Best Agrolife Limited

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August 08, 2023

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

SCRIP CODE: 539660
SCRIP ID: BESTAGRO

Sub: Transcript of Q1 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 ended June 30, 2023 held on Wednesday, August 02, 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
Auth. Sign.
BEST AGROLIFE LIMITED

Astha Wahi

CS & Compliance Officer

Best Agrolife Limited

"Best Agrolife Limited Q1 FY24 Earnings Conference Call"

August 02, 2023

MANAGEMENT: MR. VIMAL KUMAR – MANAGING DIRECTOR

MR. SANJEEV KHARBANDA – CHIEF FINANCIAL OFFICER

MR. N. SURENDRA SAI – HEAD - STRATEGY & OVERSEAS BUSINESS

Moderator: Ladies and gentlemen, good day, and welcome to the Best Agrolife Limited Q1 FY24 Earnings Conference Call.

As a reminder, all the participants' lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Advait Bhadekar from EY. Over to you, sir.

Advait Bhadekar: Good afternoon, everyone. Welcome to Best Agrolife Q1 FY24 Earnings Conference Call. Please note that a copy of our disclosure is available on the Investors Section of our website as well as on the Stock Exchanges.

Please do note that anything said on this call that reflects an outlook toward the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks 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 the exchanges. Please also note that the audio of the conference call is the copyrighted material of Best Agrolife and cannot be copied, re-broadcasted, or attributed in press or media without the 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. Over to you, sir.

Vimal Kumar: Good afternoon everybody. Mr. Sai will be giving the Management Commentary.

N. Surendra Sai: I welcome everybody to our Q1 FY24 Earnings Call. I hope everybody is doing well.

Before I share some insights onto the business performance for the quarter, let me take a couple of minutes to share some insights on the industry front:

As we have been seeing for the last few quarters, the global agrochemical industry has been facing quite a few headwinds and this has been due to the excess of the channel inventory and constant oversupply from our imported manufacturers, primarily from China. This situation continues to persist, and it has resulted in a drop in the prices of commodity agrochemicals. The impact of this is visible in the Indian agrochemical industry. Having said that, I am happy to share that our focus on the specialty and the patent products has shielded us from this impact and this deflationary trend.

In the domestic agrochemical market, the sowing for the kharif season in India was slow and initially there was a delay in the monsoon rains, and where India received around 10% below normal rains in June in some of the states. The deficit was as high as 60% below average. But, however, the situation improved significantly with heavy and sustained monsoon spreads in July. And it not just covered the June deficit, but it has led to average or above-average monsoon in most of the regions. We do see the rains benefiting the agricultural regions. As we speak, most of the agricultural regions such as UP, Bihar, Jharkhand, Maharashtra, Gujarat, Punjab, and West Bengal, all have received normal rainfall. There have been region-specific instances of floods and there have been some areas that have experienced dry spells. But overall, the rainfall has been satisfactory for the farming community. We remain optimistic about the domestic demand, but we will continue to monitor closely as the monsoon unfolds.

Before I move on to discuss our business performance, I would like to share recent data which has been released by the WTO (World Trade Organization):

India has emerged as the second largest exporter of agrochemicals globally and we have surpassed the US and we are trialed only by China. This has been the result of the great and excellent technical capabilities of Indian manufacturers who have been working hard on post-patent products and have been able to bring these to the market at very competitive prices. We do look at the potential of this reduced pricing and effective pricing not just in India, but also in the global market. CTPR or chlorantraniliprole which is one of the world's largest-selling insecticides was being imported into India in large quantities. With this year, we will see a significant decrease in our reliance on CTPR imports and India should become a net exporter of CTPR at some point. I would like to point out that we are the first company in India to launch the CTPR in the market.

Moving on to the company performance:

Best Agrolife revenue from the operations for Q1 FY24 stood at Rs. 612 crores. This is a robust 32% increase over the Q1 FY23. This has been primarily driven by very strong growth in our formulation business, with the majority of the contribution coming from our branded product portfolio. Some of the major products include Ronfen, CTPR, AXEMAN, Warden, and Tombo as well as our newly launched products Amito and Propique. This quarter's performance reinforces the widespread acceptance of our products and Best Agrolife's strong brand presence in the Indian agrochemical market. Our EBITDA margin for the quarter was 21.2% which is an improvement of 700 basis points over Q1 FY23. This clearly reflects a change in the product mix. I will, later on, let our CFO, Shri. Sanjeevji, discuss the financials in detail.

Moving on to the business highlights:

I am delighted to let everybody know that we have received registration for a couple of products and 3 technicals which are focused on herbicide and fungicide. Simultaneously, we have also launched 2 new products during this quarter. A couple of quick notes on the registration side. We are happy to share that we have received the registration for the indigenous manufacturing of one more patented product which is Tricolor. Tricolor is a unique combination of trifloxystrobin, difenoconazole and sulphur. This is in line with our strategy of creating a niche combination of products that will tackle a wide spectrum of fungicides. This combination will effectively control several crop diseases, primarily like sheath blight and powdery mildew. This has a significant effect on a large variety of crops which include vegetables and rice. While 2 fungicides will tackle these crop diseases, the sulphur will act to increase the efficacy by 3x. We have received positive feedback during our field trials, and this gives me confidence that this product will become another hit in the farming community like Ronfen.

We also received registration for 3 major technicals. Our subsidiary Best Crop Science has been granted registration for the technical indigenous manufacturing of diclosulam technical, boscalid technical, and dimethomorph technical by the CIBRC. Very quickly, diclosulam functions as a broadleaf herbicide and it is designed to manage weed growth in soyabean and peanut crops. Boscalid acts like a foliar fungicide, and it effectively combats a wide array of fungal pathogens across crops and vegetables. Dimethomorph is a systemic fungicide. It provides protection to potato, tomato, and grape crops from the water mould fungus family. Overall, the changes in the monsoon, we actually observe a change in the insecticide, fungicide, and herbicide uptick. We are well aware of these sorts of changes, and we are ensuring that we maintain our revenue focus as well as ensure that we have a good bottom line. With the changing weather, we are also changing our product mixes to be able to reflect this.

Seedlings India, our fully-owned subsidiary, has been granted registration to manufacture pyroxasulfone domestically. This is a herbicide for wheat, corn, and soyabean. Pyroxasulfone's market is worth over Rs. 450 crores and we are confident of reaching at least Rs. 125 crores penetration in the first year of our introduction. I may say that we are the first and only agrochemical company to produce both the AI and the formulation of pyroxasulfone in India.

Let me conclude:

Our endeavor to reach the last mile, which is the farmer, has led to our distribution network growing exponentially from around 5,000 last year to more than 7,000 distributors as we speak.

I would like to hand it over to Shri. Sanjeevji – our CFO, to discuss the financials in detail. Over to you, sir.

Sanjeev Kharbanda: A warm welcome to everyone once again.

Just to add to what Saiji has already explained, Q1 FY24 started with very remarkable growth and in fact, it performed with commendable growth for the organization.

The revenue for the quarter stood at Rs. 612 crores which is 32% up year-on-year basis. And if we compare it quarter to quarter, this is almost 141% up quarter-on-quarter basis. The best part is, it is not just revenue growth. The organization is quite focused on comprehensive growth driving and every parameter, the entire value chain of the business is being given due attention. Resultantly, the organization is able to achieve an EBITDA of Rs. 130 crores for Quarter 1 which is 21%. And if we compare it, the EBITDA growth itself is remarkable for Quarter on a year-on-year basis as well as on a quarter-on-quarter basis. The EBITDA margin for the quarter is 21% as I mentioned as compared to 3% in quarter 4 and 14% in Quarter 1, which explains an expansion of 1,800 basis points quarter on quarter and an expansion of 700 basis points year-on-year basis. And if we look at the PAT delivery for the quarter, the PAT delivery has been Rs. 90 crores which is up by 1,168% quarter on quarter and 124% year-on-year basis. So, the PAT delivery for Quarter 1, stood at 15% amounting to Rs. 90 crores.

Coming to the segmentation of the business:

As we mentioned earlier also, as part of our strategy, the organization is very focused on investing high in the B2C channel, investing high in the consumer pack, and investing to ensure that the distribution network, penetration is good enough to take our products till the last mile, which is not only giving us a consistent growth, also helping the organization giving a direct consumer voice to align the kind of demand market has, the kind of products which are required to identify the gap so that the right product mix and the right value proposition is offered by the organization to the last mile in the interest of farmer as well.

Coming to the CAPEX plan:

As we announced earlier also, the CAPEX plan for the backward integration for aligning our manufacturing capacity to take care of the market demand is progressing well. We are very much on track in terms of investment in backward integration, investment in enhancing the capacity to align with market demand, and also to ensure that market footprints are all going hand in hand with the demand to take care. Further, I would also like to mention the initiative organization has taken very recently toward green energy. We have signed a 3-megawatt solar energy power purchase agreement with Fourth Partner to take care of the power requirement in one of our manufacturing units based out of Gajraula. And this will not only give an annualized saving of almost 33% on the energy cost, but it will also reinforce our commitment to society by reducing the carbon footprint. Approximately 4,000-tonne carbon footprint emissions would be taken care of through this initiative. Apart from this, once we really test the success of this green power energy initiative in one of our factories, we are committed to exploring if we can have a similar extension to other manufacturing facilities also in a phased manner.

With this, I would like to thank everyone for the patient hearing, for a peaceful hearing, and for enabling us as an organization to remain focused on our delivery. We once again assure you what we promise, we are confident to deliver.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Bhavya Gandhi from Avendus Wealth. Please go ahead.

Bhavya Gandhi: I just wanted to ask what kind of markets are we looking when it comes to CTPR and what is the competitive intensity? Can you name a few players who are there who are looking out for CTPR and who have launched CTPR?

Vimal Kumar: CTPR is one of our products, which is basically one of the MNCs products that we used to import from outside India, and we are selling CTPR and our brand name is Citigen. Of course, we were the number one to manufacture this indigenously in India, the technical as well as formulation. Now there are some other Indian players also involved and they are also selling the same CTPR. The market size is more than Rs. 2,000 crore and this market is there for the CTPR granule as well as SC. There are 2 major formulations that they are selling. But, of course, our strategy for CTPR is a little bit different. We are selling as of now the traditional CTPR which is sold by other companies also. But in the coming year, we are coming up with new molecules with our novel patented CTPR. That is our strategy basically for CTPR in the longer term.

Bhavya Gandhi: What kind of market share are we looking at when it comes to CTPR? I understand it is Rs. 2,000+ crore market size but what kind of share are we looking at?

Vimal Kumar: This year, we will do around Rs. 400 crores worth of CTPR market.

Sanjeev Kharbanda: While the CTPR market has been primarily on the base formulations on the technicals, we are looking at creating new market segments with novel and patented formulations which is exactly what Vimalji was mentioning. There will be an expansion in the market size itself based on the current market. Our Rs. 2,000 crore market may actually become larger where we may be able to identify new areas which are CTPR combinations.

Moderator: The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Sir, if you look at the kind of performance that we have delivered, we kind of are an outlier in terms of what other agrochemical companies have done. And when we speak to a few bigger companies like UPL, they did mention that their India business has done fairly well compared to the global businesses where the price realization drops have been quite steep. And the reason they gave us is that India is more of a B2C kind of business where your proprietary branded formulations as well as patented products have not seen that kind of price drop. Just want to have your thoughts on this about how better we have fared because of this and how is the scenario currently playing out?

Vimal Kumar: Of course, UPL is a large company, and their turnover is far bigger than ours and definitely they are doing well, maybe in some countries. I cannot comment on their business model. But of course, UPL is such a large company. And according to that if you talk about ourselves why they are doing in that way, because their impact is globally and their business to India is not more than 15%, I would say. According to my knowledge, it is less than 10% of their entire revenue. So, we cannot compare it with that kind of a large company. But definitely, our vertical is a little bit different. Of course, global challenges are there. But globally, some of Latin America, some of Southeast Asia, geographically if you see, it is country to country, each region has different challenges each year. And the major pressure is from China for the supply because their oversupply is the main cause where the companies are hitting in a different way. But at Best Agro, we have different kinds of verticals, different kinds of areas where we are working, and we are only depending on the novel combinations which we are doing. We are developing our R&D. We are doing altogether different. There is one vertical in which we are doing a formulation and another if you talk about, we are changing the off-patent molecule which is getting off-patent and we are the number #1 to manufacture it indigenously and the same for formulation. We are doing R&D on that also. And the third vertical we are doing for the backward integration which we are doing in a very competitive way and that we are looking at as a global competition, not like just 1 molecule or competing with Indian manufacturers. We are doing backward integration and we look at the global pricing and all the scenarios.

Darshit Shah: My second question was regarding the kind of sowing that we have seen, has kind of picked up in July and now it is almost up around 2% year on year. How is the demand panning out in the current quarter? And do we see this robust growth that we witnessed in Q1 to kind of continue in Q2 as well?

Vimal Kumar: Yes, in our introduction, Mr. Sai has explained what you are asking actually. This is, of course, the first quarter. Even the last quarter of last year, it was challenging for the industry. But I am sure because this month we have seen in July also and this quarter is going fantastic. We are doing fantastic. All over India if you see, rains are there. In some areas, it is flooded rather than there is a lack of rain. No farmer will leave their land like that once it is flooded. Definitely, once rain stops, they will do sowing of rice or they will see alternate crops or maybe the same crop if at that time it will permit them; definitely they will do, no farmer wants to leave. Of course, there is some percentage, that is not more than 1%. That doesn't make any big difference. But at the end of the day, you see this season will be the better season. I am not talking about the pricing, I am not talking about the margin. It is company to company according to their strategy, it will happen. But the season is really good for agrochemicals and for all the crops also.

Darshit Shah: The last time, we mentioned that since the technical prices are also falling quite a bit, that might in a way kind of help us in terms of margins in our patented products. Is it kind of playing out the way that we had envisaged earlier?

Vimal Kumar: Yes, we can say, but it doesn't make any big difference because you can see our inventory was higher in March '23 because we have to be ready with the product in the next 6 months that we have to sell because we are selling mostly our patented or our exclusive molecule. We are not selling generic. According to when you have to make arrangements for 6 months, definitely, that product impact will come. But for us, we cannot say directly this is something we are getting extra margin, or we are losing because, at the end of the day, we have to see the year-on-year basis. On a year-on-year basis sometimes it is higher, sometimes it is lower. We have to take the average because we have higher product pricing also, which we bought before March. After March, we were getting lower prices. But definitely, our selling price, we are not reducing, and no need to reduce. Those products are fantastic, and it is in demand.

Darshit Shah: When are we planning to list it on NSE again? I guess it was a voluntary listing that NSE allowed us. When are we listing that?

Vimal Kumar: Actually, we were not listed on NSE ever. We just had one category where it was permitted to trade. And of course, we had applied 2 years back. I don't remember the date, but of course, it is more than 2 years. We applied for permission to trade, and we got that. Now, what we heard when they said that they are removing the permission to trade for everybody who was in that category, but definitely we have all the criteria and all their parameters. We are achieving that and we have applied for the regular listing and that is already in process with the NSE.

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

Siddharth Gadekar: First question on CTPR. Rallis and Sumitomo, both have launched CTPR in the domestic market. We have even other smaller players who have also announced that they would be launching. So, how should we look at the competitive intensity in this market?

Vimal Kumar: I don't know about Rallis if it is doing that, and I have doubt about Rallis doing it. But if in case they are doing, it must be that they are doing it with some of the manufacturers like us. Maybe we or maybe others who is a manufacturer of AI or the formulation. But Rallis doesn’t have registration for direct CTPR as of now as we know. Directly they don't have. If they are buying, maybe they are buying from the packed product like B2C sale from us or maybe some other, but we are not supplying to Rallis. And I already mentioned it that so many companies are now selling CTPR in India because they have AI, they have everything, they have cleared their patent because there are many patents by this parent company of CTPR. Who has known infringing route they have to produce that, of course, they are doing. But there are not so many players. In my knowledge, there are only 4 players who can do it in India. Out of those 4 players, maybe some are selling through a secondary sale which we can say is B2B that they are doing. So, maybe that way they are selling. But that doesn't make any difference because the market size is very big, Rs. 2,000 crores. In this way many molecules if you see in the past 50 years, each molecule has its life. But of course, it is already 20 years passed since the patent and now if you see in the field, we can say it will not be too much margin when so many people will come. But definitely, we have different strategies for that, as I earlier mentioned that we have different novel formulations for the same CTPR, which will also be patented.

Siddharth Gadekar: In the domestic market, what is our volume growth this quarter?

Sanjeev Kharbanda: This is completely domestic growth only. We are in a nascent stage of developing ourselves for export.

Siddharth Gadekar: Sir, I got it. What would be the volume growth? The difference in the volume and in the price realization?

Sanjeev Kharbanda: You are talking about volume versus value, right?

Siddharth Gadekar: Yes.

Sanjeev Kharbanda: By and large, this number is driven by the volume growth only because this quarter was not actually helpful for the price change. This is completely volume-driven growth.

Siddharth Gadekar: How have we protected our realizations, given that if we look at the pricing in all the active ingredients, they have declined anywhere between 20% to maybe 70% also? Despite that, we have maintained our pricing. What have we done differently in the domestic market?

Sanjeev Kharbanda: I will take you back to the explanation which just now Vimalji also mentioned, and in the opening remarks also Saiji mentioned. First and foremost, it is important to recognize that our product mix is more towards the specialized molecule. Our product mix is less loaded by the generics. We have not got affected as the other players who are more into a generic molecule. That's how we have safeguarded and protected our margins, that's one. Second, in Quarter 4, when the price crash happened due to oversupply by China, there was some inventory everybody had - the carry forward inventory at a higher price, and the correction was taken in the last year itself in the NRV testing as per accounting principle. And then when prices continued to decline in Quarter 1, when fresh purchases were happening to take care of Quarter 1 and Quarter 2, averaging your purchase price also helped you to ensure that the final product margin is safeguarded.

Siddharth Gadekar: For the full year, any numbers in terms of the top-line growth or any margin?

Sanjeev Kharbanda: Full-year number, we are confident that we should be able to maintain this momentum and should deliver approximately 30% growth over last year.

Siddharth Gadekar: In terms of margins?

Sanjeev Kharbanda: In terms of margin, the endeavor of the organization is to protect the 20% EBITDA margin. However, in this business, everybody acknowledged the fact that there is always an impact of climate conditions, soil conditions, and markets, which are beyond the control of any organization. If any such situation happens, we can't comment on that. But internally, as a management, we have taken a target of ensuring a 20% EBITDA margin we should be able to safeguard. And as we are investing continuously in developing research-driven products, that should not be a challenging thing.

Siddharth Gadekar: What would be our cash CAPEX outflow this year?

Sanjeev Kharbanda: The overall CAPEX plan which is nearly Rs. 200 crores includes the backward integration, and which includes enhancement of some of the capacity and some investment in R&D and market footprint expansion. I can say the plan is progressing well. However, the entire Rs. 200 crores may not get spent in the financial year FY 23-24. Some of the spending will get spillover with respect to the capitalization or put-to-use date to the next financial year.

Siddharth Gadekar: How much would be the cash outflow for CAPEX? That is the number I was looking for. Around Rs. 150 crores would be the cash outflow this year.

Sanjeev Kharbanda: It can be approximately that number. But as I said, some of the projects that we see might get completed and put to use date for the next financial year. If that happens, then of course the capitalization would be accordingly. But cash outflow in a phased manner should be around Rs. 100 crores to Rs. 150 crores within this financial year.

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Sir, can you give us an update on the Ronfen sales for the quarter and how it has grown year on year for you and what are you budgeting for the full year on Ronfen?

Vimal Kumar: In fact, Ronfen is the second quarter product, majorly in the second quarter the sale is going on; and some of it in the third quarter also, some in the fourth quarter also, and some in the first quarter also. Because last year we launched this product, this is a growing molecule, and it is growing in many crops now. Last year, we have done very well in cotton and chili. And now this year in vegetables and so many crops, it is going towards insecticide which is definitely far better than any of the molecules. Definitely this year, we will cross around Rs. 350 crores to Rs. 400 crores in sales. Out of that, in the first quarter, we have done around Rs. 70 crores sales. But this is the product for the second quarter mainly.

Gagan Thareja: The last full year, Ronfen was how much? Rs. 200 crores or more?

Vimal Kumar: It was more than Rs. 200 crores.

Gagan Thareja: Can you give the exact number?

Vimal Kumar: It was Rs. 240 crores.

Gagan Thareja: On Ronfen and on CTPR, it would be very helpful if you could help us understand the business outlook or scenario beyond FY24. I understand CTPR will keep on having more companies getting registration. Should we think that you will be able to defend the Rs. 400 crores of turnover that you are going to do in FY24 in CTPR? Beyond that as well? Or do you see there is some sort of decline in CTPR sales post FY24?

Vimal Kumar: First of all, CTPR is a big molecule for India as an insecticide. But again I am repeating, this is more than Rs. 2,000 crore molecule market for India. The price was very high from the MNC company. As the domestic players are coming and manufacturing in India, definitely cost is reduced and prices also are reducing. But the way the price is reducing, for 1 to 2 years, the product will be there of course, but when the competition will be too much, then it will hit. But in FY23, we don't have major sales of CTPR. In FY24, we are hoping for Rs. 400 crores and definitely we can do Rs. 400 crores. Again, I am repeating; our target is not to sell CTPR but to create a market for our own novel combination product with CTPR. Our target is something different with CTPR. And I understand, because till last year, we have done so much of announcements for the CTPR. But we have more than 25 patented products which are upcoming in the pipeline. And one of the products, which is Tricolor, will be near to the Ronfen in the next 2 years. This year, in the month of July, we launched Tricolor. That is again the same patented novel combination. We always say 1 or 2 products that we will launch each year and this year we have launched the first product the trifloxystrobin. Last year, we launched Ronfen. Our major sales that we always want to do is, our patented or the niche molecule which we are doing, that is our target to always give the safest chemistry to the farmers.

Gagan Thareja: What were the CTPR sales for the first quarter if you can give that out?

Vimal Kumar: CTPR's first quarter sale is not too much. It is Rs. 20 crores only.

Gagan Thareja: Apart from Ronfen and CTPR, you also launched pyroxasulfone and I think there were some other launches I am unable to recall names. The names are very complicated in this line of business.

Vimal Kumar: Ametryn is there, propaquizafop is there. Ametryn, again, is an herbicide that is a really good molecule. Ametryn we have launched and that again is Rs. 100 crores plus molecule, i.e., in Ametryn we are the second one in India who have launched this product. Then, after Ametryn, we have propaquizafop. Again, propaquizafop, we are the first one that is indigenously manufactured in India and the combination. Before that, from one of the MNC companies we were importing propaquizafop. And now we are the second one. And in fact, in India, we are the first one, we have done in the first quarter. That was really good. And third, you asked for pyroxasulfone. The pyroxasulfone is a weed herbicide. That season will come in the third quarter only and this sale will close in the third quarter. There is no sale in any of the quarters, this is specific for the weed segment and that will sell in the third quarter only.

Gagan Thareja: For the second molecule that you mentioned – propaquizafop , what is the market size and what have you been able to do for the first quarter and what is your aspiration for FY24?

Vimal Kumar: That molecule basically is for soyabean. Soyabean is a big crop in India, and we are targeting this year of more than Rs. 150 crores in sales.

Gagan Thareja: And what is the market size for this product?

Vimal Kumar: The total market size for this product is around Rs. 400 crores.

Gagan Thareja: And you also launched Tricolor. If you could give us some idea of the market size of Tricolor and also in terms of the competitive environment, in terms of your own sort of vision and aspiration for this product, what do you intend to target for this year and next year?

Vimal Kumar: Tricolor is a 3-way fungicide that has trifloxystrobin, difenoconazole, and sulphur acting as a catalyst to enhance the effectiveness of the product. This is again a patented product and is applicable for paddy, wheat, vegetable, and maize. It is going in many crops and especially for apples in J&K and the Himachal for the scabs. This is a fantastic molecule; again, a new chemistry molecule because trifloxystrobin is a very new chemistry. Difenoconazole is also not very old in chemistry. Sulphur is, I told you, a catalyst in this and this is a fantastic product as a fungicide. And we firmly believe in the next 2 years we will do more than Rs. 400 crores for this product. This is the starting phase. But definitely, in 2 years, we will cross more than Rs. 400 crores for Tricolor. And each of our products which we are launching commercially as a patent will be always not less than Rs. 200 crores which we are targeting.

Gagan Thareja: And on working capital, if you could give us some idea? From the March quarter to now, how has working capital moved for you?

Sanjeev Kharbanda: The working capital is well manageable. But at the same time, you should also acknowledge Quarter 1 and Quarter 2 for the agrochemical industry, these are the big quarters. So, having a good inventory right from RM to FG, and having the inventory pipeline up to the distributor point is something that is always required in these quarters. So, working capital management is well taken care of and as per the business plan only.

Gagan Thareja: I understand that from the March quarter to now, it will increase because you have to place inventory. But if one compares the June quarter of last year to the June quarter of this year, in days sales terms, has working capital remained stable or would it have grown or dropped?

Sanjeev Kharbanda: The best part is in terms of days cash conversion cycle vis-a-vis last quarter, it has not gone up. Despite the fact there is a 32% growth in the revenue, if DSOs are not going up and if the overall cash conversion cycle is not going up in that ratio, the working capital is well managed. This is where I wanted to give you the comfort of working capital.

Gagan Thareja: On CAPEX, the funding will require some amount of debt or will you be able to do it through internal accruals completely for the year?

Sanjeev Kharbanda: So far, we are able to take care through the internal accruals only. We are making a reasonably healthy EBITDA margin. And as I said, we are also working on a healthy cash conversion cycle, so far we are able to maintain it. However, as we move along, the growth trajectory in which the organization is in, has the kind of revenue target we have for ourselves, we will have to get into a Greenfield project expansion also. Once we reach that stage, we will explore initiating additional funding for the long term.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, my first question is on the export strategy. We indicated that we probably will be planning to start exports in FY25 and Mr. Sai is also here as the head of business development. What is the strategy that we are working on in terms of which initial products are targeted, which particular geographies, and given that the registration process is relatively lengthier in developed markets, what is the exact road map that we are looking at?

N. Surendra Sai: The global market is very diverse. On one side when you look at a diverse portfolio in terms of the number of crops and different regions with different climatic conditions and when you look at trying to match them with the product portfolio, the combination is actually very large. Definitely, there has to be a clear path and a strategy to be able to go to overseas markets. The path that we are working on is to be able to identify geographies and locations and crops which will be sort of aligned with our patent portfolios and our specialized molecules. What I can say is there are a good number of geographies that have climatic conditions which are very similar to what we have in India. And correspondingly, the sort of fungal infections as well as the insect infestations, are also very similar. We also see a certain great amount of herbicides that have a similar behavior across the world. One of the areas which will be our focus areas is the Far East. We see a significant amount of paddy. In these areas, we have very good products in India and that is one area that we will be looking at. One of the largest markets across the world and which no country can ignore is South America. And South America is one area that we will be focusing on. We do see significant opportunities in Africa. We see areas in South Africa that are useful for certain products from our portfolio. There are 2 strategies that we are doing which are slightly different with respect to the formulation business as well as with respect to the technical business. The strategy which I have told you right now is on the formulation business. On the technical, the world market is very price conscious because these are primarily business to business, and they are actually large formulators and manufacturers in other countries. We are trying to see that we produce the technicals which are environmentally safe, which are modern chemistry, which is difficult to make, and these are the technicals that we will be aiming for. So, the technical registration strategy would be slightly different from the registration strategy for the formulations. That said, it is quite obvious that both formulations have a good lead time, potentially of 2 to 3 years. It could be as high as 6 years. So, this is a game of investment and having a very clear strategy and a very clear path in terms of our investment. Registration is going to require an investment in the initial years. The payout in terms of the foreign market is our ability to align our patent portfolio, our formulation plants, and our technical plants with the right country and the right crops. And this is a whole mix that we are doing. We have started off on our journey. We do anticipate there will be registration time taken because some of these are patented and novel combinations. These will take some time, but obviously, we will be protected from our pricing with respect to any other competing country because they would not have that sort of a formulation or that sort of a patent. And hence, we will be able to identify and can get premium pricing. And this is similar to what we have achieved in India. We sort of are looking to see if we can replicate it in different countries. And this is, in short, the strategy that we are going to follow.

Rohit Nagraj: Just one clarification on this. What are the investments that we are looking at from a registration perspective, maybe over the next couple of years?

N. Surendra Sai: We have right now budgeted around Rs. 50 crore investments.

Rohit Nagraj: And these will be over and about the Rs. 200 crores which we are planning from the asset construction perspective?

Sanjeev Kharbanda: Yes, Rs. 200 crores are purely a CAPEX one for capacity enhancement and backward integration. As far as export development, product registration, and studying that market is concerned, that is a separate budget we have kept.

Rohit Nagraj: As Vimal sir indicated that there has been a price correction in CTPR. In terms of percentage, what is the correction that has happened from the innovator's price to our price? I don't want the exact numbers, but whether the innovator has also corrected their earlier price and what will be our discount to the innovator's price.

Vimal Kumar: In fact, if you talk about the parent companies, of course, they also have pressure and they have reduced 15% to 20%. And of course, as we are the second line or third line, we all are selling for 10% lesser than them. They are selling maybe at 15% lower prices, we are selling almost 25% lesser than their main price which was the last year,.

Moderator: The next question is from the line of S. Ramesh from Nirmal Bang Equities. Please go ahead.

S. Ramesh: If you can give us some insight into how you have achieved the kind of expansion in gross margins, given that there has been severe price competition? And how have you managed the supply chain to ensure the availability of raw materials?

Sanjeev Kharbanda: The answer to this is, as we mentioned earlier also, is the right product mix. The branded products are the key drivers for carrying the growth in terms of top line as well as safeguarding the margins. And as we said, as an organization, our strategy is to minimize the generic molecule, to minimize the commodity part of the business which is highly affected by the demand and supply gap. Since we are offering products which are unique, which are crop-specific solutions, and unique solutions to the farmers, somehow the organization has the ability to decide and drive the kind of realization per SKU, per product we require and that's how we have been successful on this.

S. Ramesh: As a follow-up, can you share what is the proportion of revenue in percentage terms you get from your patented and premium products and what is the share of new products in your current revenue?

Sanjeev Kharbanda: Broadly, I can say we see this business in 2 segments, primarily formulation driven and technical driven. In broad terms, the formulation-driven business is increasing and contributing between 60% to 70%. Again, that is how it is helping us to safeguard the realization as well as the gross margin on the product.

S. Ramesh: But since you are emphasizing on your positioning as a specialist product manufacturer if you can give us some sense of the percentage share of specialized products, that will be useful because everybody makes formulations. Given that peer companies are not performing as well, there must be something that is driving your performance. So, what is the percentage share of your patented products in your overall revenue? That will be useful.

Sanjeev Kharbanda: Let me put it in a simpler form. As I said, nearly 65% to 70% of the total formulation business is adding to the pie, and within that formulation, the B2C segment is contributing more than 60%, which is primarily driven by these specialized products only.

S. Ramesh: Can you share the share of the new products in your overall revenue?

Sanjeev Kharbanda: When we say new products, the definition is slightly different from person to person. For example, within our offering, within our overall basket of products, if we say Ronfen is a new product, the answer is yes. But then there can be a different perspective that Ronfen was launched last year. Is it new for this year? Approximately, the ratio is 70:30. The new products are adding to the bouquet around 70%.

S. Ramesh: If we take the last 3 years, whatever you have launched in the last 3 years. The companies give their innovation rate on new products as a percentage of revenue. From that perspective, just to get a sense in terms of how mature your portfolio is and what is the share of new products which possibly have a longer life cycle. As you are saying, 70% of your revenue in the last 3 years is the share of new products.

S. Ramesh: That's right.

Moderator: The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: Sir, my first question is that you say that Ronfen is Rs. 70 crores and I think CTPR is roughly Rs. 20 crores, and you just now mentioned that most of the booking is coming from the new products. If you can tell us which products are contributing? Because we posted Rs. 600 crores of revenue. Which are the other large products in our basket which are contributing to this Rs. 600 crores?

Sanjeev Kharbanda: Please understand, when we are saying the new products are contributing approximately 70%, these are the annualized average numbers we are talking about. Quarter to quarter, the contributions are, of course, different. For example, in quarter 1 if Ronfen is 70, Quarter 2 will be much bigger than this because Quarter 2 is the time when Ronfen demand will further increase. That ballpark indicative number of 70% contributed by a new product, we said, is on a year-on-year average basis.

Ayush Agarwal: But even despite that, as I asked, since you mentioned Ronfen is Rs. 70 crores and the CTPR is Rs. 20 crores and we have posted a Rs. 600 crore revenue, which are the other large products in our basket right now in the branded formulation?

Vimal Kumar: There are products like BESTIE, CITIGEN. Of course, CITIGEN you already said. But there are products like DONGLE, AXEMAN, TOMBO etc. There are so many molecules. There is not only 1 or 2, but majorly we are talking about those which are giving us the big revenue. We are talking about that only.

Ayush Agarwal: If you can quantify the top 2-3 products apart from CPTR and Ronfen for Q1 specifically?

Vimal Kumar: Apart from Ronfen and apart from CTPR, there is a product called Warden that is a major one. Then there is BESTIE, then there is BESTLINE, then there is PYMAX. These are the molecules. PYMAX has pymetrozine; and then AXEMAN has Pymetrozine and dinotefuran; then Bestie has glufosinate. These are different products. Warden again has the combination for seed treatment products. Warden is a combination of – thiophanate methyl, azoxystrobin, and thiamethoxam. There are many molecules we have and each molecule size isfrom Rs. 10 crores to Rs. 50 crores we can say, the major ones I am telling you.

Ayush Agarwal: Sir, my second question is about the upcoming launches that we plan to do. Given that we have already posted Rs. 600 crore revenue in this quarter and most of the products that you are mentioning on the call are you saying Q2 and Q3 are much heavier. So, are we expecting Rs. 1,000 crore revenue next quarter? Because, with so many new launches and Ronfen doing well, is that number achievable?

Vimal Kumar: Number to say is very hard on the call. But definitely, we are improving and the same guidance again, we are saying 30% of the growth and we will maintain the 20% of EBITDA. Definitely, we will achieve that.

Moderator: Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sanjeev Kharbanda: Once again, thank you very much for joining us. Your participation gives us more motivation to keep delivering quarter on quarter and year on year with growth momentum.

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

(This document has been edited for readability purpose)