit beyond the certain periods, means, there is a loss of interest, which is arising out of that, so that you need to back off from the sales and the second effect of that would come in other income. So I will just share, so that you get a perspective of the number for YTD December the impact in other income is, there is a income of Rs.161 Crores on account of NPV on sales, the same number for the previous year was Rs.114 Crores. So you have seen that in the other income has gone up by almost Rs.161 Crores because of NPV on sales for this nine months and the corresponding number was Rs.114 Crores in the previous year. For the quarter this number is Rs.70.67 Crores and the same number for the previous year is Rs.43.57 Crores, so because of this NPV on sale, net present value on sale you will see the other income increasing because of this entry of NPV on sales.

**Mohan Lal:** Sir, that is well understood and thanks for clarification on that. I was referring to this move from minus Rs.10 Crores to Rs.97 Crores on a Q-o-Q basis. As in Q2 FY17, we had Rs.10 Crores loss booked in other income and now we have a Rs.97 Crores other income in third quarter. Why it is such a big change?

**Anand Vora:** Rs.70 Crores is NPV and then there is also the exchange impact, which is there.

**Mohan Lal:** I heard Rs.17 Crores.

**Anand Vora:** No, Rs.70 Crores.

**Mohan Lal:** Rs.70 Crores.

**Anand Vora:** Yes.

**Mohan Lal:** Okay. Great, Sir. Last question. Actually I just missed the gross and net debt numbers?

**Anand Vora:** The gross debt number is Rs.7700 Crores and the net debt number is Rs.5650 Crores.

**Mohan Lal:** Got it. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.



- Girish Achhipalia:** Just a couple of follow-ups. The rate, innovation index, I mean, how do we see the year-end for the innovation index looking up to, for fiscal 2017?
- Anand Vora:** Well we should be above 15%, which is our target, generally we keep.
- Girish Achhipalia:** Sir, just to follow-up on the Brazil side. You said that the industry, the insecticide growth has been stronger, if I recollect it the last couple of quarters, you also mentioned the fact that the industry was heavily impacted on the insecticide side. So how do we see ourselves positioned in terms of products and are we likely to see versus our earlier estimate, perhaps slightly lesser growth in Unizeb, but probably that being offset by higher growth in the insecticide segment in Brazil?
- Sagar Kaushik:** So first of all, what I said and I referred was sucking insecticide and in the past what we have been referring was the insecticide for the Lepidoptera segment, so what we mentioned that because of the Intacta technology, which is the GM technology of other companies like Monsanto, there was a reduction in the infestation of caterpillars. So therefore, those insecticide, contact insecticide – the reduction was very severe with that. Now, with the latest development – the more of the bugs and the hoppers, these kind of sucking insects they had appeared much more, so therefore, I was referring only to the sucking insecticide segment, you would also see in the note, which we had circulated.
- Girish Achhipalia:** Fair enough Sir. Thanks that clarifies.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Vijayaraghavan for his closing comments.
- Vijayaraghavan:** Mr. Anand would you like to give any closing comments?
- Anand Vora:** Just would like to thank everyone for joining us on this call. Thank you very much.
- Vijayaraghavan:** Thanks a lot Sir. Thanks a lot for giving this opportunity.
- Anand Vora:** From the entire management team here, thank you very much for joining us on the call.
- Vijayaraghavan:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IDFC Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.