Best Agrolife Limited

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November 13, 2023

To
The Manager
Compliance Department
BSE Ltd Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai-400001

SCRIP CODE: 539660
SCRIP ID: BESTAGRO

Sub: Transcript of Q2 Earnings Conference Call - FY 2023-24

Dear Sir/Mam

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015 (the "Listing Regulations"), please find enclosed herewith the transcript of earnings conference call for the quarter and half-year ended September 30, 2023 held on Wednesday, November 8, 2023.

The above transcript is also available on the website of the company i.e. www.bestagrolife.com

Submitted for your information and record.

Thanking You,

Yours Faithfully,

For Best Agrolife Limited

Astha Wahi

Best Agrolife Limited Auth. Sign.

Astha Wahi

CS & Compliance Officer

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"Best Agrolife Limited Q2 FY24 Earnings Conference Call"

November 08, 2023

MANAGEMENT: **MR. VIMAL KUMAR – MANAGING DIRECTOR, BEST AGROLIFE LIMITED**
MR. SANJEEV KHARBANDA – CHIEF FINANCIAL OFFICER, BEST AGROLIFE LIMITED
MR. SURENDRA SAI - HEAD, STRATEGY & OVERSEAS BUSINESS, BEST AGROLIFE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Best Agrolife Limited Q2 FY24 Earnings Conference Call. 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. Advait from Ernst & Young. Thank you and over to you, Sir.

Advait: Thank you, Seema and good evening, everyone. Welcome to Best Agrolife Q2 and H1 FY24 Earnings Conference Call. Please note that a copy of our disclosure is available on the investor section of our website as well as on the stock exchange.

Please do note that anything said on this call which reflects our outlook towards the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. This conference call is being recorded and the transcript along with the audio of the same will be made available on the website of the company and exchanges. Please also note that the audio of the conference call is the copyright material of Best Agrolife and cannot be copied, rebroadcasted or attributed in the press or media without specific and written consent of the company.

Today from the management side, we have with us, Mr. Vimal Kumar - Managing Director; Mr. Sanjeev Kharbanda - Chief Financial Officer, and Mr. N. Surendra Sai - Head Strategy & Overseas Business. I would now like to hand over the call to Mr. Vimal Kumar for his opening remarks. Thank you and over to you, Sir.

Vimal Kumar: Thank you. Good evening, and welcome everyone to our Q2 and H1 FY24 Earnings Call. I am pleased to share that Best Agrolife had yet another impressive quarter with revenue from operations of Rs. 811 crores. This represents a solid sequential growth of 32% and year-on-year increase of 16%. However, before we deep dive into the quarterly business performance, let us take a closer look at the broader industry landscape and how it has been out for us.

The global economy continued to remain uncertain, low consumer demand, high inflation and geopolitical challenges. On the industry front, the global agrochemical industry is navigating through a rather challenging environment on the back of higher channel inventory, resulting in sustained pricing pressure. On the domestic front, the situation is slightly better, but challenges persist. The monsoon deficit has created its own challenges for the domestic industry. According to IMD, India witnessed its lowest rainfall since 2018 this year, with August being the driest month of the century, while excessive rainfall within a limited timeframe led to flooding in specific regions of India. negatively impacting on the cultivation of certain crops, conversely, a notable deficiency in rainfall in certain areas has had adverse effects on the sowing activities. This erective distribution of rainfall impacted the demand for agrochemical products to a great extent in the domestic market.

Moving on to the business performance, I am delighted to share that Best Agrolife has performed well this quarter, with 32% sequential and 16% year-on-year growth. The revenue from operations stood at Rs. 811 crores, this growth was on the account of strong demand for different products, such as Ronfen, Tricolor, Propique, Amito, among others. Our product basket gave us an edge in the Indian market, given our patented products, along with other combination products have delivered better results for the farmer resulting in stronger demand for them.

Recently, Best AgroLife entered into an agreement with Syngenta for making the Pyroxasulfone 85% WG herbicide branded as Movondo. This agreement will help improve the value of new herbicides that has a market of over Rs. 450 crores, while also achieving considerable revenue from this product solely. Please note that, towards the end of quarter 2, we already launched Pyroxasulfone branded as Azaro in Best Agro and have received great traction from the market. We believe the product will help us deliver good growth and margin in H2 FY24.

Last but not the least, we have also launched our patented product, Tricolor, in various regions in July 2023. This product, Tricolor after Ronfen is our second patented molecule which we have launched. Till now we have launched only Ronfen last year and now we can say it is two patented products that we have launched. Tricolor is a unique combination for the crop disease such as Powdery, Mildew, Scab and Alternaria. The strategic combination of the three active ingredients in which Trifloxystrobin, which is a very unique product, and again, Difenoconazole and Sulphur, in which Sulphur is as a catalyst we use in this combination. This is sure to benefits crops like rice, tomatoes, grapes, chili, wheat, mango, and apple. We are hoping that this product will be another Ronfen for us in next 2 years.

To summarize, we have launched a couple of major products this year with a pipeline of few more in H2 and FY25, which will add in driving the growth and increase the overall revenue visibility for FY24 as well as FY25. Before I hand over the call to our CFO, Mr. Sanjeev Kharbanda, who will provide you with more updates on the business and financials for the quarter, I would like to highlight that even through the industry is expected the face headwinds in the coming quarter, I believe we will be protected to a great extent driven by our differentiated portfolio. This gives me a confidence of sticking to our guidance to close to 25% to 30% growth with 20% EBITDA margin for FY24. With this, I would like to hand over the call to our CFO, Mr. Sanjeev Kharbanda to provide you with the business and financial updates. Thank you.

Sanjeev Kharbanda: Thank you, Vimalji. Good evening, everyone. Thank you for joining us here today. Before I take you to the financial numbers directly for the quarter and first half, let me take this opportunity to provide you with some important business updates, which are more strategic in nature, and which are going to help the organization maintaining this growth trajectory.

I am proud to share that we have achieved groundbreaking innovation with our subsidiary Seedling India, which has been giving us 20-year patent for revolutionary invention of our Synergistic Pesticidal Composition. This includes two insecticides and a fungicide to address some of the most pressing challenges in rice cultivation. We have also secured a key 20-year patent for revolutionary herbicidal composition to boost rice crop yields. This is a one-shot herbicide which we plan to launch in the next Kharif season under brand name "Orisulam" which will further strengthen our herbicidal portfolio. So, it is really critical, and it is pertinent to mention that this kind of innovative products, we are not only de-risking ourselves from only selective Kharif season products, we are also coming up with more and more solutions and products which are used for the wider horizon of the crop, which will help the organization to take this growth trajectory further and will also help the farmers for increasing their yields.

Now, if you see, we have two very strong products for rice crops, which will act as one-shot solution for most of the problems farmers cultivating rice as on date. Moving on in our efforts to fortify our footprint in Southern India, we have recently inaugurated our regional office in Hyderabad, which will help us as a strategic and vital move to have our commanding presence in this region. With this development, now we proudly say, we are by and large a pan-India organization, we have a presence pan-India with only fewer states which are left where we are still working to have our footprint, which is largely in the East and Northeast region.

Further, to give you an update on another strategic move, recently we have acquired 99% stake in a partnership firm Kashmir Chemical. It is a partnership firm based at Jammu, and this firm is engaged in manufacturing of formulation. This strategic move aimed at expanding its manufacturing capacity which will help us expand our manufacturing capacity in response to the growing market and demand for our branded agrochemical formulation products. This will further help us to ensure that as our product acceptance has been really good, the market demands are increasing, so we have at the backend, adequate production capacity to serve the markets.

I will now move on to the key performance highlights for the quarter ended 30th September 2023. Just to reiterate, as Vimalji has already mentioned, revenue from operations for Quarter 2 stood at Rs. 811 crores as compared to Rs. 612 crores in quarter 1 of FY24 and Rs. 700 in quarter 2 of FY23 same period. So, virtually we can say it is a quarter-on-quarter 32% growth with a 16% year-on-year. At the time when most of the companies in agrochemical sector are facing challenges, in that situation, our company is able to maintain the growth trajectory in a consistent manner, so another quarter with a good growth number, we are happy to share with you. Even though we did not see much impact of pricing pressure on our product, but for sure you can understand there is pricing pressure as well as there are inventory challenges in the market where it is over supplied. So, that impacts the overall sector.

EBITDA for the quarter was Rs. 144 crores as compared to Rs. 130 crores in quarter 1 and Rs. 183 crores in quarter 2 FY23. EBITDA margin for the quarter stood at 18%. PAT for the quarter is Rs. 95 crores in terms of percentage margin, it is 12%.

Coming to the first half results, YTD September, H1 topline stood at Rs. 1,423 crores as compared to Rs. 1,164 crores in H1 last year, which is a growth of 22%. With the kind of products, we are coming up with, the expansion we are doing in market, and the numbers we substantiate what we say, we are quite confident we will be able to maintain our guidance, which we have said, is in a range of 25% to 30% growth over last year, we will be able to do that. EBITDA for H1 came at Rs. 274 crores, as compared to Rs. 248 in H1 FY23. PAT for H1 stood at Rs. 185 crores, which is up by 9%, it is up in absolute terms also, and PAT margin for first half came at 13%.

In terms of balance sheet, we do understand as an organization, since we are a growing organization, we realize there is also concerns of the market and investors that the pressure on working capital is increasing, but reality is when you expand multiple folds in multi-direction, one is expanding with new products, then it is also expanding the footprint in the market, you can understand there is a need of having inventory at each channel level and each distributor level with all the SKUs required by the end consumers. So, therefore, this pressure, which is right now high, we assure that this is our temporary phase, in the growth phase it happens, and the organization is quite focused on bringing down the overall cash conversion cycle by almost 20-25 days in the next two quarters.

The other strategic initiatives and updates organization has taken, it is important for us to keep you updated. Organization has taken a step towards migration to SAP HANA S4, which is best ERP across industry, rather I would say, across the world 514 companies are using the ERP. So, we are working to migrate ourselves on SAP HANA environment, effective 1st April and since the implementation phase is going on as we speak, by mid of January or early February, we are making ourselves ready for a soft launch so that we can have nearly two to two and a half month parallel run and by the time we enter into the new financial year, 1st April 2024, we would be 100% migrated on the SAP HANA S4 and this is also a step, which is also linked to the business performance and the various performance parameters of the operation. This will also help us in optimization of the resources, be it inventory planning, sales planning, production planning. This will be our major step to drive efficiency in the overall sector. With that now, I invite our Head, International Business and Strategy, Mr. Surendra Sai to give some updates on international business, and what steps the company is taking. Thank you very much.

Surendra Sai: Thank you, Mr. Kharbanda. Good evening, everyone, and thank you for joining us today. I am pleased to share some insights into our international business expansion and our plan, and I will do that just before we engage in the Q&A session. Right now, at Best Agrolife, we are poised to broaden our horizon and venture into the international market. These are early days, but we are looking at the special focus of our portfolio of specialty products and patented products. These have been instrumental in our success, and we hope to replicate this success abroad. As we guess to be able to do that, we are in the process of finalizing and identifying countries, region where our products can have a value and margin in these areas.

Our initial priority is in Southeast Asia given its climatic conditions, crops and pests, which closely mirrors back to India. We are actively exploring the opportunities in Thailand, Malaysia, Vietnam, Cambodia, Philippines and Indonesia. In addition to our Southeast Asia expansion, we are looking also at South America, Africa, and the Middle East. These will happen in the subsequent phases of our international growth strategy. In each of these target geographies, we are working to initiate the project registration process. Simultaneously, we are also actively working on creating an international and overseas business model, which will involve setting up different companies and holding companies and subsidiaries and I am pleased to report that our progress on this regard is on track.

As far as our revenue vision from our exports over the coming years, however, these are early times. The registration process normally takes one year to two years to three years. I will just add some estimates. These are just forward-looking statements. In the initial phases, spanning over the next 1 to 2 years, we anticipate lower revenue of approximately a million dollar per year, but as we have our establishment center, and we establish our presence and operation in the international market, and they make sure we foresee a substantial growth trajectory in the subsequent with 5 years. During this period, we project the revenue to be in the range of $10 to $30 million per year. These strategic moves into our international market underscores our commitment to driving substantial and continuing growth by leveraging our expertise in the agrochemical product. We are excited about the vast opportunities these markets offer and we are confident in our ability to make a significant impact. With that, I would like to open the floor for questions and further discussion. Over to you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Giriraj Daga from Visaria Family Trust.

Giriraj Daga: Just some data points first, like, can we provide what are the product wise revenues, like how much was Ronfen in quarter 2, how much was Tricolor, how much was CTPR in quarter 2 revenue?

Vimal Kumar: Segment wise we can tell you, product specific is a little difficult to tell you so Ronfen which is an insecticide, the total insecticide we can say in this second quarter out of Rs. 811 crores, approximately, insecticide portfolio will be around Rs. 400 crores.

Giriraj Daga: But last quarter you used to give the product-wise number; you said last quarter we did Rs. 70 crores in quarter 1 in Ronfen.

Vimal Kumar: Yes, of course, we don't have product-wise number in front of us that we will have to check.

Giriraj Daga: On the working capital side, so while I understand that we are a growing company and we need working capital, even with our debtors, we did revenue of Rs. 811 crores and our receivable are like Rs. 1,012 crores, so like the entire quarter is still on credit, and it is more than 3 months credit given to the dealer distributor?

Sanjeev Kharbanda: That is not the case. The credit policy of Best Agro is also aligned with the other players in the market. If you look at UPL, which is almost like a leader in this industry, even UPL DSO on 30th September is 135 days. So, somehow, due to the climatic condition and that weather has also impacted the secondary movement. So, when secondary movement gets slow in the market at the end of the day, the change should get completed. Farmer should also pay to the retailer and retailer should pay to the distributor, so of course, we are not trying to defend that the receivable is healthy, so receivable we are also concerned, and we are chasing to reduce it, but at the same time ground reality at the market is, there is little slowness in the entire chain, therefore the receivable is slightly higher, but it will be well addressed very soon.

Giriraj Daga: About margin, when I look at gross margin like we have declined sharply, so we are in an environment where actually the raw material prices have gone down and while we are being branded player, we were thinking that at least we would have some pricing power there, but you are mentioning the pricing decline is severe and we have lost gross margin there?

Sanjeev Kharbanda: A little drop in the gross margin, you need to appreciate there is a product mix. It is not just the value, for example, some of the products our volume delivery is higher than the overall sales growth we are talking about. So, the product mix has actually made certain impact on, there is a little bit drop on when we compare last year or when we compare quarter to quarter, but in overall range, the EBITDA margin is maintained at 18% for the quarter and 19% at YTD level. So, we have always committed for a 20% range of EBITDA margin. Therefore, we are quite on track. So, the product mix makes little play on it.

Giriraj Daga: CAPEX, you mentioned Rs. 200 crores for the full year, so we did about Rs. 30 crores in the first half, are you still on track for the Rs. 200 crores CAPEX for the full year?

Sanjeev Kharbanda: Yes, CAPEX, we were little slow on quarter 1 and now the CAPEX is on a higher speed side. In the next two quarters, we are very much aggressively driving our sovereign chemistry project and the other CAPEX. So, we have made an announcement of Rs. 200 crores CAPEX, which is an approximate number. I think by the end of the year, around Rs. 130 crores CAPEX would have been spent.

Moderator: We take the next question from the line of Sandeep Raj from Oculus Capital Growth Fund.

Sandeep Raj: My question is regarding our progress on NSE listing, any update on that and any timeline that can provide?

Sanjeev Kharbanda: The NSE listing, documentation part has already been completed by the company. So, there were a few back and forth queries as part of the due diligence which NSE does, which is normal for every client. So, back and forth queries have also been submitted and we are expecting in another few weeks maybe there will be a response from the NSE.

Sandeep Raj: Regarding the CAPEX, Rs. 200 crores CAPEX, if you can give us a breakdown, like how much will be for backward integration and how much will be for capacity expansion and in which segment the capacity is being added, insecticide, herbicide, fungicide?

Vimal Kumar: The CAPEX, mostly will go into strobin project which are all in backward integration, right now also we are producing some product of strobin like azoxystrobin, trifloxystrobin and pyraclostrobin and other products, but for CAPEX, we will go backward integration, it will be like purely Make in India, in which no chemicals will be imported in that particular segment. So, in that way we are working for the CAPEX. So, mostly you can say it will go in the backward integration.

Sandeep Raj: Mostly into backward integration, so like off Rs. 200 crores, how much could we say would go into backward? Rs. 150 crores?

Vimal Kumar: Mostly, Rs. 150 crores you can say. It will go in the backward integration. Others will be like, we have just taken over one company that is formulation only, Kashmir Chemical. So, others will be like this way and some of this can be on the formulation and in the R&D only.

Sandeep Raj: So, capacity addition in formulation and Rs. 150 crores for backward integration?

Vimal Kumar: Yes.

Moderator: We take the next question from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: Can you tell me how much sales we did for CTPR this quarter?

Vimal Kumar: It is hard for now because we don't have product data right now, but segment-wise, CTPR also come under insecticides only so Ronfen and CTPR are included here, in quarter 2, that is Rs. 400 crores for total insecticides.

Darshit Shah: Any specific reason that you have stopped giving product wise details, until last quarter we were giving, so your thoughts on that?

Vimal Kumar: That is purely confidential because it tells each product and each formulation which we are selling.

Darshit Shah: On the balance sheet side, debtors you have rightly explained, so the trade payables have also gone up far from around Rs. 300 crores to Rs. 890 crores, so can you explain that part please?

Sanjeev Kharbanda: You know that the first two quarters are the most important quarters in our industry. So, we had very aggressive plans for driving the growth. Of course, we have delivered a consistent growth also, so it was slightly bigger. So, we were building our plan and since every quarter we are introducing new products, so you can understand the requirement of channel inventory is important. Therefore, these are interlinked. When these kinds of inventories are required, your purchases also goes up and as a result, trade payables are also higher and then it is interconnected with the cycle of the cash. This is very much within the terms we have agreed and negotiated with our suppliers since it is interconnected with the overall cash conversion cycle when receivables are a little slow. So, the trade payable will also at the same time be corresponding number unless we pump in additional money, and we settle it. So, it is part of the overall working capital cycle only.

Darshit Shah: Earlier we were alluding to the fact that we are working hard in cash flow management in the end of FY24, you could see some sort of impact, so given that we have this kind of debtors, do you think that this collection will be normalized by next Q3 and Q4 and by the end of March the balance sheet in fact will be better than what we have right now?

Sanjeev Kharbanda: Yes, we are confident when we produce the balance sheet for the full year, these numbers will improvise a lot. So, as I said, we are targeting to the reduce our overall cash conversion cycle by 22 days, so when I say reducing by 22 days, it affects all the three sides. It will reduce the receivable; it will also reduce the inventory level. So, therefore, when you have better cash flow, your payable side will also come down, we will be able to cut down the payables. So, another two quarters, we are hopeful because steps are being taken in that direction.

Moderator: We take the next question from the line of Sagar Shah from Piper Serica.

Sagar Shah: I wanted to know what is our inventory strategy, how do you plan your inventory situation in the company? Because in the last quarter you had said that due to the new product introduction you had ordered your raw material and you had made all the products in bulk actually in anticipation of demand, so accordingly, what is your strategy right now because still your receivables are quite high as compared to the industry now, as you said that it will come down, we understand that, but we wanted to know what exactly is your strategy? Why are your receivables constantly going up? So, as compared to even the industry, the industry also hasn't seen so much of hike in the receivable cycle, how do you see that your inventory days will come down by 20-25 days? What exactly are you doing to reduce your cycle because accordingly, your working capital situation will also become more favorable, so can you elaborate on that?

Vimal Kumar: In my commentary also, I said there are many challenges here, I told you about the geopolitical challenges, I told you about the high inflation, there are price drops, so you can see, other companies in the industry also. You can see all results are in front of you. If you see all over, we are in the better position from any of our industrial colleagues and our better position is because of this only, because we have planned, in a very high ambition, we have planned for the 30%-40% of growth in spite of prices reducing, in spite of different challenges. Still, we are able to deliver this much, we are aggressive. That mean we will have on time delivery, on time stocks, on time our policies, all you put together then only this growth is possible. Being not very old company in agrochemical, still we are able to deliver these kinds of numbers and more you can see our patented molecule, which we have to plan earlier like 3-4 months, we have to keep the inventory, we have to plan all over India, we have to distribute, we have to plan backward integration. So, however, we will go back into it, because you see, somebody has pointed out for our growth margin also and our operating expenses also. As you see, our expenses are very high this year, it is like we have spent for our upcoming product. Like if we see, Orisulam, we are launching next year one product of Titan, which is a seed treatment molecule that is again our patented molecule. The preparation of these products, of course we are doing some product for backward integration, we have to keep the stock because it is an initial product. Till now, we have only launched two products in two years, which is our patented molecule. We have in pipeline more than 26 products and each year it is increasing. So, 26 products and once you come with any new product, you have to prepare a lot for that particular product. And if there are three products, so all the backwards you have to plan. You have to spend a lot of money in the field. Either way we have to show to the farmer what really, they are getting. We are not selling product; we are selling solution. So, when you are selling any solution to the farmer, which is one-shot solution we always say, for three crops, they are directly going. So, it is very beneficial to farmer, but definitely right now it is a little bit pain for us as a financial because our cash flow is not improving, but I am sure in the next third quarter and fourth quarter, year-end, FY24, you will see very positive things. You will see as I hope it will look further improved a lot because some of the products like Tricolor, it goes in the fourth quarter also. In the third quarter also, our sale is very good, if you compared to last year third quarter and fourth quarter, we said it will be really better, which I can expect as of now. So, there are many things which we can say, it is not only one way, one strategy or one planning which we are giving and doing, and this is not only that thing, there are multi-things. So, we can say this inventory is also high and you can say it is really also high, but I am sure in FY24, the year results, it will be really very good, I can say.

Sagar Shah: Regarding your products actually, first of all, I wanted to understand in your entire product portfolio, what is the top 10 products concentration out of your total turnover? And secondly, in the product sector wise, if you are expecting around 25% to 30% growth Y-o-Y actually, as compared to FY23 and the entire FY24, so we need to have a very strong H2 also as compared to the H1, so to support H2 growth, you just said that Tricolor will support, and along with Tricolor, can you state some products actually which can help you in the coming Rabi season which can actually help us generate revenue growth.

Vimal Kumar: Yes, definitely, we have mentioned in our commentary that the Pyroxasulfone, which is really very good product for the wheat as herbicide, which we have given to MNC company like Syngenta, and also we are giving to some other companies, and as well as we are bringing our own brand and our brand is also getting strong, our B2C is also getting very strong with these products because these products are very different product. We are actually, you can say, really R&D based company and if you talk about top 10 molecule, as of now, this year top 10 molecule are different, next it will be a little bit different, cannot change all the molecule because our top molecule always will be our patented molecule, either it will be exclusive molecule. Earlier, we were doing some of the generics, slowly, year-on-year, we are giving each of the generic product that we are upcoming with a specialty molecule, as in the patented molecule. The patented molecule, this is second one, I again repeated, Triclor is second one, so next year it will be number four. So, Orisulam will be there, Titan will be there. So, in last year it was one product, this year it was second product, next year it will be fourth product and each product have its own potential and we want to be in the top 10, which is your question. Top 10, all molecules will be our patented molecule and each molecule has big potential. We are only launching patented, we have different patent also, we have more patented product also, but we are going only where the farmer is getting benefit. We are launching that product, we are promoting that patented molecule only and where we are also getting good products and where farmer is also getting good yield or either maybe some of the benefits to the farmer because solution we can sell, pesticides are the different things, but always we are sending the solution to the farmer. So, if you see in that way, all the top 10 molecules will be our patented molecule in coming 3 years. That is our main idea and slowly we are inclined to our patented molecule.

Sagar Shah: On the margin front, as compared to last year, the margins have dropped by almost 800 bps actually, so the primary reason is just the product mix, the falling margins or is there something else or in fact there is some pressure in pricing, pressure in the market, can you quantify what exactly percentage is due to pricing and what exactly percentage is due to product mix, because last year also your product Ronfen actually had contributed to the large amount of sales and this year if I am not wrong Ronfen would have also contributed along with your other patented products actually, so even with good products, even for better products, what exactly led to such a huge margin decline, I understand that you have a target of 20%, I completely understand, but this kind of volatility margins, can you justify some reason?

Vimal Kumar: No, we cannot say there is a big volatility because where our margins is very good in the patented molecule, the other side if you see there is not very good margin in the annual generic products, and this is our turnover of Rs. 811 crores, of course that is not all the patented molecules. Our target in the coming year to ensure that our 60% or 70% sale will be all the patented molecule, but of course it will take some time and it will come over the years, but if you see this year even, I again mention that our upcoming product, Orisulam, our seed treatment product, we are spending on the marketing, we are spending on their field trials, there are many field assistants and we have increased a lot of people in the field level and if you see, our operating expenses increased like anything. Our operating expenses in H1 FY23, it was around Rs. 83 crores, but now if you see, this is around Rs. 123 crores in H1 FY24. So, it means, you can say it is Rs. 40 crores, our operating expenses have increased. This includes our R&D expenses, our field expenses, our upcoming product expenses. If you put Rs. 40 crores with all spend, how we will get the next year of our patented molecule because we always prepare all the molecules before one or two years, give them field demo to the farmer and we test the product. The farmer is asking, like I know that people are asking, you should give this year to this product only, that much effectiveness of that product. So, we have to prove them one year or two years before this product is very good, it is upcoming in coming years. So, on that, Rs. 40 crores we have spent.

If we do not spend that Rs. 40 crores, of course it will come into the market. That will be improved. Now, if we are talking about 18% EBITDA, of course it will improve to maybe 22%. So, now, of course we are spending that way in expense, 3% to 4%, whatever the expenses, it will give us very good leverage in upcoming years, you can say FY25, FY26, it is the best work which we are doing.

Sagar Shah: To connect with the farmers as you rightly said you are actually solving these products that you are launching if you talk of Tricolor, the recent patented molecule that you bought for Pyroxosulfone, so basically how exactly are you connecting with the farmers, are you conducting some programs, some education programs for the farmers to at least educate them about your product, how are you marketing your product in the market?

Surendra Sai: As you see in the Indian agrochemical industry, the dealers actually end up playing a major part and there is a lot of sales which actually ends up going through the dealers and the distributors, but we do realize that it is the end customer or the farmer who needs to be aware of the benefits as well as who needs to be aware of the advantages of using these patented products, which are safer, which have a higher efficacy, and at the end of the day, they provide a value to the farmer. Now, as exactly Mr. Vimalji was saying, that there is an investment which needs to be done to be able to reach to the grassroot level and that is where we are investing significantly in the field assistance and these field assistances are actually ground level force people. So, we have currently approximately 1,000 plus of this field assistance. Many of them have been very recently employed. They are very trained, and they have a very clear strategy of doing a farmer demo. They hold evening sessions, they hold night sessions, they hold meetings in the day, they take the farmers right to the field, they show them the effect of the demo applications, they sort of walk them through the pests and what can be done, what cannot be done, and they have various things. They have something called "Chai Pe Charcha". So, the point being that we are able to get these farmers onboarded, we are sort of educating them so that, not just on our products, but to be educating them on the best practices in the field, when they sort of go to the dealer they are able to ask for our product by name and that is what is helping us drive the sales, that is what is helping us actually be able to drive a sales growth even in situations where the overall pesticide growth volumes are much lower. So, product mix is definitely something, but the product mix and the patented molecule, is a new product which is not on the tongue tips of the farmer. So, we need to get them to be able to do that and that is what the whole marketing team is doing. We are right now at a very grassroot level in terms of digital marketing, in terms of being able to reach to the farmers on a technical and a technological level. We are working on those strategies. At this particular point of time, the strategy in this particular quarter and half year has been more in terms of field force and the marketing and the ground level work, but going over, we will be reaching out to the farmers digitally and technically.

Vimal Kumar: Actually, I mentioned you Rs. 83 crores of, that is half year, which was operating expenses in a half year FY23 and half year of this FY24 because you are asking for the quarter, I mentioned but it is actually half year. So, I am correcting myself, Rs. 83 to Rs. 123 crores, it is a half year expense, which is Rs. 40 crores increase in this half year.

Sagar Shah: Your OpEx is high, but still your gross margins actually have decreased, in spite of such strong products in the market what has actually led to decrease in the gross margins?

Vimal Kumar: That gross margin because of two reasons one major reason I told you because of the prices have reduced a lot and global synergies for the all the companies even the MNC's company and the Indian companies all are facing that margin problem and of course the other thing when the prices are drastically down, so definitely the revenue will hit our gross margin rate because suppose last year our sales was Rs. 100 crores of one of the products and this year the price of that product is Rs. 80 crores so our Rs. 100 crores margin Rs. 80 crores margin of course will be different, Rs. 100 crores maybe 20% is 20, Rs. 80 crores will be 60 so of course the growth margin also reduce because of that product and the other reason is the product mix.

Sanjeev Kharbanda: So, the other reason is the product mix also, because with the new trials and new products which are coming up, the price stability takes time market to market. So, we have to play with the dealer distributor discounting strategy also for whenever we launch the new products. So, the gross margin has decreased as you mentioned the pricing pressure, and pricing pressure has to be in the proximity of the market.

Moderator: We take the next question from the line of Siddharth Gadekar from Equirus Securities.

Siddharth Gadekar: On the inventory losses, so what kind of inventory losses we had because of the high-cost inventory that we were carrying?

Sanjeev Kharbanda: We have not said that there is an inventory loss. Inventory, as per accounting charter, the NRV testing every quarter happens to follow the accounting guidelines. So, net realizable value versus the cost of inventory, this pressure was there while signing the last year financial statement for every organization, so that was there with us also, however, as of now, there is no risk on the inventory.

Siddharth Gadekar: Are we carrying any high-cost inventory on our books as of now or everything has been written down to market value?

Vimal Kumar: Definitely, it is in the market value. Already the price has settled at the lower level. So, all the prices are current market value only.

Siddharth Gadekar: What would be your volume growth this quarter? If you want to give a split between pricing and volume, what would be our volume growth this quarter on a Y-o-Y basis?

Vimal Kumar: Actually, volume goes over more than 30% growth, if you talk about last year, some new product, you have known this year, that is separate, but if you talk about the last year product, most of the product is 30% at the volume growth.

Moderator: We take the next question from the line of Giriraj Daga from Visaria Family Trust.

Giriraj Daga: You mentioned somewhere that secondary off-take is still very slow, relatively slow I will say, so let us say by what time you will see that we will have to buy or return those basically it will come to us, and we will come to them quarter 3 or probably quarter 4 if there is any returns?

Sanjeev Kharbanda: Let me give more clarification on that. I think there is slight confusion. When I say secondary slowness, from cash conversion cycle point of view slowness because the climatic conditions are affecting it and the shortfall in rain also affecting it, however, your specific query on that has stopped return, please understand every quarter, in fact, month on month when we prepare a financial statement and more importantly, the every quarter when we prepare a financial statement, the necessary provisions based on the trend and based on the market insight reading with the help of our sales force, the provisioning is already done. The numbers which we have presented to you, these numbers already have been, these numbers have accounted for the provision of the potential sales return. So, there is no risk hitting on that account to the organization.

Giriraj Daga: What was the provision this quarter versus last quarter?

Sanjeev Kharbanda: How much provision you are talking about?

Giriraj Daga: We are already providing, doing provision for that, so I just want to understand that year-on-year has that number been some different there or it is the broadly similar with the sales trend?

Sanjeev Kharbanda: No, it is not different, it is not increasing. However, accounting is always when take a conservative step so that you don't get negative surprises at least or first they don't get the surprises. So, the provisioning is when we do the provisioning, we take a review segment wise, product wise and state wise sales numbers where every product doesn't have a same trend of first day stock return. So, stock return happens in the industry, there is no doubt about it for all the company it happens, but the provision methodology is very detailed. So, it is not that standard you take the total sales and X percentage you take a provision. So, it is stage-wise, product-wise provisioning which is being made to the satisfaction of the auditor by showing them the trend also.

Giriraj Daga: On the export, you mentioned some number, like one million, what is that one million, one or two years and then $10 to $20 million in 5 years, that was the number you mentioned, export visibility.

Surendra Sai: So, in the next couple of years, or at least around the next 3 years, we will be investing more in terms of getting registrations in different countries and during these times, there will be smaller deals that we will be making with the dealers and distributors through whom we will do our product registration and there is already a portfolio of registrations that we have. These registrations will give us small revenue. I have just been going forward and calling it out in terms of this is a small foreign exchange revenue from an export business that we will be getting for the next 1, 2, 3 years. Post that, we expect to be able to start driving our export in time.

Giriraj Daga: That number was $10 to $20 million per year, right?

Surendar Sai: Yes.

Moderator: We take the next question from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: What has been the contribution of the products which have been launched in the last three years, the new products which have been launched during the second quarter and first half?

Sanjeev Kharbanda: I would like to answer this in a slightly different manner. We are keeping a track on formulation and technical, so all the new branded products fall in the category of formulation, so our formulation segment contribution is increasing. It was a couple of years back, less than 50%, then we touched 55%, 60%, and now it is more than 70% contribution by the branded product.

Rohit Nagraj: Just probably as an industry practice, even our peers usually share the innovation turnover index, they usually tell us what the contributions from the products which have been launched in the last 3-5 years, I think if we are able to share it probably from next time onwards, it will be a good practice to understand how things are moving from the new product launches process.

Sanjeev Kharbanda: We will definitely provide that information way forward.

Moderator: The next question is from the line of Sandeep Raj from Oculus Capital Growth Fund.

Sandeep Raj: How much EBITDA contribution can we expect from the CAPEX that we are doing?

Sanjeev Kharbanda: The CAPEX actually, it will give revenue and revenue will keep on helping us driving this range of 20% or 20% plus EBITDA. Moreover, the CAPEX is done with a long-term perspective, the turnout of CAPEX or the return on CAPEX takes time. So, what we can say is after doing the backward integration, once the backward integration gets stabilized, it will definitely help us improving EBITDA margin from there also.

Sandeep Raj: How much would it help us?

Vimal Kumar: Definitely, it will go higher than 3% to 5%

Sandeep Raj: Can you give me higher level breakup of inventory? Some numbers around any products like molecules?

Sanjeev Kharbanda: Most of the inventory actually belongs to the intermediates and other raw materials which are procured, and which are planned for producing the branded products. So, since we are growing in that segment, inventory also belongs to that segment. The majority of inventory belongs to that segment only. These are technicals and these are intermediates for manufacturing those blended products and formulation products.

Sandeep Raj: The new product that will be launched next year, do we have any inventories for that product as well right now?

Sanjeev Kharbanda: Not exactly for the new product yet to come, it is not that directly connected to the inventory, but there are certain technicals and intermediates which are required for blending of those products as well. So, the base product, as you have noticed, Mr. Vimal categorically mentioned that we believe in providing solutions. So, when we say we believe in providing solutions, there are unique combinations, there are three-way combinations, two-way combination products which are coming. So, some of the base product chemicals, some of the technicals and intermediaries, any which we are required, so it is not directly proportional to the new product launch plan, however, yes, some of the inventory is going to help us in launching the new product well in time. When you have got the product acceptance on the trial, the planning starts from there itself, however, the product will hit the market maybe next quarter or two quarters from here, but your planning starts, therefore we have that kind of inventory.

Sandeep Raj: If you could provide detailed explanation for CAPEX planning in your presentation, that would be really helpful.

Sanjeev Kharbanda: Okay.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions I would now like to hand the conference over to the management for closing comments.

Sanjeev Kharbanda: We would like to extend our gratitude to everyone. Thank you very much for joining us. Thank you very much for keeping your confident in us, for driving the business, driving the efficiency. Thank you very much for all your feedback and your input. This is going to help us. We take it in a very positive manner. It will really help us to drive more efficiency across the function and across the business operation. Thanks to all.

Moderator: Thank you, Sir. On behalf of Best Agrolife Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.