Online

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Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G. Block,
Bandra- Kurla Complex,
Bandra East, Mumbai-400 051

Symbol- DHANUKA

The Department of Corporate Services-Listing
The Bombay Stock Exchange Ltd.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001
Scrip Code : 507717

Sub: transcript of Conference Call with Analysts/Investors

Dear Sir,

Please find enclosed transcript of Conference call organized with Analysts/Investors held on 22nd July, 2020 post declaration of Un-audited Financial Results of the Company for the quarter ended 30th June, 2020.

Please take above information in your record.

Thanking You,

Yours faithfully,

For Dhanuka Agritech Limited

Jitin Sadana

Jitin Sadana
Company Secretary/Compliance Officer
FCS-7612

Encl: a.a

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Dhanuka Agritech Limited

Q1 FY2021 Earnings Conference Call

July 22, 2020

Management:

Mr. Mahendra Kumar Dhanuka – Managing Director

Mr. Rahul Dhanuka – Director (Marketing)

Mr. Vinod Kumar Bansal – Chief Financial Officer

Hosted by Antique Stock Broking

Moderator: Ladies and gentlemen, Good day and welcome to the Dhanuka Agritech Limited Q1FY2021 Earnings Conference Call hosted by Antique Stock Broking. 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 would now like to hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Sir!

Manish Mahawar: Thanks Janice. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call. From the management, we have M.K. Dhanuka, Managing Director, Mr. Rahul Dhanuka, Director (Marketing) and Mr. V.K. Bansal, CFO on the call. Without further ado, I would like to hand over the call to Mr. Dhanuka for opening remarks. Over to you Mr. Dhanuka!

M.K. Dhanuka: Thank you Mr. Manish. Good afternoon ladies and gentlemen. Hope you all are doing well and keeping safe. Thank you for joining us for the Q1 FY2021 results conference call. I have with me Mr. Rahul Dhanuka, Director (Marketing) and Mr. V.K. Bansal, CFO of the company.

Dhanuka Agritech Limited is the leading agrochemical company in India. We specialize in formulated products and have a solution for almost every crop. We have a strong diversified product portfolio which is well distributed across insecticides, herbicides and fungicides segment. We have a pan India presents with over 7,000 distributors and dealers and approximately 80,000 retailers. We have three states-of-the-art manufacturing facilities in Rajasthan, Gujarat and J&K.

Coming to the quarterly operating performance, despite the challenges faced during the nation wise lockdown and reverse migration of labours from big cities to rural areas, I am pleased to inform that we have witnessed record sale on the backdrop of good monsoon, recharged groundwater table and better sowing in Kharif season during the month of June. Some of the ambitious steps taken by the Government of India to revive the role of agriculture in the growth of Indian economy such as increasing Minimum Support Prices, eNAM portal, distribution of soil health cards and direct benefit transfer via PM Kisan Samman Nidhi have helped to create a robust foundation to enhance farmers income and encourage wider adoption of high quality seeds and judicious use of fertilizers, these initiatives would transform Indian agriculture and make it competitive globally.

Coming to the financial performance for the quarter, revenues from operation stood at R. 373.84 Crores in Q1 of FY2021 versus Rs. 219 Crores in Q1 of FY2020 representing an increase of 70.70% growth, EBITDA stood at Rs. 65.28 Crores in Q1 of FY2021 versus Rs. 19.97 Crores in Q1 of FY2020 up 226.94%, EBITDA margins improved from 9.1% in Q1 of FY2020 to 17.5% in Q1 of FY2021 led by strong operating leverage. Profit after tax was at Rs. 51.79 Crores in Q1 FY2021 versus Rs. 14.79 Crores in Q1 FY2020 up 250.12%, PAT margins improved from 6.76% in Q1 of FY2020 to 13.85% in Q1 FY2021, such tremendous performance is possible because of the teamwork from factories, from the marketing team, from finance team, from logistics team and all these are results appreciation from management.

Coming to the June wise share of turnover for at Q1 FY2021, north zone contributed 31%, east zone contributed 10%, west zone contributed 42% and south zone contributed 17%. Product category wise share of turnover was as Q1 FY2021, insecticides contributed 31%, fungicides contributed 11%, herbicides contributed 46% and others contributed 12%. You are well aware that at initial stage, consumption starts with herbicides followed by insecticides and then fungicides.

I am happy to inform that the board has approved buyback of equity shares of the company using funds of Rs.100 Crores at a maximum price of Rs.1,000 per share. These equity shares will subsequently be extinguished resulting in reduction of paid up share capital of the company.

We would like to highlight that we have received approval for one molecule in this quarter under section 9(3) category which will be used for grapes and potatoes. Also, during the last quarter, we have launched two new products by the name of Dabooch and Dozo Maxx which are both herbicides; both the products are in license products.

Friends, Dhanuka regularly organize various seminars Krishak Goshthi and Sammelans to educate our farmers about new innovative techniques of farming. Being India’s leading Agrochemical Company, we are at the forefront of introducing digital solutions and innovation, streamlining policies and collaborating with ingenious entities to boost integration of technology across business segments.

In the same endeavour we have tried to boost our reach through online farmer interactions and aggressive use of TV advertisements for our three products such as Sempra and Targa Super. We are focussed on expanding our market coverage through our network of distributors and our digital platform where we are engaged with end consumer. We consider ourselves responsible to securing the farmers welfare and preserving full security of the nation. We continue to strengthen our association with the Farmer Producer Organization Krishi Vigyan Kendra and other critical institutions to increase our business expertise and boost our market presence.

To summarize at last, Dhanuka continues to demonstrate our ability to overcome challenges and emerge stronger despite uncertain business environment. We will aggressively rollout new formulations in the upcoming quarters and would ensure that it reaches to the consumer. I reassure our shareholder that we are committed to the task of transforming the landscape of agriculture in India and will play an integral role in rewriting the future of a better and new India. Now on this note, I would like to hand over the mike to Mr. Manish to enable us to take questions and answers. Thank you very much.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Thanks for taking my question. Our sales have been very robust and congratulations on the same. Is there any preponement of sales for Q1 vis-à-vis lockdown issue and probably may be the lockdown will be extended if second wave comes in so from that perspective has there been that some of the sales which was supposed to in Q2 has come on Q1?

V.K. Bansal: Definitely, there is a preponement as well as postponement of sales in Q1, because of the lockdown in Q4 we could not make the billing of at least eight days approximately 10% of the sales of Q4 were postponed in Q1 and at the same time because of onset of monsoon in time, so there was preponement sale as well of July to some extent, that is right.

Rohit Nagraj: Okay and currently how is the situation for the month of July and everything has come to normal in terms of our plant operation, logistics and supply chain both from product placement perspective and from raw material of procurement perspective?

M.K. Dhanuka: Could you please repeat that question?

Rohit Nagraj: Now the first quarter is over in the month of July, so how has been the solution in terms of our plant operations have been normalized and on the supply chain front both from our product placement in the market and raw material procurement?

Rahul Dhanuka: Our plant operations stabilized much earlier I think so somewhere around April end, they were significantly up and running and I think so by mid May we were running full capacity, we received lot of support in this from the local government at the district and the state level also, agriculture and agri input being essential commodity, we received a very good support. At one our plant we faced the issue of the labour going back to their native districts, but by the month of June end they were really back and into operations up and active again, so plant operations are absolutely really good in that we could service our channel and customers in the last quarter. In terms of the supply chain, I believe except the sporadic impact of the local district level lockdowns, the supply chain is significantly smooth and things are moving positively and also the procurement pipeline faced some hiccups in May and June for various reasons which also has significantly stabilized and the procurement pipeline is also running largely unhindered and undisturbed.

Rohit Nagraj: Sir one last question, in your presentation you have said that the target to launch 10 new products for this segment over the next two years, so what are the categories and what are the crops we are targeting for and what is the potential revenue or potential of these 10 products that is it? Thank you.

Rahul Dhanuka: In the call, I will not be specifying the products which we are going to launch; however, we have maintained largely an effort to introduce about four to five products every year, we have already introduced two products in the previous quarter which is Dabooch and Dozo Maxx and we are planning to launch about three to four more products within this year out of which two will be 9(3) productions. Our efforts will be to cover all the segments of herbicides, fungicides and insecticides. We will be introducing across the span.

Rohit Nagraj: Any market size for these 10 products, any idea?

Rahul Dhanuka: Now we are not specifying that.

Rohit Nagraj: Thank you very much and best of luck Sir.

Moderator: Thank you. We take the next question from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Thanks for the opportunity and hearty congratulations of management team for this splendid performance. My question is on the margins, we have seen gross margin improvement on a Y-o-Y basis, but my sense is that your probably gross margin could have improved even better, one of the reason I could think of it because we were ahead of the competition in terms of securing a supply chain especially from imports and hence we were able to place and it would be probably ahead of competition we delight to this robust performance, but then probably we had to compromise a bit on margin in the form of higher cost of good, because you are ahead in the game and then prices came down subsequently, is my assessment correct? That is part one and if that is yes and we will see even further improvement in gross margins in Q2?

V.K. Bansal: We can expect improvements in gross margin in Q2 that is right and with regard to your first part of the question I understood you are saying if there is an improvement in the gross margin by 19 bps, but it could be much better than this right?

Varshit Shah: Yes Sir.

V.K. Bansal: Yes, you are right it could be. I cannot deny that, but you see in the Q1 portion of some B2B sale in generic is exponentially increased disproportionately, therefore increases like this. It could have been better if the proportion which we have normally two-third and one-third, it remains like this it could have been much better.

Varshit Shah: Understood, so I think going forward it would normalize that is what I can assume?

V.K. Bansal: That is right.

Varshit Shah: That's it from my side and many congratulations and best of luck for the rest of the quarter.

Moderator: Thank you. We take the next question from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda: Good evening. Thank you so much for your time. I just wanted to understand that given that there has been some preponement of sales from Q2 and from postponement from Q4, what should be look at in terms of annual sales for FY2021 given that the season looks very, very good right now, any like thoughts on your side on that?

M.K. Dhanuka: We have already given guidance of 20% plus growth for the whole year, so we maintained the guidance of 20% plus growth.

Madhav Marda: Okay and in terms of the EBITDA margin side, any outlook on that is well?

V.K. Bansal: EBITDA margin also the guidance was 100 bps improvement over last year, so that also we maintained that minimum 100 bps improvement over last year.

Madhav Marda: Thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Probal Sen from Centrum Broking. Please go ahead.

Probal Sen: Thank you for the opportunity Sir. Congratulations on the good set of numbers. Sir two questions; one was you just mentioned about the category wise breakup where herbicides has obviously stood out, is it a function of the fact that this because of the shortage of labour, there has been more transplantation on weed removal investment from the farmers and if so for the rest of the year, can we expect this proportion to once again revert back to the sort of 40% insecticide and 33%-35% herbicides for the full year? That was the first question Sir.

M.K. Dhanuka: Yes, you are right Mr. Probal. This quarter because of the migration of the labour especially from Punjab, Haryana etc., the manual weeding was not possible and that is why chemical weeding was now the only option for the farmers. So, consumption of herbicides even otherwise in the first quarter is always higher, so we hope that at the year end, the similar percentage will be there that means insecticide consumption in the bracket of around 43% and herbicide consumption around 31%.

Probal Sen: Sir, the other question was more near-term, I think you mentioned earlier also as well as on TV that Q2 historically tends to be the strongest quarter for you in a year, now obviously this year we are going off a larger base because Q1 itself so strong, but still on a Q-o-Q basis is it fair to assume, the Q2 would be stronger than even this quarter if things stay as favorable as they are now?

M.K. Dhanuka: No, that much growth was possible in Q1 because of the postponement of the day March sales to first quarter and preponement of July sales in first quarter, so that much growth is not possible in the second quarter; however, over last year there will be definitely growth we are expecting in the second quarter also, if monsoon is good and sowing is all time high so that is why growth is 100% going to be there.

Probal Sen: Sorry if I missed this if I may ask one last question, what is the share of sort of the newer molecules in your overall sales as of now just the rough percentage?

V.K. Bansal: In Q1, it is coming 7.4%.

Probal Sen: 7.4% Sir?

V.K. Bansal: Yes, current year for the three year as it is last year in Q1 was 7.34%, it is almost similar to last year, there is improvement only six bps, but the year and we are expecting the significant improvement over last year say more than 200 bps.

Probal Sen: Okay, for the full year a 200-basis improvement in this index?

V.K. Bansal: Absolutely, we are expecting at least minimum.

Probal Sen: Thank you so much Sir. Congratulations again and all the best.

Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: First of all, congratulations for good set of numbers. First question is, as of end of March, the inventory in the channel for us and for the industry also was quite thin and the initial part of the Q1 you had issues and production and placement, so currently how would the inventory in the channel be for us and the inventory now, as of June end or July so far, how is the inventory position in the channel be now? So that is one. Second, you talked about the gross margin expansion starting to play out in Q2, so is it purely a function of product mix which we expect to correct or it is also the fact that you expect either the RM and price environment being more favorable of you and your products have taken a price increase, so which of those factors is actually going to drive from margin expansion? Third is if you can provide any update on that ban of 27 molecules which the government has come up with the orders, so as there is any further update on that and also on the glyphosate related molecule?

Rahul Dhanuka: First of all I will be talking about the channel inventory, of course March end the channel inventory was not very high and subsequently due to aggressive sowing availability of irrigation water, availability of groundwater has led to actual consumption of agrochemical, so April, May, June has seen significant consumption of agrochemicals and almost 60% to 70% of the stocks have been consumed, so there is pretty less inventory in the pipeline. What I am talking to you about is June 30, 2020 situation and then the consumption has continued, so the pipeline stocks are not expected to be very high that is one thing, of course the second point was about the margin expansion, so in Q2 the large impact will be of product mix.

M.K. Dhanuka: Last year there was a significant decline in the gross margin in Q2, so one base is low, secondly last year there was a decline and trade started in the month of August, this year we are not expecting such a trade, so therefore it is a combination of all, one is the base, one is the return on trend and the third is the product mix, therefore we are expecting improvement in the Q2 Gross Profit.

Rahul Dhanuka: And then talking about 27 products ban, the industry took up very strongly this issue Farmer Associations and the channel also took up the issue very strongly because this does not have scientific base and as of now the subject has not moved forward. We are not looking at any of these bans coming into action in near future, the entire list contains about three red triangle products, so at worst what can happens is that those red triangle products might come in the government's ambit in the short term, but in long term the government would probably be seeking more data and being satisfied with the data would allow the products to be continued, because these are the optimum low cost choices and options available with the farmer which is not as of now prudent to withdraw.

Viraj Kacharia: Okay, if I can squeeze one question, you said that apart from the mix and the base, also the trade terms you have tightened, so for us in the industry is that by and large the approach that given the kind of demand and consumption we are seeing right now, the approach is more of tightening in terms of trade either in terms of most strict credit terms or increased in product prices, any of those things we have seen in the market place?

Rahul Dhanuka: As such you know that Dhanuka is asset light model and a debt free balance sheet we have that leverage is available from our vendors. When we go out to reach out to our customers I think so this is natural what is happening in the ecosystem, but we have improved our trade receivables significantly, so we have gone really aggressive on that front and that was largely plant of the part as we were shipping up to the Q4, we have gone aggressive on our collections and trade receivables.

Viraj Kacharia: Thank you.

Moderator: Thank you. We will take the next question from the line of Rikin Shah from Phoenix Capital. Please go ahead.

Rikin Shah: Congratulations for fantastic set of numbers. Firstly, I would just like to ask now on the global scenario, we have seen disruptions and companies saying that India has a very good opportunity for contract manufacturing, so are we going to be looking at that side? Secondly, I would like to ask, we are going to see a better trend of 9(3) and 9(4) in licensing?

Rahul Dhanuka: In-licensing is the continuous effort that we do, because India doesn't have basic R&D and basic research available. We have two 9(3) products coming in this year both are grape fungicide and we have some very powerful products in pipeline to be introduced in coming years and this year we have already introduced tour in-license Dabooch and Dozo Maxx and also going forward will be continuing to do these in-licensing the 9(4) products as well, so we are going to stay aggressive on both these fronts. Talking about the supply disruptions globally and the opportunity wherein yes, that opportunity is absolutely there and it is the open opportunity for Dhanuka also as and when we have something powerful to share in this group in certainly like through come back and do that.

Rikin Shah: Thank you so much.

Moderator: Thank you. Next question is from the line of Krish Kothari from Shinobi Capital. Please go ahead.

Krish Kothari: I was wondering could you tell me if you in your assessment that you have managed gain some market share predominantly from smaller companies especially private companies that may not have been able to sort of have necessary production going on in a factory in the quarter or had problems with their distribution network?

Rahul Dhanuka: Right, it is relatively difficult to assess because even our team does not have very clear access to be markets right now due to Corona-related restrictions enforced by the district administrations or sometimes the market associations themselves, so what I am talking is relatively more second hand, so this is true that the unorganized sector probably could not service the market with as much agility and that is why the market would have shifted towards the organized sector mode. That is one thing. Secondly I also have a sense that because of our very agile supply chain at Dhanuka, our three formulation units being up and running relatively much earlier, our very sincere efforts to have all our depots spread across the country to become active in spite of the local curfews was very helpful in servicing our farmers, this obvious what happened in the industry. So, it was a very agile supply chain for which we were able to take this advantage and all the credit goes to our supply chain and the three factory chain which did this great job. So as an outcome the market share would have certainly increased.

Krish Kothari: Thanks, and just one question on the employee cost for the quarter, I was wondering has there been any salary cuts and assuming there has been will they simply be made of in subsequent quarters or have you paid pretty much 100%?

V.K. Bansal: We have paid 100%.

Krish Kothari: Thank you.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my question. Sir, I have two questions. One is a) with all these talks about potential banning out certain goods from China, how do you see that impacting the industry landscape in general and two, from Dhanuka perspective Sir, how much of your business impact for us from strategy perspective?

Rahul Dhanuka: I do not think so we have heard any specific message around banning of agrochemicals import from China. How I look at is that agriculture is the cornerstone of the India economy GDP both economically as well as politically. What we should worry about as a country and as a government is about food imports, so still we have to indulgent lot of pulses import, lot of oil seed import and we need to really take care of that by increasing the productivity in our country, so should we become food dependent or should we become chemical dependent for a while. While the government takes initiatives to increase Make in India and increase the chemical production in the country which is certainly laudable and appreciable effort. I think so we will not be as a country we will not be compromising with our food security and we would probably be trying and making the efforts to check our food import bill, so that is whatever is happening in short term is my feel, but if there is dumping happening of agrochemicals from China or something like that then I think so government should take a serious view of that and take corrective action as well. Talking about the strategic perspective of China sourcing, for Dhanuka our strategic sourcing is largely some of a Japanese principle, our 9(3) pipeline largely constitutes of Japanese partnerships and products and also our relationship with American and European companies, which are the major source of in-licensing products, so the strategic weight remains there.

Nitin Agarwal: Secondly, this is pretty much a best year after a gap of almost three years, because then we have had very uneven monsoons after FY2017 onward, when we start we look like three year view business going on in the context of how uneven growth has been for us over the last three to four years, so how should you look at the business on a three year view, does it continue to remain hostage to these monsoons on an annual basis as was seen in the recent past, we will see about structure and structural improvement in growth if you go forward?

Rahul Dhanuka: I cannot discount the impact of monsoon when we talk of three year's perspective, yet at Dhanuka we are making efforts to streamline this mode in terms of structural changes, how we can make it more and more agnostic to be monsoon impact. Now this initiative while we are taking at our end is also very visible in the environment, because more irrigation channels are being established, more water accessibility for the farmer is happening and the technology is moving towards drought resistant crops in agriculture, so that is going to help the Indian agriculture grow and stabilize in perspective. From our side, we are introducing more products which are suitable for the farmer even in case of less water, so for example last year itself we have introduced a product CHEMPA, which is a rice herbicide and it is meant for direct seeded rice or water stressed rice and this year it was because of labour stress that Punjab, Haryana and various other markets, the farmer shifted to labour free direct seeded rice and CHEMPA has exhibited a major boost, so what I am sharing is we are trying to make our portfolio also monsoon agnostic.

Nitin Agarwal: Second squeeze it last one, for Rabi season, are there any indications why when will be start getting sense of how Rabi will ready play out this year for industry?

Rahul Dhanuka: So far, the monsoon forecast is very good for the Rabi also. La Niña is largely predicted and has set in. La Niña is a monsoon favorable situation of the Pacific and Atlantic, so I think we are well placed when it comes to good Rabi rainfall and we are also well placed in terms of the self sufficiency call of the government of oil seeds, pulses and other crops, so I think Rabi is expected to be really good.

Nitin Agarwal: Thank you and that is all.

Moderator: Thank you. We take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Dhanuka Ji good evening Sir. First question is on our current year FY2021 the growth prospects which we have seen for our company, no doubt Q1 be has seen a very solid growth and you are still talking about that in Q2, you remain confident about further growth in Q2 as well right despite this from preponement of sales happening in a current year, but you still remain confident that Q2 we may see growth over last year?

M.K. Dhanuka: Definitely, we hope that we will definitely have growth over last year, which is evident from the last 20 days sales also.

Rohan Gupta: If I just were to look at the slightly more closely then what kind of growth number we can expect. Do you mention Sir full year you are expecting 20% plus revenue growth, my whole point was that given the robust Q1 and even if we are expecting a Q2 growth then it means that for full year, we are going to see revenue growth number may be beyond 25% or 30% also, so I am just looking that are we being conservative in terms of how we are seeing this year, also the same thing is that reflected in bottomline like EBITDA margin expansion though you initially guided for 100-basis points, but Sir if I keep your last year nine month number same and Q1 number if I factor in for the current year then itself you have achieved 150-basis point EBITDA margin expansion already, so I just wanted to get a fair sense that how FY2021 could pan out given that in a current scenario and how the agri doing so, if you can just share some more light on that?

M.K. Dhanuka: I will request Mr. V.K. Bansal to answer this question.

V.K. Bansal: You are absolutely right. We have committed around 20% growth in the beginning of the year, now looking for the Q1 numbers definitely we are hopeful that overall growth will be more than 20%. In Q2, definitely growth will come and it should come in double-digits, but you will see in the last year, Rabi was very, very good exceptionally well, last year Rabi growth appears to be little dull. As far as EBITDA margin is concerned, you are absolutely right, we have committed 100-basis points and I am sure our EBITDA margin improvement significantly more than what we committed.

Rohan Gupta: Sir second question is related to buyback, how should we read it, is it in lieu of dividend which generally give you thought that it is a better time to distribute the cash because, we are doing in buyback when stock has seen a huge appreciation in the last three months and even the buyback size is also pretty aggressive at Rs.1,000, so is it lieu of dividend, you are doing this buyback because there is no tax related benefit now or it is another smart way of paying the money to the promoters because 75% we have and are we also going to participate in a buyback, so that is it a smart way of paying money to the promoter, so that is one thought on that Sir?

M.K. Dhanuka: It is definitely one way of rewarding the shareholders instead of paying dividend you are doing the buyback and paying the dividend the tax liability remains with the shareholders while in the buyback, the tax liability will be borne by the company. So ultimately shareholders are going to get the advantage in this buyback since promoters are holding 75%, so always that benefit will be passed onto the promoters also, because they will be participating it is the tender, so the promoters will also be participating in the buyback process.

V.K. Bansal: We are not saying they will not pay a dividend, but yes in this year the buyback dividend is significantly lower as compared to the previous year. But dividend will definitely be there in this year as well.

Moderator: Thank you. We take the next question from the line of Archit Joshi from Dolat Capital. Please go ahead.

Archit Joshi: Thanks a lot for the opportunity and congrats for a great set of numbers. Sir, we have around 70% odd of volume growth for this quarter, I just wanted to ask, we have been benefited by the recent locust attack that are happened in the quarter, so if I were to look at on a like-to-like basis and if you can say a quantum of volumes that you have had from other locust attack because I think we had about 7 to 8 products from our insecticides portfolio, that could have been used for this particular phenomena, so if you can help this out with that?

Rahul Dhanuka: Locust attack is relatively spread out in terms of the north and northwest of the country; however, its intensity keeps on varying depending upon the microclimate of the area, so right now the locust is active in some part of Haryana and Uttar Pradesh and the agrochemical consumption is largely tender based where Dhanuka has not aggressively participated, whatever you see consumption in the private hands of the farmer, our options are available to the farmer much aggressively and much better way for him to make his choice.

Archit Joshi: Right Sir, got it. Another question on the participant who had asked about the gross margin expansion, if you can just repeat as to what has happened in the first quarter and what we are expecting in the second quarter I think I missed that point?

M.K. Dhanuka: In the first quarter, there is an improvement of 90 bps in gross margin and in Q2 we are expecting an improvement in the gross margin, because last year there was significant decline in gross margin in Q2 because the price decline in trade was there in the month of September, this year we are not expecting as a trade, so therefore we are expecting a improvement in the gross margin as well as some improvement in the product mix as well.

Archit Joshi: Right Sir, on the same point I think we have already taken a price hike in the previous quarter and will that also sort of come into play if you consider the base and if you can also comment on how is the underlying pricing of the thing that we are importing from in licensing partner?

M.K. Dhanuka: In case of imports normally prices are stable throughout the year, the price change was significant in the month of April, May in case of generics and now it is largely settled in the few molecules, there is a little softer and few molecules there is increased in the price.

Archit Joshi: Right Sir, so largely it is stable?

M.K. Dhanuka: Yes.

Archit Joshi: Thanks for the opportunity.

Moderator: Thank you. We take the next question from the line of Levin Shah from Valuequest. Please go ahead.

Levin Shah: Thanks for the opportunity Sir. Firstly, congratulations on very good set of numbers. Now if you look at the growth that we have seen this year, so majorly the growth has been led by volume growth and there has hardly been any price increase that we have seen, so do we see this phenomenon continue throughout the year or like you said that dissolve this because in this quarter, we saw that the product mix has changed, so that was the reason that we have seen them no value growth as such?

M.K. Dhanuka: In this quarter actually the volume growth was more, it was 72.52% approximately whereas the value growth is 172% which means there is a decline of around 180 bps in the year because of many molecules price were lower in the Q1 as compared to the price of Q1 last year, so I am expecting this guess will be see fulfilled by the year end, it should be almost similar, volume and value by the year end.

Levin Shah: We are not expecting any major growth in the value, all the growth would be driven, major growth would be driven by the volume?

M.K. Dhanuka: Absolutely right that is correct.

Levin Shah: Sir and my last question again is on this gross margin, what we have seen last year, there is a big compression in the gross margins in FY2020 numbers which we see and now with growth coming back and also like new product that we have launched, do we see our gross margin going back to like FY2018-FY2019 levels in this current year?

M.K. Dhanuka: It is very difficult to comment, but definitely I can say one thing, there should be improvement quarter-on-quarter in the gross margin definitely, because last year there was very bad situation.

Levin Shah: I am talking about year as a whole, so if we compare FY2020 gross margin, they were compressed as compared to FY2019 and there was like major compression and last year's gross margins are one of the lowest in six, seven years history?

M.K. Dhanuka: That is what I am saying, I am not sure whether there will be equivalent to the FY2019 level, for that is sure that would better than the FY2020 level.

Levin Shah: Thank you and all the best Sir.

Moderator: Thank you. We take the next question from the line of Deepak Kolhe from B&K Securities. Please go ahead.

Deepak Kolhe: Good evening Sir. Thanks for this opportunity and congratulation Sir for good set of number. Sir, can you please provide the generic and the specialty revenue mix for this Q1 as well as for the last year?

M.K. Dhanuka: For Q1, it is almost 60% and in the last year, it was approximately 60%:40%.

Deepak Kolhe: How do you see this raw material supply situation currently if you can give some colour on that?

M.K. Dhanuka: Raw material supply largely is reasonably good.

Deepak Kolhe: In terms of pricing Sir?

M.K. Dhanuka: In terms of pricing largely settled, in a few molecules price are little on higher side and few more molecules are little softness is there.

Deepak Kolhe: Thank you very much Sir. That is from my side.

Moderator: Thank you. We take the next question from the line of Somaiah V from Spark Capital. Please go ahead.

Somaiah V: Thanks for taking my question Sir. Congratulations on a great set of numbers. Firstly, if I heard it right, the impact of the Q4 space getting moved into Q1 you mentioned in 10%, is that right Sir?

M.K. Dhanuka: Could you repeat your question please?

Somaiah V: Around 10% of Q4 sales got pushed into Q1 2021 is that right understand?

M.K. Dhanuka: That is right.

Somaiah V: In terms of the preponement that you mentioned so I know it is very difficult to kind of have number to this, but any ballpark number in terms of how do you think the revenues from Q2 had moved into Q1, a rough ballpark number?

M.K. Dhanuka: It could be in the same range around 10%, but it is very difficult to estimate, but it could be around 8% to 10%.

Somaiah V: Great Sir, helpful. Second, I think one of the previous participants mentioned about this locust impact in corresponding sales for us, so was there any kind of numbers that we can attach to this which kind of aided in Q1 and numbers, this locust impact in corresponding sales?

Rahul Dhanuka: I do not think so the locust impact would have impacted our numbers directly, but overall there is an aggressive agrochemical consumption in the market in the fields by the government, by the farmers to deal with the locust attack, so that vacuum in the market would have certainly impacted our portfolio, our revenues also indirectly.

Somaiah V: Also, in across regions we have done well, but specifically south relatively a smaller base, but there has been quite a sizeable jump, so any colour on that front in terms of southern markets anything that you are saying different this time?

Rahul Dhanuka: Southern markets were carrying forward impact of good rainfalls in the previous Rabi, so previous Rabi resulted in good waters in the dams, good groundwater, good sowing in December, January and which was the carry forward impact of the consumption going into April and May.

Somaiah V: Also, is there any element of prebuying because of this COVID impact that you are able to see from the market I mean a sense of urgency on products not being available that is probably pulling forward some of the sales, is there something that you can fix?

M.K. Dhanuka: I think so in April and May I would say that there was a colour of that fruit apart from increased sowing, because increased sowing itself consumed the products, absence of labour consumed the products, but also there must have been some impact of the feeling of shortage or unavailability resulting in preponement or aggressive lifting of material by the channel as well as by the farmer.

Somaiah V: Got it Sir, helpful. Thanks for taking my question.

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

Vishnu Kumar: Thanks for the followup. You mentioned about direct seeded rice, if you just explain like conventional method is so direct seeded rice, how much would probably a farmer incrementally has to buy an agrochemical per acre spending Rs.200 now how much would you expect that?

Rahul Dhanuka: That is a difficult one. Per acre farmer is spending Rs.200 in one type then what is the differential delta in the other one. I will not be able to express that right away Vishnu, I will have to come back on that one. Theoretically speaking in past direct seeded rice has been our preferred choice in water stressed pockets and this is also called as upland agriculture; however, as the water tables depleted in Godavari and even in Punjab, Haryana then the government started promoting direct seeded rice varieties and farmer also lapped it up. So, the major challenge in direct seeded rice is weeds, so farmer certainly needs to go for weedicides application, extra weedicides round in direct seeded rice that is for sure, but what is the overall economics I will have to check that.

Vishnu Kumar: Because of labour shortage do you think the direct seeded rice acreage is materially shot up this time around?

M.K. Dhanuka: You will have to repeat that, you are not audible?

Vishnu Kumar: Because of labour shortage do you think the direct seeded rice acreage materially has gone up as compared to the conventional because of lack of labour. Is that right understanding?

M.K. Dhanuka: That is the right understanding that the direct seeded rice went up substantially due to shortage of labour, but in many pockets the farmer was not trained or not capable to deal with that shift, so in many areas as the labour inflow started as the labour restored or by a mechanical tools farmer removed directed seeded rice and went back to conventional paddy or shifted to another crop that also happened in the month of June; however, in April, May, the shift was significant, it was really very high.

Vishnu Kumar: My next question is just on the diversification plans, is there any plan to invest in any technical plans, you have spoken about in the past that will come back to you at a certain time, but are there any serious plans to get into, because at the end of the day then again we are rainfall dependent as you did mention that there is a little bit of cyclicality, anything that we would do to reduce the cyclicality?

M.K. Dhanuka: Our technical plan will not change much unless it is an export oriented technical plant then it is just derisking it from the Indian monsoon and getting on the rainfall or the agriculture of the international markets, so to that extent the technical plans do not define the monsoon trends, but coming back to the diversification plans, as of now nothing to add there.

Vishnu Kumar: Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Rikin Shah from Phoenix Capital. Please go ahead.

Rikin Shah: I would just like to ask you about your interpretation on the pesticide management are most specifically unorganized versus organized and the chemical industry plan by the Government of India?

Rahul Dhanuka: Organized versus unorganized and the second one was?

Rikin Shah: Chemical industry plans by the Government of India?

Rahul Dhanuka: You are not audible; I am not getting you.

Rikin Shah: Basically, I am asking Sir, how do you see the unorganized shifting to organized after the Pesticide Management Bill?

Rahul Dhanuka: Pesticide Management Bill is certainly going to make it stiffer and stringent when it comes to the unorganized sector, but largely for the fly by night operators or spurious product manufacturers that was kind of really long awaited stringent action required against the spurious product manufacturers, regulations to be put in place in the type of quality laboratories they should have, for example, for Dhanuka all our testing laboratories are NABL accredited and whereas the agrochemical licenses go out to non-existing labs also, so PNB will certainly be impacting that favorably in favor of the organized sector and I think so because of this there will be a shift towards branded products and towards the branded organizations, brand driven organization, so farmer will go for a brand recall and pickup the product accordingly and in that regulation, the local authority, the government would be backing us up with the P&B.

Rikin Shah: Second question would be how would your distribution be different from PI Industries and Insecticides like those companies also have heavy distribution in India like yours?

Rahul Dhanuka: Right, in fact I would not be able to comment on what kind of distribution, they have and plans, but in recent past what we have done is we have kind of consolidated the distribution and trying to service the second layer, so from 8,500 channel partners, we have reduced to 6500 cutting down the tail significantly over the last three years and we are trying to promote the next level of interior retailers through our selective distributors, so the idea is to catch the secondary sales, the idea is to influence the deeper hinterlands, the deeper rural belt, we claim ourselves to be rural FMCG, we would really want Dhanuka to be available on every access point of the farmer.

Rikin Shah: Basically, the way forward would it be getting more from the current distribution are expanding, because we have consolidated?

Rahul Dhanuka: It will go both ways, we will be expanding in the right markets wherever we find we are relatively less representative or our market share needs a push and we will be pushing aggressively for the secondary sale reach out wherever we find ourselves on the strong footing on the primary front.

Rikin Shah: Thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Thanks for followup. Sir, just one question in terms of strategy, so whenever we are introducing any new products, so what is our strategy, there may be some incumbents in similar category, so are we targeting may be in the initial phase some kind of pricing power over the competitors or we are primarily making use of our expanded distribution reach to the farmer doctors, etc?

Rahul Dhanuka: There are three things which we largely tried to leverage. One is our understanding of the emerging opportunity. Second is accessibility of the new technology and third is leveraging our distribution channel, so while trying to leverage, first of all I will talk about the emerging opportunities, so for example, in Madhya Pradesh, in soya bean markets there was a trend at the farmer in Malwa Belt in Ujjain, Indore area, they started shifting towards pre-emerging herbicide, we really tried and source Dabooch is an access point as a pre-emerging herbicide in soya bean. In terms of accessing new technology, Largo which is the product from Corteva is a very, very powerful and eco-friendly and almost bio-product to control lepidopteron pest very, very powerful technology which we source from Corteva and third is of course introducing a product to leverage our channel and make the product reach into wider corners of the country which we find we can do exceedingly well because of our channel network, the leverage these three things and we have the options across these three while we introduce a new product.

Rohit Nagraj: Normally how is the competition across these products, there are very few players in the category or there are many players, but these are recent specific players or probably do not have the time wide distribution reach that we have?

Rahul Dhanuka: Normally we tried to introduce products when many players are not present.

Rohit Nagraj: Last clarification, do you have any biological in your portfolio or are there any plans to introduce them in coming future?

Rahul Dhanuka: There are couple of biological in our portfolio yes. We introduced a product last year itself Mycor and Largo from Corteva is also biological and we are aggressively looking at offering these options also to our consumer aggressively.

Rohit Nagraj: Thanks for the followup Sir and best of luck.

Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just had one followup question. You talked about two new innovative products which we launched on 9(3), so who are the innovators in these new products?

Rahul Dhanuka: Fungicide product comes from Nippon Soda Japan and Kirari which is a downy mildew product again for grapes and potato comes from Nissan Chemicals Japan.

Viraj Kacharia: Thank you.

Moderator: Thank you. We take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Thank for a followup opportunity. Sir, my first question is on this China and we have seen that essentially that because it is a series venture product that raw material availability from China and I think the custom clearing and port clearing was getting continuously delayed, how is the scenario now and do you see that in a current scenario of Kharif crop, there is going to be some shortage of the raw material coming from China we can have impact on our business?

Rahul Dhanuka: As such our business is not that dependent on Chinese import significantly. Our strategic products and initiatives come largely from about Japanese principle. Yes the impacts overall Chinese imports was there and that has sorted out significantly faster due to intervention on both these sides and I think so in last 20 days nothing has actually even delayed not stopped, not even delayed, so things are moving really fast now at the port end also, the congestion at Indian ports is certainly a cause of concern and the overall custom clearance is slow.

Rohan Gupta: The material at least at the port end and supply from China has reduced, there is nothing further?

Rahul Dhanuka: That is right.

Rohan Gupta: Second question is that we have definitely earned a name of Bio-Pesticides and all in spurious product will be close to Rs.4,000 Crores plus sort of market has been developed in India which primarily was using materials or ingredients coming from China only and was using from spurious chemicals only on the name of Bio-Pesticide everybody knows about it. Do you see that the current year that market has been significantly impacted and also the pesticide will and along with raw material availability from China and also that credit condition which has been poor in the market because of all these reasons that bio-pesticide market which was fairly large market has been impacted in the current year and beneficiary will be companies like us in the current scenario?

Rahul Dhanuka: I think so yes. The spurious market has been badly impacted because of the Corona impacted lockdowns and then subsequent crack down on imports and micro investigation or micro assessment of all Chinese imports, so that will certainly impact the spurious or the unregulated market, so that should favorably impact the organized sector and the branded companies.

Rohan Gupta: Okay, Sir, impact is already visible Sir, have you seen that those products are now off the shelf from the small dealers, retailers, are there still very much there?

Rahul Dhanuka: What I am trying to do is only extrapolate here Rohan because as I shared with you, the market accessibility has not yet opened up. There are district level lockdowns, our market associations have imposed their own lockdowns, we are company peoples are not being allowed easy access into the markets, so that visibility is not very loud and clear, I am just extrapolating given the fact that my other peers have also informed a brisk movement in the quarter and I have seen unprecedented movement in this quarter, the links may takes me to believe that there is a supply shortage from the unorganized sector and this is what my channel also informs me in my telephonic and Zoom interactions that such supplies and spurious supplies and so-called bio-product supplies is seriously impacted.

Rohan Gupta: Okay, great Sir. Thank you so much.

Moderator: Thank you. We take the next question from the line of S Ramesh from Nirmal Bang. Please go ahead.

S. Ramesh: Good evening Mr. Dhanuka and Mr. Bansal. Thank you for the call. My first question was on the balance sheet, what is the kind of capex you plan to invest this year and what is the impact of sharp growth in revenue on your working capital?

V.K. Bansal: As far as capex is concerned, not really significant. It would be normal capex between 5 and 10 Crores in this financial year.

S. Ramesh: What about the impact on working capital because you have seen your revenue go up so much?

V.K. Bansal: Working capital has improved in the Q1 significantly by 15 days.

S. Ramesh: So, you expect that to continue for the rest of the year?

V.K. Bansal: It should continue, but not exactly in the same speed.

S. Ramesh: In terms of the distribution cost, do you see any room for improvement in the distribution cost for industry or for your own company or is there a potential for the cost will go up because everybody is sensing an opportunity and cost of reaching to the farmer and getting that mind share is increasing, so what is the thought on trend in the distribution cross overtime?

V.K. Bansal: When you are saying distribution cost is what, what exactly you are looking for?

S. Ramesh: So basically, in terms of your marketing and distribution cost?

V.K. Bansal: Marketing and distribution cost?

S. Ramesh: Yes.

V.K. Bansal: Largely it would remain as per the last year percentage, this year there are certain changes in certain heads and we are spending more than the industry this year, so the percentage will largely same as well for the last year.

S. Ramesh: That means if you are able to control your raw material cost and if you able to grow your revenue, you should be able to maintain your EBITDA margins going forward that is what you are saying?

V.K. Bansal: Yes, absolutely.

S. Ramesh: Thanks a lot, and congratulations and all the best.

Moderator: Thank you. We take the next question from the line of Saurabh Kapadia from Asian Markets Securities. Please go ahead.

Saurabh Kapadia: Thank you for the opportunity. First on the in licensing of product, so all the products which we are going to invest in FY2021; are the exclusive to Dhanuka or there will be some other company as well?

Rahul Dhanuka: We are introducing two products, in sodium and Kirari which are 9(3) introductions for the year, these are exclusive for Dhanuka.

Saurabh Kapadia: Sir, the two products we have already launched in this quarter?

Rahul Dhanuka: Two herbicides which we introduced Dozo Maxx and Dabooch, these are in-license non-exclusive.

Saurabh Kapadia: Sir what could be the size of the rice products like we are launching so may be know peak potential sales for those products may be two or three years down the line, what could be the size for those products?

Rahul Dhanuka: I am not sharing those numbers on the call.

Saurabh Kapadia: Sir, just one more thing on the co-marketing in Maharashtra that has given 2020 so how much was the revenue in his quarter probably last year, what was the earlier revenue would have been the contribution from that part of the portfolio as well?

Rahul Dhanuka: I think so we tried to put behind that memory itself so we have not really assessed how much is the impact of that. So yes of course that has been favorable.

Saurabh Kapadia: In the range of 5% to 10% would be a fair assessment?

Rahul Dhanuka: Could be. Maharashtra alone, yes.

Saurabh Kapadia: Thank you. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Manish Mahawar for closing comments.

Manish Mahawar: Thank you Janice. On behalf of Antique Stock Broking, I would like to thank the team of Dhanuka Agritech for providing us an opportunity to host the call. Mr. Dhanuka, would you like to make any closing comments?

M.K. Dhanuka: Only thing is that as for information, the rainfall of long period average is 10% higher in comparison to last year till July 15, 2020 and the sowing is around 21% higher in comparison to last year. The groundwater is also higher and reserves are all full with water. So, irrigation facilities are available and farmers reaped a good harvest in the Rabi crop and they get good price also. So that way the farmers are having ample money in their pockets and they are ready to spend more money to safeguard their crop from pests and diseases in this Kharif also. So, we are hopeful that rest of the season also we will be able to grow significantly and this will be basically a golden year for Dhanuka after a long time. It was a historical quarter for Dhanuka because never in the history we have grown by 70% in earlier times. This was the first quarter. Let us hope that this momentum continues and we are able to deliver to the expectation of the market. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you all for joining. You may now disconnect your lines.

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