UPL Capital Markets Day 2024

May 13, 2024

Radhika Arora :

Good evening, everyone. I am Radhika Arora, the Head of Investor Relations at UPL. On behalf of the management team at UPL, I would like to welcome you all to the FY24 Capital Markets Day.

Whether you are in the room or joining us through the webcast, I do believe the hours spent with us today will be very valuable in understanding the strategic direction of the company. You will get a chance to hear from and interact with the business leaders of the platforms. So, with that in mind, I will get off the stage in just a bit, but just before that, a few logistical pointers.

Firstly, there is a lot of information in today's presentation, and we want to make sure that you hear it all before opening it up for the questions. The session will start with a presentation by –

- Jai Shroff, Chairman and Group CEO
- Anand Vora, Group CFO
- Mike Frank, CEO of UPL Corporation, our International Crop Protection Platform
- Ashish Dobhal, CEO of UPL SAS, our India Crop Protection Platform
- Benjamin Marolda, Global CEO of Advanta Enterprises, our Global Seeds Platform
- Raj Tiwari, CEO of UPL Specialty Chemicals Limited.

Lastly, please make sure to check out the Safe Harbor Statement about the forward-looking statements. So, with that, please silence your phones, sit back, and we start the presentation. Let's welcome on stage our Chairman and Group CEO, Jai Shroff.

Jai Shroff :

Thank you, Radhika. Welcome, everyone. Pleasure to be here.

For UPL, this has been a very difficult year. And for the industry, it's been a very difficult year, too. Particularly in the last 30 years or so of my very active involvement in the business, I haven't seen two major markets which have had a big slowdown like we had this time.

And in the past, we've been able to anticipate them better and react better. We have had some setbacks in the past also. But anyway, hopefully this is behind us, and what doesn't kill you makes you stronger. And we look forward to that.

Just running through the numbers for the last year, we had revenues of around INR 43,000 crore, which is lower by 20%; INR 5,500 crores of EBITDA, which is down 51%. Debt is up by $600 million and working capital up by 22 days.

So, focus for the coming year and coming years is really to focus on profitable business, which is focused on improving working capital. And I think the whole industry, as I talk to my colleagues around the world, is focused on that. And I believe that we will see a dramatic improvement.

At UPL, we will focus on growing our platforms, whether it's Advanta, Specialty Chemicals, India Crop Protection, or the UPL Corporation as a global crop protection leader. Improving cash flows and deleveraging the business and unlocking as much value as we can over the next two or three years from the various platforms, which each individually are leaders in its own space.

Looking at UPL Corporation, our global crop protection platform, we expect the Brazilian market and the U.S. market to recover. And we will see some benefits there.

At SAS, the team is completely focused on launching so many new technologies and really focusing on improving brand presence and cash flows.

On the seed business, Advanta is leading its way on the corn seed platforms in India. Today there is a huge interest in different aspects of the seed business, which is biofuels, and we see Advanta continue to gain market share there.

On Specialty Chemicals, we have the internal manufacturing platform and also the non-captive business. UPL plans to invest and continue to grow and retain its position as one of the largest Specialty Chemical companies in India.

Reimagining sustainability, it is the theme of the future and UPL is actively involved in various platforms, whether it was COP28, or our NPP platform for agriculture, which is growing, doing better, and part of so many value chains, whether it's sugarcane in India, cocoa, sustainable rice in UP, and there's a lot of interest from the food companies to transition to buying traceable food, which is more sustainable.

So, when we talk about sustainability, we are talking about our Zeba platform, which is to reduce water, our Pronutiva platform, which is to really focus on soil health and crop productivity. On the sugarcane project, which we can talk a little bit about, is already engaged with a number of sugar mills in India to really improve the productivity of sugarcane production and reduce water and fertilizer usage. And we believe that the impact of this on the environment will be huge, but not only that, it will improve profitability for the farmers.

And you can see the impact of that on a real-world basis in various places. Transitioning to green impact, today we have 62 megawatts of green power, and we intend to, in the next year, increase that significantly. We've already started production of green hydrogen, and we continue to expand, growing our whole green chemistry platform. There is a huge transition in Europe and in the US towards companies demanding green chemistry.

And we believe that UPL will lead the way in the specialty chemical sector. Thank you very much, and I hand over to Anand.

Anand Vora :

Thanks, Jai.

Good afternoon to you all, and a warm welcome for joining us today. All of you know that it's been a challenging year. Probably the most challenging year in recent times.

But to the credit of the leadership team, we look at it as an opportunity to restructure the business and adapt to the market realities by right-sizing the organization and making it future-ready through innovation, improving share of differentiated and sustainable products, and moving our focus towards improving margins and operational cash flows.

With that, I'll start with the results for Q4. Talking about the Q4 results, we saw a sequential improvement in performance versus Q3 led by recovery in volumes as well as in margins.

Our revenue for the quarter stood at Rs 14,078 crores, reflecting a decline of 15% versus that of the last year. The decline was primarily due to lower prices, which fell by 15% year on year. Of the 15% decline in prices, approximately 5% was on account of one-time transitory impact of higher rates, excluding which the decline in price and revenue was about 10%.

Having said that, volumes were in line with last year, which is quite positive and indicates that demand is gradually improving. Recovery in volumes was largely led by continued growth in our differentiated and sustainable portfolio, the share of which expanded by 7% from 29% last year to 36% this year. Contribution margins continued to be impacted by the transitory impact of higher rebates to support the channel partners and liquidation of high-cost inventory.

Adjusted for these impacts, both our contribution and EBITDA margins were in line with those of last year, as impact of lower realization was offset by improved product mix, lower cost of goods and rationalization of overheads. This is quite encouraging and lends confidence that our margin profile should improve in the coming financial year. The cost optimization initiatives which we undertook in the first half of the year has paid off as we were able to reduce our fixed overheads by 17% year on year in Q4.

This helped us to improve our EBITDA margins to be in line with last year, adjusted for the twin transitory impact that we spoke about earlier. Our net finance costs declined by 4% versus that of last year on account of reduced factoring. While overall tax charge was lower, the effective tax rate looked significantly higher as we continued to pay taxes in some geographies and at our manufacturing plants and seed platforms as we continued to generate profits there.

The PBT was lower in line with the drop in contribution margins. Exceptional costs for the quarter were higher at INR 106 crores versus INR 29 crores last year, mainly due to the one-time severance cost as we restructured our business. Overall, we are pleased to say that the quarter ended in profits.

Before moving on to the full year's performance, I would like to touch upon the continued strong performance by our global seed platform, Advanta Enterprises, which reported a robust 34% growth in revenue and 38% growth in EBITDA for Q4.

Now for the full year's financial results. As Jai highlighted earlier, this has been very challenging and an unusual year for the industry as a whole.

The full year's revenue stood at Rs 43,098 crores, showing a 20% decline over that of the previous year, impacted by industry-wide channel destocking and excessive pricing pressure in the post-patent space, which was aggravated by the transitory high rebates extended in Brazil, US and India to support our channel partners. Excluding these transitory rebates, the decline in revenue was 15%, as against the reported 20%. While the destocking had a stark impact in North America and Brazil, the rest of the world region bucked the trend and grew 9% in FY24, which is quite noteworthy amidst the ongoing industry downturn.

Adjusted for the transitory impact, our contribution margins were in line with last year. An improved product mix in the form of a higher share of differentiated and sustainable products, which stood at 35% this year versus 28% last year, coupled with higher contribution from our seeds platform and a lower cost of goods offset the impact of lower realization on an adjusted basis. Furthermore, through focused cost optimization measures, we were able to reduce our fixed overheads by $150 million versus last year. Most of the reduction in overheads, about $100 million, was structural in nature, and we should see the benefit of that come by in this financial year also.

The balanced $50 million was on account of lower bonus payout this year due to the business underperformance, which we are confident will be normalized in the current financial year. As a result, the EBITDA margins adjusted for the transitory impact is lower by 2% in FY24 as against the reported 8% margin decline.

Moving on to the items below the EBITDA, our net finance costs increased by 10% year-on-year, mainly due to the rise in benchmark interest rates on borrowings and an increase in quantum of debt. Overall, the average cost of debt for the year stood at around 7% per annum.

The exchange loss for the year stood at INR 1,290 crores versus INR 777 crores last year. This increase was due to devaluation in currency in certain markets, such as Argentina, Russia and Turkey, where hedging is either not possible or is economically unviable.

The steep devaluation in Argentine peso by almost 300% had an impact of about INR 471 crores, of which INR 256 crores was just an impact on a single day when the currency was devalued around 100%. Overall, we reported a net loss of INR 1,200 crores for the year. This was pretty much in line with what we had guided for at the end of Q3.

Moving on to working capital, we saw an increase by 22 days for the year, from 64 days to 86 days. This was due to higher receivable days, which were up by 22 days, from 102 to 124 days. Of these 22 days increase, 7 days was attributed to reduced factoring.

As far as our inventory and our payables are concerned, more or less that increase of about 13 days in inventory is offset by increase in payables by the same number of days. Moving on to our debt position, the net debt increased by $600 million to $2.66 billion. Looking ahead in FY25, as Jai mentioned, deleveraging is foremost priority for all of us.

In line with this, we expect to bring down our debt next year through improved operational cash flows. Additionally, we are in the process of completing necessary formalities for the rights issue and pursuing capital raise opportunity at our other platforms. With that, I would like to invite Mike on stage, who will take us through a detailed performance of international crop protection business.

Thank you.

Mike Frank :

Thank you, Anand, and great to see everyone here again this year. Over the next 15 or 20 minutes, I'd like to do four things. Firstly, I'll cover our business results, both from a Q4 and a full year standpoint for FY24, look ahead towards FY25, talk about our very exciting pipeline, and then I'll finish talking about a couple of the key markets that were extremely challenging this year and what our path to recovery is in those specific markets.

So as both Jai and Anand mentioned, FY24 was an unprecedented year with the business impacted really on multiple fronts. We'll go through the performance in detail along with the steps taken during the year to lay the foundation for our future growth over the coming years.

So overall, on the positive side, grower demand for our products and technologies continues to be extremely robust. And in most markets and most crops, farm gate price for commodities is still high on a historical level and farmer margins are strong, again, in most crops and in most geographies where we operate. However, the gap between sell-in and sell-out within the channel persisted throughout last year and we expect the channel demand to normalize, in particular, in the second half of FY25. So, moving to the financial results, our fourth quarter revenue was down versus last year, driven primarily from pricing and we experienced margin compression largely due to the transitory impact of higher-than-normal rebates and selling through higher cost inventory.

This quarter, adverse weather conditions occurred in Brazil and Europe, further impacting our volumes and affecting the top line. However, we're beginning to see the signs of green shoots in our performance. Our margins in Q4 improved sequentially and was on par with last year on a normalized basis.

Additionally, the relative share of our differentiated and sustainable segment was up, driven by volumes, indicating a wide adoption for these offerings. We remain on track with our overhead optimization plan and have rationalized our spend significantly through a change in our operating model. In the quarter, we also reduced our receivables significantly.

So, turning to our regional performance, our major markets continue to face destocking and pricing challenges. In Brazil, as I mentioned, adverse weather and higher returns aggravated the situation. Other parts, though, of Latin America, in particular Mexico and Argentina, continue to perform very well, significantly outpacing the industry growth.

In North America, we continue to face pricing challenges in herbicides such as glufosinate, clethodim, and S-metolachlor, and rebate-related support impacted our revenue in this region by approximately 10%, with a direct impact, of course, on our margins. In Europe, volumes declined due to excess rains and floods in the western and northern parts of the region, and destocking and the ban of high margin Bifenazate also impacted regional performance. In the rest-of-world region, which comprises primarily of Asia and Africa, our performance was outstanding in that region, and we greatly outpaced the broader market.

This is, of course, a fragmented market, but our broad product offerings and proximity to the farmer gives us the leading position in many countries to work with the dealers and the channel to create superior agronomic and service solutions. Speed, service, reliability, and cost-effectiveness are all aspects of our strategy in this region.

So, looking at the full year, as I said, FY24 was definitely an unusual year.

We experienced rapid price decline in most post-patent products, aggravated by a steep increase in China AI capacity, creating pricing pressure within the channel, and this really happened as we started Q1 of last year. And because of this pricing pressure, an inventory that had built up in the channel the preceding few years resulted in a near-freeze of purchases right as we started the year from a sell-in standpoint, and distributors started to postpone their purchases and also began renegotiating on the current inventory that was still existing in their warehouses. The same situation happened with farmers, not from a destocking standpoint, because normally farmers don't stock a lot of inventory, but farmers also, as they saw prices decline, they also froze their purchases as long as they could, right up until the time they needed to procure so that they could apply it on the field, just to make sure that they were buying at the lowest possible price as they saw prices come off their highs. So, our volumes declined in the year by 7%, which seems like a lot, but that was really top-tier performance when you look at the industry's performance overall. However, we had many of our top post-patent products impacted by the overall price reduction and hit again with channel rebate pressure, thereby resulting in 22% price decline across our portfolio over the year.

So, while addressing these challenges, we took a conscious decision of clearing out our high-cost inventory, and we slowed production of new material to manage working capital, causing some negative impact from unabsorbed overheads in our P&L. So, while some spillover is still expected in the first half of FY25, most of these impacts are now largely behind us. Moving to regional performance, again North America and Brazil face significant pricing challenges in the herbicide segment in particular with high rebates and destocking.

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And while contribution margin was down, it was still on par with last year when we adjusted for the transitory issues and looked at those one-time issues We can see that margins on a year-over-year basis are really relatively flat, which gives us a lot of optimism as we go into FY25. Among key regions, as I mentioned, LATAM faced significant price decline, mainly in Brazil.

Brazil revenue is affected by excess returns apart from higher-than-normal rebates, and together these had a significant impact on our contribution margins. As I mentioned, performance in other parts of Latin America were very strong. In North America, as you can see, it was impacted mostly by post-patent herbicides such as glufosinate, clethodim, and S-metolachlor.

These three products resulted in the vast majority of our revenue decline and margin compression in the region. On the positive side, we have increased our NPP sales in North America. In Europe, the decline was led by destocking and product bans, which impacted volumes.

And in the rest of the world region, the revenue for the year was nearly flat. UPL, as I said, greatly outperformed the industry average. China, in particular, had strong volume growth in herbicides and insecticides, while our Africa business also had strong performance.

Our differentiated and sustainable segment continues its strong trajectory. During the year, we grew our volumes in this area by approximately 10%, enabled by a ramp-up of products such as Evolution, Feroce, both in Brazil, and other new product launches. Additionally, input cost tailwinds in Sperto and Evolution also helped maintain our segmental margin at greater than 40% in this differentiated and sustainable segment.

Through this volume growth, we have improved our overall mix of differentiated and sustainable to 35% of our sales versus 27% in FY23, and we're on path to achieving approximately a 50% share of our mix by FY27, which has been our target for the last few years. Our focus on innovation and solving farmer pain points is demonstrated with strong revenue growth from new products. Further, a majority of our launches were from differentiated and sustainable segment. Each of these recent launches, as you can see on this page, have met with noticeable success and are on path to becoming real strong and near blockbusters or blockbusters in our portfolio.

A major action taken this year has been to make the organization what we would call future-ready, and we've taken several steps to lay the foundation for our medium to long-term growth. These include simplifying our operating model to drive efficiencies and reducing our discretionary spend. The first two enabled a lower cost base for the future through regional and sub-regional realignment and to build an agile organization.

Further, we have moved some work to our global business centers to drive efficiency and excellence while de-layering the overall organization. This has helped us reduce our net headcount by 11% while improving our overall agility, our customer focus, and our operational excellence. While we continue investing in strategic growth projects such as NPP and sustainable solutions, including launch excellence, implementing tighter spending controls, all of that led to savings in our overheads.

Overall, I see this initiative with two-fold benefit. First, it has helped us in a conscious strategic reset of our costs, bringing an efficient operating model with a lower cost base. Second, it has helped us identify growth opportunities in key markets and segments where we are now focusing our resources more precisely.

Looking at FY25, this year we see strong farm gate demand for our products. While challenges persist, it is evident that growers are shifting towards effective and sustainable outcomes, which is the base of our business model and our focus for FY25 and beyond.

First, focusing on margins over volumes is one of our key priorities. By improving our product mix, skew rationalization, and by leveraging our FY25 launches, further we expect input tailwinds this year, and we have also negotiated better commercial terms with virtually all of our externally sourced AI suppliers. Second, by generating additional cash through working capital improvement in markets such as Brazil, where receivable days are traditionally longer, we will move our sales closer to the use period, allowing us to reduce DSOs. We'll also prioritize reducing our inventory through use of data and analytics and using our AI modeling in our demand planning processes.

Finally, by driving innovation and leveraging our differentiated and sustainable solutions, we expect a strong pipeline this year with over $85 million of new product revenue expected, and we also anticipate further ramping of our recent launches from the past few years. Looking specifically at our sustainability solutions segment, which we often call Natural Plant Protection, or NPP, this comprises biologicals, biocontrols, and biostimulants. This will continue to be our driver for future growth of UPL. This segment is estimated to grow globally approximate 10% over the next five years, and with our current portfolio and our exciting new pipeline, we have ambitions to outpace the market with a CAGR of approximately 14% over the next three years, and I'll show you some of the products in our pipeline here in a few slides.

So, to achieve these objectives, in our portfolio, we aim to expand our focused, what we call hero products, our real big hitters through higher penetration and geographical expansion. For instance, ., we have a product that's branded as Yukon, it's a biofungicide, and it has excellent control on downy mildew. This is a technology that we launched in Europe with great success, and in FY25 we're now launching it over many parts of Latin America.

Our focus on biocontrols is also enhanced by our OpenAg collaboration with ecosystem partners like Novonesis. For example, our new biological soil health solutions for controlling Nematodes, branded as Nimaxxa, was successfully launched in Brazil this past year, again with outstanding and industry-leading results, and we're now awaiting registration in the US for launch of this brand in the coming season. So, with such innovation ongoing, we have 10 new active ingredients in our NPP pipeline, and we're well-placed to deliver around $700 million dollar pipeline in this by FY27. We want to also be closer to the grower to better understand their pain points, so for this we're empowering our sales team through what we call our NPP Academy.

It's an online digital training program covering 28 of our hero products with cross-pollination sessions across the globe and creating incentives for our entire sales organization. In Brazil and Europe, we have also created over 100 NPP field promoters across 20 countries to generate demand covering the unique nuances in each of the markets. Further, we are leveraging our Pronutiva program to solve grower pain points through spray programs combined with conventional crop protection and low residue programs that are NPP products for disease control. Two such examples are for bananas in Central America and pomegranates in Europe.

On the crop protection and sustainable solution side of our pipeline, it's also very robust as you can see here, and it's really built around customer centricity with a strong focus on resistance management, be it insects, plants, disease, or weed control. Our new products are therefore a healthy mix of traditional crop protection products as well bio solutions. On a risk adjusted basis, current pipeline is approx. $5 billion peak revenue per annum, of which around $1.5 billion annual sales is expected by FY27, with approximately 75% of that new revenue being incremental. I would like to emphasize that we have 26 molecules in our entire development pipeline and 17 new solution platforms, both up by one versus what we reported at our Capital Markets Day event last year.

Additionally, 80% of our pipeline is in the differentiated or sustainable segment, again up two points from our presentation last year, which really demonstrates our focus and our priority, including our R&D in this area. So, over the next three slides, I want to take you through our recent launches and our more detailed review of our robust R&D pipeline. This is in line with what we presented last year and I'm happy to share on this slide that we have delivered several innovative products across categories and many of the projects have advanced to the next phase.

We have a strong pipeline for the near and future growth. There are some names that you are already familiar with, such as Evolution, Feroce, Shenzi, Preview. Each of these offerings address specific pain points for the grower and all of them play an important role from a resistance management standpoint.

So here in this slide and the next slide, I'll show you our pipeline products, including the current status. This spans across crops and regions as you can see, as well as various stages of product development, ranging from validated efficacy, which is our stage two, all the way to launch readiness in stage four, just prior to expecting regulatory approval. On this first page you can see our robust pipeline for weed and disease technologies.

All of these products, along with those on the next page, constitute our peak pipeline revenue of $5 billion, which has been risk adjusted according to the development phase. Each of these technologies have passed our screen for being an important tool, helping farmers with both resistance management and further farm sustainability. On this slide, our pipeline for NPP seed applied technologies and insecticides you can see is very strong.

We also have some interesting new technologies advancing through various stage gates in our R&D process. I would also like to add that for several of these offerings, we are very excited about their peak revenue, as I said, over $5 billion in total from our pipeline.

In FY24, post-patent products for row crops were significantly impacted in North America and Brazil.

For us, this has led to significant value erosion and consequent impact on overall performances we have shared. With this, our immediate priority is to once again show profitable growth and improve cash generation in these markets. Our strategy to get back is two-fold.

One, we are working closely with our channel partners to focus on sell-out and to align our supply chain with their demand forecast. Additionally, we are leveraging on B2B sales and pushing for private labels where there is an opportunity. Further, we are also targeting large growers and leveraging on our retail collaboration specifically in Brazil and South Africa.

Our strong pipeline in FY25 is expected to drive margin accretive volumes. Ramp-up of our recent launches in Brazil and herbicide offerings for row crops such as our new Intrava DX in the Midwest are expected to drive revenue growth in these key regions. We also see potential in expanding our bulk business in the U.S. specifically for herbicides in the Midwest. In Brazil, we will continue to maintain our leadership in insecticides with our sucking pest platform, namely Perito, Sperto, and Feroce. And generating cash in these regions is critical given their overall size within our business. Our primary focus will be to ensure inventory optimization and liquidation as well as positioning the sales closer to use, specifically in Brazil, to manage working capital more efficiently.

Another key step is aligning credit terms with the product margins. This will be achieved through a more detailed mapping of timing of sales with the product margin, skew rationalization, and reducing lower margin sales as well as through quarterly working capital improvement targets. Impact of these initiatives are expected to be amplified by leveraging our internal capabilities including supply chain excellence, R&D, marketing, as well as our data and analytics tool set.

So, before I hand it over to Ashish to review the India UPL SAS business, I'd like just to reiterate that in FY25 we will bring the business back on track through profitable growth, prioritizing margins over volumes, cash generation, and driving innovation for value creation. We remain on track for 50% of our sales from differentiated and sustainable products by FY27, driven by new launches, and with an innovation rate in FY27 expected to be in the mid-20s. I am confident in the resulting positive impact through our operating model upgrade to drive organizational efficiency and excellence.

I'll now hand it over to Ashish to review our business UPL SAS. Thank you.

Ashish Dobhal:

Thank you so much, Mike. A warm welcome to all of you. Good afternoon.

It's great to see all of you in person after almost a year. I'll be talking about UPL SAS. UPL SAS, as we all know, is the crop protection business for India. But it's not just crop protection. We also are pushing the boundaries here to bring solutions for drought mitigation technologies, we are looking at climate smart technologies, precision farming. We are looking at DECO, post-harvest services, and we are also looking at pure play ag tech with the whole aim, like we talked last year, to make sure that the farming becomes profitable and also farming becomes sustainable.

This is a company which we formed last year, and, you know, last year was our first introduction. Since then, I think we've, like Mike discussed, we've had one of our very, very challenging years.

In a sense, it's good for us because it has helped us to make sure that we are recalibrating our business, refining our business model, to make sure that we are growing, but also growing very, very efficiently, which is something I'll be discussing in my next few slides. As I said, there's a little bit of a course correct. We made sure that the focus in Q4, was all about sales.

We made sure that the focus goes back on cash generation and overhead optimization. We've pushed the sales from Q4, and we are selling now closer to the season because we've seen that in the last two years, there has been a lot of ambiguity in first and second quarter, which are the two main quarters for the India business. Either it's the Ukraine war or it's the China meltdown.

We've seen a lot of volatility in the first two quarters, and hence, we've, you know, we decided that we'll place closer to the season, just to make sure that we are giving ourselves and also our channel partners that safety net. We also have prioritized collections, and we rationalized credit terms. This overall led us to a 60% decrease in revenue in Q4.

We also had a contraction in contribution margin by about 1,750 basis points, which essentially was because of a product mix change, we placed a lot of profitable products for cotton in the Q4, which shifted to Q1 now because we are placing it closer to the season. The second piece, of course, is we had an INR 40 crore unabsorbed factory cost where we have prioritized cash flow over higher plant utilization. The good news, of course, in Q4 is that we've achieved a significant reduction in SG&A to the tune of about 36%.

And the best thing is that we've realized the cash of INR 500 crore from working capital in Q4. We've had quite historic cash collections of about INR 1,100 crores in Q4, despite lower sales. We restricted further working capital build-up and further tightened credit.

A little bit of an update on our digital business, the revenues were flat, but we managed to reduce the EBITDA to INR 10 crore loss from about INR 52 crore loss. We've had cost reduction across the platform.

How the year panned out for us, so people would know that we are a leading company in cotton. We have a huge market here in cotton, and cotton, we all know, went down in terms of acreages by about 10%, and then later on, very, very erratic weather for cotton, whether it was North India, Central or South India, which impacted us more than it would impact anybody else. Summer pulses was a segment that we had made on our own. This segment also was down substantially last year, purely due to weather.

The India story is more on the erratic weather that we had last year than any external influences. And to add to that, the Rabi itself, we all know, were some of the driest months that we faced in September, October, November, which meant that the southern Rabi season also didn't take off. And when it's a dry, overall dry season in Kharif or Rabi, one of our blockbuster products Glufosinate, we have two brands in the market, where you need intermittent rains for this product to sort of work well, didn't work well at all. So, I think we did have some generic pressure, but I think it was mainly the season which impacted this business. And of course, we delayed the entire product placement, or we took it closer to the season to rationalize the channel inventory and improve working capital, which meant that all in all, with INR 2,845 crores of revenue, we were down by about 34% in top line.

You know, once again, as some of our most profitable products are in cotton and summer pulses, the moment these two crops get affected, our product mix gets impacted and that puts a huge pressure on the contribution margin. And of course, we had an unabsorbed factory cost that I just discussed in Q4, which drove EBITDA down despite improvement in SG&A. SG&A, on an annual basis, was down by 15%.

Having said that on the positive side, we generated a cash of about INR 1,000 crores in FY24. And more important than that, which we had not done in some time, was to improve the receivable days by about 55 days through realignment of sales closer to the season. Digital business, the revenue is about INR 53 crores as compared to last year, it was 72 crores, but there was a significant reduction in the loss to about INR 99 crores against INR 283 crores of last year. Nurture.retail turned positive at CM1 level. We are positive in most of our platforms. We have about 95,000 retailers.

We are improving the number of retailers who are working on the platform. In terms of our engagement on the app, the numbers have almost doubled in terms of how much time a person is spending on the app. And we have a lot of exclusive brands, not just from UPL, but from some of the other companies also who are coming on the platform on a regular basis now.

Some brighter things, for the year FY25, we are having six major launches. We know that we have a leadership position in cotton, but that also becomes a problem when the season goes a bit off on cotton. So, we are focusing very, very aggressively on rice, vegetable, maize and sugarcane.

So, in that we are launching six new products, two key products on paddy, BPH and stem borer, we all know, are two key products. We are having two insecticides on this. We are having one insecticide on vegetables.

We are having one fungicide, a multi-set fungicide, which will go in multiple crops, and we are having two non-selective herbicides, one for plantation and the other for non-crop area. The peak revenue for these two insecticides would be, INR 250 crores, and for one insecticide in vegetables about INR 80 crores, a fungicide of about INR 40 crores and two herbicides of about INR 40 crores.

In terms of our innovation rate, we have a very healthy innovation rate of about 25%, which we see continuing in the coming year also. Strategy going forward, like I said, we are realigning our business priorities for future. It's good that we got a challenging year this year.

The first thing, of course, is profitable growth. So, we want to regain our volumes in our flagship products, which is Flonicamide and Glufosinate, with the weather production being somewhat favorable till now.

We already have launched a few products in last year. The contribution was not so high because in the first year you always tend to invest more. So, we are expecting higher contribution from our recent launches. We also are expecting volume growth from some of the new launches that I discussed.

Our differentiated and sustainable share will increase from 25% to 35%. I think that's going to be key on how we're going to grow business this year. And there's a continuous push on SG&A rationalization.

I think it's a continuous activity we're trying to see wherever we can improve the efficiencies in the business. Lowering working capital, of course, is our second pillar. The realignment of sales closer to the season is not just a Q4 phenomenon. We will keep doing it as we go forward. Additionally, rationalization of credit terms and, of course, scale up of channel financing is something that we are working very aggressively on. The key to our success we also feel in terms of cash generation would be tighter demand planning and inventory controls.

The third thing, of course, is to address the white spaces. Like we discussed, we have a decent share in Paddy. We have a decent share in Maize, but the idea is to make the shares bigger. 2x increase in market share is what we are targeting in Maize and Sugarcane, and 1.5x market share in Rice by FY29. In terms of areas, we are present across India, but two areas we have sort of identified where we need to get stronger are east and some of the southern markets. Last thing, of course, is identifying the right channel partners, selling them a better mix of products, and of course, putting up improved market share with them, and leveraging all of this through digital analytics to drive operational excellence.

I think that's going to be a key that this whole transformation is going to be data driven. With this we are pretty confident that next year we'll be standing here, with a much better performance with much improved numbers. And with that, in terms of improved numbers, I would like to call my colleague from Advanta, Benja, who will talk a little bit about their improved performance. Thank you.

Benjamin Marolda :

Thank you, Ashish. Good afternoon, everyone. We're shifting a little bit on the markets, moving out of chemicals, moving into seeds.

And I understand there's a pretty well-known audience on chemicals, so I was advised to give a little bit of a background of what are the differences and similarities between the seeds business and the chemical business. So, of course, we are operating in the same Ag sector, but I would like to share three main topics in order for us to understand why we saw the kind of performance that we were able to deliver, and how this compares with the situation that the chemical sector is going through. The first, of course, as I mentioned, we are serving, yes, the same market segment or the same sector.

We are serving farmers. But, actually, not every farmer is purchasing seeds. In fact, a lot of the chemicals that are being sold are being sold on crops that are perennial.

The dynamics are different, while the final use is the same. The dynamics that are being pushed or generate changes in the markets are similar, driven by fuel, by commodities, by weather. I guess COVID taught us logistics too.

But the second point that I wanted to highlight are the differences. So, the first and most important difference between chemicals and seeds is on the supply side. While chemicals might have global supply facilities, that they can impact global markets; in the seed business, supply is mostly driven by local production.

So, the kind of challenges that we have seen in the chemicals are very unlikely to happen in the seed business.

The second would be the products and portfolios. In chemicals, we are dealing with molecules that are more than 40 years old.

In the seed business, a given product should have or might have a life span of five to seven years. Every five to seven years, we are changing that product. The industry is changing that product.

That means that product is dead and most probably will not come back. Of course, we have longstanding products, but there's a natural balance to come up with new products in order to be able to provide better performance to the farmers, to keep our market share and to continue providing more value to farmers.

And the last point on the differences is the growth drivers. There's been little additional land for the seed markets to expand, so value of the seed market is driven by innovation mainly. Pulling in new products and new technologies that will add more value to farmers, out of which we will be able to share some of it and capture that as a price. The second one would be hybridization.

You might be aware that in many regions, farmers are still open or using open pollinated varieties compared to hybrid seeds that are delivering higher performance.

And the one last difference, of course, would be the crop or portfolio mix. When a more viable crop takes over a lesser valuable crop, then the market will be growing.

The last point I wanted to share before I jump into the numbers is regarding how we create value as an organization. And that is mainly driven by IP intellectual property and value generation. And that happens through the development of different products, what we call genomics.

And that is unique, and that is by region. There are very few examples of products that can move around the globe. And that is why you will see that most of the seed companies have a lot of R&D facilities for the same given crop across different countries.

Because every country has a particularity where that particular crop needs to receive products that have been developed for that particular region. The second one would be the level of investments that the company do, the germplasm diversity and the access in order to be able to generate different products and new and better performing products.

And then another factor that sometimes gets undermined is time.

Time is extremely important because you might be wondering why aren't there a lot of start-ups selling seeds. That’s because for developing seeds, it takes decades. It takes decades for you to be able to develop a product and for that product to be reliable enough for a farmer to walk away from a performing product into your own product.

And those are some of the traits that we at Advanta have. We have more than 60 years of history and that brand helps us when we come with a new product for farmers to believe that that product will perform better than our own existing portfolio and better than competition.

And of course, last but not the least, the people. Our sales team plays a big role to help position our portfolio in the ground for farmers to actually believe and see with their own eyes what we say on our brochures, on our field days.

With this being said, I'll go into the numbers. We had a fantastic quarter 4 where we were able to deliver, as Anand mentioned, a 34% revenue growth from INR 835 crores to INR 1,119 crores.

Most of that revenue growth came from volume, accounting for 27%, where FX was 0.5% and price 6%. The growth was driven by through improved realizations in canola, in corn, in sorghum and vegetables, and we had a very healthy traction in volume in vegetables in India.

When we go to the EBITDA, which is where we were able to grow 38%, the first line item would be contribution, where we dropped from 54.7% to 48%. Large part of that drop happened because we had higher production costs, and that was basically driven by weather, in seeds, whether we like it or not, we deal with Mother Nature, and we produce our inputs on open fields, so we have to deal with that. So, we had lower recoveries in India, in Australia, in Thailand, and Indonesia, and further we also had some change in the crop mix which impacted the contribution margins too.

When we look into the expenditure side, on the fixed overheads and the R&D expenditures, we spent higher than last year, in line with what we were expecting, but of course they got diluted on a very high revenue, and that helped us to deliver the 38% growth in the EBITDA side, moving from 15.2% of EBITDA margin to 15.6%.

When we look into how the regions performed, we can see in the quarter 4, we had a lower growth in Asia and Americas, while Australia and Europe saw improved growth .

When we go to the full year, we were able to deliver a growth of 17% in the top line. Now the growth participation is more balanced between volume and value, where volume is participating with 9% and price is 6%, and we had a benefit of 2% in FX.

We had a strong traction on all four of our pillars, be it field corn, sunflower, canola and sorghum. Advanta has been performing well in recent years, and when we look into the CAGR on the top line from fiscal year 2022 to 2024, we have been able to deliver 21% growth.

The gross margin, for the full year, improved from 56% to 57%, overheads were in line with the growth in contribution.

The R&D expenditures is mainly driven by project wise, so we delivered what we were expecting to deliver, and that allowed us also to deliver a 19% EBITDA growth moving from INR 898 crores to INR 1,068 crores. Our EBITDA margins also improved from 25.2% to 25.7%. When we look now into the regional pie, we can see that both our major regions, Africa and Asia, together with America, retain their positioning. We see a slight decline in Australia, mainly driven by naturalization of the grain soil acreage down there, and a good growth in Europe leading to increase in share from that region. When we look into the working capital, we had a slight increase from 85 to 91 working days, basically due to higher inventory days.

Going a little bit more into the details of the crops, the share of these crops in our revenue mix remained pretty stable, so that means that we have been able to grow in all these four verticals in a similar way for the past year.

Of course, our biggest contributor is corn, and we continue to gain market share. We have very strong and established portfolios. We are also launching new products, and we keep renewing our portfolio, that will give us sustainability and further growth in different markets, and we consistently strengthen our youngest B2C endeavors in the field corn.

Going to grain and forage sorghum, and you might remember that this is where we have been driving significant additional value for farmers, driven by the 'igrowth' technology, and even by the 'Aphix' technology.

I believe Bhupen shared about those in the past, but particularly in Brazil, it has been a major growth driver for us, the 'igrowth' technology, and the agility to overcome some shortages, that we had at the beginning of the year in Argentina, that is a very important region for us in grains and forages, and also in Australia, in order to capture every single opportunity that we were able to.

When we go to vegetables and fresh corn, two other very strong crops in our portfolio, we bounced back in Okra by renewing our portfolio and delivering value to farmers, being able to capture that market share and value share back. We continue to expand our portfolio in other vegetable crops and expanding also geographically out of India. That is our center of excellence.

And we continue also to build up the strength in our verticals for our go-to-market in vegetables. When we talk about seeds, when we are talking about the go-to-market between vegetables and what we call field crops, it's totally different domain knowledge that the people on the ground need to have in order to build the demand and generate the traction.

And finally, sunflower and canola are our main oil crops. We have been able to grow. This percentage share last year was around 14%, so the share of this portfolio has increased by 2% to 16% in FY24. And this was mainly driven by a very strong Argentinian portfolio renewal. We have what we call a new generation of products that they are delivering higher dry matter, higher oil content, and we have been growing market share like nobody's business in Argentina. And also, we are strengthening very much our go-to-market and our portfolio in Central and Eastern Europe, the region that has not been heavily impacted by the Black Sea conflict, while it also was impacted. And finally, Australia growing significantly and very aggressively, particularly in Quarter 4, you might have seen that, on canola. We are renewing our portfolio of canola and we are, again, also growing market share there pretty aggressively.

So, this was a little bit of what I wanted to share on the Advanta side. So, with this being said, Raj, you can take over. Thank you.

Raj Tiwari :

Thank you, Benja. I'll be covering a lot of group's performance on safety and especially on environmental sustainability. And also, I'll be covering the performance of the specialty chemical platform this year.

Yeah. So, on safety, as a company, this year, we didn't have any process safety incident. And also, our TRFR, which is the Total Recordable Frequency Rate, has been 0.24 as compared to 0.29 last year. And basically, three themes. One is, you know, we continued our safety cultural transformation, which entailed working at the grass root level, and also on the occupational health and safety capability building piece.

And the last is on the warehouse management, where we did the safety assessment, the gap assessment piece of all our warehouses globally. And we have been able to, bridge 75% of those gaps and 25% will be bridged this year. So, our safety performance overall has been good last year.

When it comes to the environmental sustainability piece, in FY24 we reduced our CO_2 emissions by about 17% and our freshwater consumption by about 12%. This is, despite our production volumes being flat.

So, this has primarily been because of the use of greener energy and also by a lot of recirculation of fresh water and water discharges. And last is on waste generation, which was up by 17%. That is on account of product mix.

We continue to be number one on Dow Jones Sustainability Index. UPL has been included in the CDP supplier engagement leaderboard.

And as Jai alluded in the beginning, we have a 62 megawatt of hybrid green energy capacity, which we intend to double this year. And we are much ahead, and on track to achieve our five years commitment in terms of environmental sustainability, what we promised four years back.

On the specialty chemicals, our revenue for the year de-grew by 26%, which is in line with our captive business de-growth, whereas on the non-captive business, our volumes, except for the key accounts, we were able to grow our volumes by 7%.

Especially on pharma, on mining, on chemical intermediates front, we have been able to gain market share in our volumes. Our sodium cyanide volumes grew double this year, and this product for us has been doing extremely well.

And on EBITDA, there has been a de-growth of 17% which is lower as compared to revenue de-growth of 26%.We have been able to achieve that largely on the back of better manufacturing efficiencies, and fixed cost management. Our EBITDA margins were 130 basis points better as compared to last year.

So, basically what we want to do is that we want to leverage on our scale. We have expertise in hazardous and complex chemistries, for example, cyanide, phosgenation, acrolein, CS2 chemistry, and H2S, which we can leverage at scale.

And, as you know, we are very much vertically integrated, right from energy to feedstock, and which will give us differentiation in terms of our downstream applications. And, therefore, we would be able to grow our non-captive business aggressively over the next few years.

I now hand over Anand to, to continue with the further presentation.

Thanks.

Anand Vora :

So, we are almost at the end of our presentation. Discussing about, discussing about the outlook for the UPL group as a whole for FY25, we expect to return back to growth, largely driven by normalization of our crop protection business, and we expect that to largely from come in H2 of FY25.

We are expecting a turnaround in our crop protection business in our larger markets of North America, Brazil, and India. And, of course, the continued strong performance of the seeds business should aid overall growth. However, as you would have heard from all the four vertical heads, our focus is going to be on improving margins, bringing operational efficiency, and cash generation. That's going to be the top priority for this financial year.

So, our revenue guidance, we are guiding for a 4-8% revenue growth in FY25.

On the EBITDA side, as I mentioned earlier, focus is going to be on significant improvement in margins, and we are expecting at least 50% growth in EBITDA margins for FY25.

As mentioned earlier, again on the debt reduction, we expect to generate operating cash of about $300-$400 million, which will almost entirely be used to reduce the debt. Further, as we mentioned earlier, through the rights issue, which is expected sometime by the end of Q2 or beginning of Q3, and pursuing capital raise in our other verticals, we expect to end the year with a net debt to EBITDA of below 2. So that's broadly our guidance for this financial year.

With this, I would like to invite Jai and all the four vertical heads, and we can start the Q&A session.

Q & A Session

Attendee :

Hi, this is Prashant from Elara Capital.

Sir, how do we monitor liquidation globally? Is there any data-driven thing?

Mike Frank :

Yeah, so I think the question was how do we monitor liquidation from the channel? Yeah, so there are some markets where we do have access to panel data, which the industry shares, and we participate in that, so there's a few markets where we get near real-time information in terms of liquidation. I would say the more common method is through our sales reps, as they call on our distributors and retail dealers, that they talk about inventory levels, they walk the warehouses, and we consolidate data that way too.

So, it depends on the market. Sometimes it's based on, you know, broad market data, and sometimes it's more based on internal market research.

Attendee :

Is it possible to do something like one of our innovator competitors does, like your code-driven liquidation for better monitoring of liquidation?

Ashish Dobhal :

Yeah, no, I think that's right.

Like Mike said, I think it was primarily driven by the data from our sales reps and our field people. But what we've done is exactly what you're saying, is that we've launched a whole new digital ecosystem, where each and every product of ours is now QR-coded in India. We've implemented it recently.

That should give us a very good idea of the secondary-level liquidation, which was a big pain.

Mike Frank :

Yeah, maybe just one last point. You know, so we have done some trials in certain markets where we pay the channel rebates. We talk a lot about rebates.

Often in the past we would pay a rebate based on getting access to the shelf, and so, you know, the more they would buy, the more rebates they could earn. What we've realized is that, you know, a smarter balance is applying some of the rebate to the sell-out, and so now across the board in all of our markets, at least 50% of our rebates are on a sell-out basis. Again, this doesn't necessarily give us access in real-time to inventory levels, but at least by the end of each season, we do get reports on the sell-out and the current inventory level, which then allows us to apply a rebate to them.

So that would be the other change that we're making to our market practice.

Attendee :

Lastly, is it possible to incorporate that in our PPT going forward quarterly?

Jai Shroff :

Probably not.

Attendee :

Hi. This is Saurabh Jain from HSBC.

So, I wanted to know whether the rebates and discounts, pricing adjustments, it's already been passed largely, or we still expect some to be coming in the next year? And also your views on the high-cost inventory?

Mike Frank :

Yeah. Hi, Saurabh. Good question.

So, as we said in our remarks, I think both for the Global Crop Protection business and also in India, much of the pain that we took last year is behind us. I would say in high-cost inventory, over 80% of it got liquidated last year, and so there is a little bit that still is yet to be liquidated in FY25. Most of that should clear in the first half of the year.

We're expecting that rebates and returns are going to normalize throughout the year. And so, we would expect the incremental hit that we had last year from higher rebates and revals and returns, that that is behind us, and FY25 will be a normalized year on that front.

Attendee :

So just breaking it down, in the first half of FY25, can there still be losses at PAT level, and do you expect the EBITDA margins to be somewhere closer to 15-16%? Last year, first half, we had about 16-17% EBITDA margins.

Mike Frank :

Yeah, so what we would expect, again, in the international crop protection market, and others can make their own comments, is that there will be probably some volume growth, and so we would expect the volume increase of 4-8% to probably happen quite evenly across the year, maybe a little bit loaded into the second and third quarter. The pricing comparable in Q1 will be a challenge for us, specifically in the post-patent segment. So, if you think back to Q1 of last year, the prices were coming down, so in the post-patent segment, there will be some pricing headwinds on a comparable basis, and so we would expect in the first half of the year that there will still be a little bit of margin compression, especially at the contribution level.

That will normalize in the second half of the year, and EBITDA will have a similar impact. Obviously, we've got significant SG&A savings that are going to apply on a full-year basis this year, so that will be helpful to EBITDA margins, but we're not going to guide on a quarter-by-quarter basis, but I think in the international crop protection business, you'll see EBITDA margins and contribution margins increase as the year plays out.

Attendee :

So at least there won't be any losses at the PAT level? Can that be a safe assumption?

Anand Vora :

So, Saurabh, I think at least in Q1, the EBITDA margins will be lower compared to Q1 of last year. But as Mike said H2 is where you will start seeing the growth.

Attendee :

Okay, one last question, if I may. So, fourth quarter, we reported about INR 900 crores of EBITDA in UPL Corp, about INR 175 crores at the Seed business, and EBITDA loss in UPL SAS. So probably somewhere INR 1,100 crores of EBITDA from these three businesses.

The number that we have reported is about INR 1,933 crores. So, where that balance part of EBITDA is being captured, in which business and how?

Anand Vora :

It's captured at the group level in the formulation business, tolling business and our post-harvest business called Decco, our animal health business and the health and nutrition business.

Attendee :

Okay. So, a large part of the margin is kept in the manufacturing entity, then you start to understand.

Anand Vora :

Yeah At least for this year, that has been the case.

Attendee :

Okay. Thank you so much. All the best.

Attendee :

Hi. This is Vishnu from Avendus Spark here.

Just wanted to understand, the last 12-18 months has been very difficult for the industry. Going forward, is the industry going to structurally change, let's say, as a cumulative industry? The big ones, do we see the approach of all the companies going to be very different?

Maybe the medium ones and the smaller ones, if you can talk about how the last 12-18 months is changing the view of the industry as a cumulative going forward.

Jai Shroff :

I think the industry came off a period during COVID of extending very long credit due to very low interest rates regime and, you know, great demand for agriculture chemicals, little bit of instability of supplies from China, so there was anxiety and nervousness, so everybody was carrying a little bit of extra inventory. I think that swung completely the other way in this last one year, and I think everybody lost price discipline. I think going forward, all of the companies have had similar impact to what we've had, so I expect there to be a lot more discipline across the board.

We have seen stabilization of prices out of China fluctuating a lot less than they were in the rest of last year. I think whatever numbers we see, everybody is stabilized, so the industry will start to normalize a lot more. I think all the companies are trimming their growth forecast, so we were also expecting a much higher growth rate in the next few years, so that's been trimmed, so everybody is adjusting their operating costs also.

So, I expect there to be a normalization, kind of a new normal, but normalization and much better discipline in the industry.

Attendee :

On the working capital, do you expect the industry to structurally think differently given the high inventory and the debtor days? Will that change this time or maybe after a couple of years it will go back to being a high working capital industry?

Jai Shroff :

Yeah, I don't know what will happen a couple of years down the line, but at least right now I see all the companies restructuring. Most of the companies in our peer group, the bigger companies, are reorganizing their global setups, cutting costs, cutting down offices, shutting down offices, cutting down countries where they operate. So, I don't see that at least for the next few years.

And there is not enough margin in the business to give higher than usual credit. So, I think the discipline will be there.

Attendee :

And one last question, if you could discuss a little bit on your thoughts on the generics pricing from China. I mean, do they make money at these prices or if they were to return to profitability, when do you expect the situation to normalize or come to a level where the generics business would probably make money for a manufacturer?

Jai Shroff :

So, I think we have seen the numbers from all the public companies in China. I don't think they are in a happy situation either. I mean, they have a little more patience than other people.

But there is obviously pressure on everybody to improve margins and you will see that there too I expect.

Attendee :

Hi.

This is Abhijit from Kotak here. Thanks for taking my questions. First on the results, the Europe region and the rest of the world seem to have done particularly well this quarter.

So, if you could please just help us understand what happened there. Just with regard to the recent floods in Brazil, is that a concern for our business there?

Mike Frank :

Yeah, so I would say if you take each market separately, Europe through much of last year was de-stocking. So, coming into the spring season, the channel was beginning to anticipate grower demand, so they were stocking up. So even though rains were excessive and there was flooding in the western northern parts of Europe, we still saw the channel ordering product, getting it in the warehouse and getting ready for the spring season.

So, I think the growth in Europe is a natural growth based on the de-stocking impact leading into our Q4. I would say in the rest of the world there wasn't an impact on de-stocking. It's a market where there's still a huge opportunity for us to grow our business based on our current share position.

I think a lot of our competition is de-emphasizing some of those markets because they're very fragmented. I think our ability to go to market and serve small holder farmers is second to none. Which is a lot of the rest of the world market.

So, our performance across much of Asia and China and across African continent was really strong last year including in the fourth quarter. And maybe just a comment on the flooding we're seeing in the southern parts of Brazil, obviously that's very concerning.

Thankfully none of our employees were directly impacted. Our partners in the channel also none of their assets were greatly impacted. So, we're paying attention to it.

I think it's more of a humanitarian issue at this point in time and likely won't have a significant impact on crop production. There is some minor crops that have been grown in the region, but this is not major season for row crops. So, we are not expecting an impact on the overall crop row production in Brazil next year.

Attendee :

Second thing on the over-capacity issue in some of your major molecules. You specifically mentioned glyphosate, clethodim, and S-metolachlor. Any recent developments in terms of rationalization in China or are there still capacities being added there?

How do you see those molecules going forward and what percentage of your revenues do those contribute?

Raj Tiwari :

You know that S-metolachlor and glyphosate, these are very large molecules for us. We have large capacity, but we are also a significant player.

Our captive volumes itself is large. Going forward, I mean, I really don't know what will happen in China, there has to be some consolidation of volumes or some shutdown of the volume because the world doesn't need that much of capacity, especially on glyphosate.

On S-metolachlor, there doesn't seem too much overcapacity. It is, largely in line with market needs. Yeah, so I think someone raised a point on the cost position of China and whether generics are making money or not.

Now, whether somebody is making money or not, but, you know, out of our top 15 molecules, that we make, we are very, very cost competitive as compared to China. This is based on the data, which is the export data from China. Vis-à-vis that, we are very, very competitive.

And, therefore, going forward on a normalized basis, margin should not be a concern.

Attendee :

Thank you.

One last thing from my side, just any further rebates or inventory write-downs that we should expect in fiscal 25, and also the overhead reduction plan, has that completely played out in the 4Q numbers, or is there more to come in coming quarters?

Mike Frank :

Yeah, so on rebates and high-cost inventory, as we discussed earlier, there will still be some liquidation of high-cost inventory coming into FY25. We believe most of that, or all of that, should really clear in the first half. And, again, I think from an overhead standpoint, you know, we made a commitment during FY24 that on a comparable basis, we would reduce our cost in FY25 by $100 million across the group, and we're on path to do that.

Attendee :

Yeah. Hi, sir. Rohan here from Nuvama Institutional Equities here tonight.

Sir, first question is on the debt reduction, which you mentioned, with a roughly 50 percent kind of EBITDA growth, which you are looking for this year, almost at INR 8,000 crore kind of number. We are talking about almost INR 3,000 to INR 4,000 crore rupees kind of debt reduction. Are you assuming any further capital raise here, because only from the operations, probably this number doesn't justify that we can reduce the debt up to that extent, or it's only primarily coming from the working capital?

Anand Vora :

So, it's a mix of both working capital and through the EBITDA, but this $300 to $400 million does not include any proceeds from rights issue or any other capital raise.

Attendee :

Sorry, to raise this question on this forum, but in terms of capital allocation, we have seen that two years back, almost we came with a buyback offering to the investors while we were still quite a leveraged company. Now, we have seen that last one and a half years have been troubled for the industry, and we are again here probably looking for the fundraising opportunity, contrary to what we have done two years back.

Do we learn something from here that probably a strong balance sheet is always the need of the hour, and does it change the strategy of the company, or the mindset of the board that we have been always looking for the acquisitions on the cost of the leveraging balance sheet and also, do we expect that going forward maybe over the next two to three years we can have a stronger balance sheet with less leverage going forward, or we still will have a focus on growth rather than balance sheet.

Anand Vora :

So, Rohan, I think we saw the presentation by all the four verticals, and you see all of them spoke about focus on improving the margins and reducing the working capital or generating free cash flow. So clearly this year the focus is going to be on generating free cash flow and the $300-$400 million of free cash flow which we expect to generate in FY25 will be used to reduce the debt. Also, as far as the rights issue proceeds are concerned, the objective is to repay the debt.

So clearly the focus is on debt reduction. I think I would just only say that while with whatever we did, the buyback and other things, nobody anticipated the markets to, you know, sort of drop so rapidly and because as Mike, Jai mentioned, that this was an extremely unusual situation. We have not seen in the last 30 years such a scenario.

So, I think clearly the entire management is now focused on improving the margins and reducing the working capital and generating free cash flow to repay the debt.

Jai Shroff :

I think just to add to that, the focus is to, as you alluded in your question, is to make a strong balance sheet and really focus on our portfolio of companies, if you look at the whole portfolio, there are a lot of businesses, our differentiated product business, our Advanta seeds, even specialty chemical side, these businesses are generating high ROCEs. The idea is to really focus on growing those businesses.

Attendee :

Also, is there any asset monetization because we have now made some structural changes with the four companies in our vertical, so is there any asset monetization opportunity along with the rights issues that you are also evaluating?

Jai Shroff :

Yeah, so I think the idea of creating the platforms is to give the management teams very clear opportunity to grow their business and the idea is also to look at monetization opportunities for each of the platforms.

Attendee :

Thank you.

Attendee :

Rohit Nagaraj from Centrum Brooking. So, first question is on the collections. So, we have focused on collection.

How is the industry reacting to it? Whether other people are offering more credit period and if so, particularly from Chinese players, will it have impact on our volumes maybe next year? Thank you.

Ashish Dobhal :

You are right. That's a good question.

We are focusing on collections. That's a very important piece for us. So, in the industry you would see there are three, four types of players.

There are some players who had started focusing on collection two years back. There are some players who are working on it now. There are some players who had done it three to four years back.

But we are very clear this is the path that we have taken. And we have very strong brands in India. Having said that focusing on collections would not mean a reduction in volumes.

Attendee :

Anything on the global level?

Mike Frank :

The way I think about it is the whole supply chain went through a challenging 12 to 18 months here. It has really reset everything. If you think about working backwards from the grower, they typically want their inputs when they need them.

They may procure the products two to four weeks in advance, but they don't really want it until a week or 10 days at the most depending on the region. In the past when interest rates were low, the suppliers, we were trying to get access to the shelf early so we were competing against our competitors to get access to the distribution shelf. We would be negotiating with the dealers up to six months in advance of when they needed to have it ready to sell to the grower.

The retail channel also had a lot of challenges working through their high-cost inventory over the last 12 to 18 months. The whole retail channel and distributors also wants to buy their product as close as they can to when the grower is going to need it. That's bringing a lot of discipline.

We also want to supply it close to when the channel wants it and when the grower wants it. For us to manage our supply chain we want to manufacture it as close as we can to when we need to ship it. When we think about improving our working capital, everything is coming together. I think Jai talked about discipline that is coming in channel because the channel wants to order it close to when they need it. Suppliers are managing their working capital. It’s always going to be bumpy as this is a big transition. We have been very clear with our channel partners in terms of how we want to serve them close to when the market is.

We're lining up our supply chain to support that. That's one of the opportunities for us to release working capital through our international crop protection business.

Attendee :

Second question is last year Q4 we had a setback because there was a sudden spurt of supplies from China. What has been the situation in the last four months of this year? Have we seen a similar kind of situation or is it better in terms of large quantities supplies from China?

Thank you.

Mike Frank :

Yeah, so look, I would say it's not better in the sense that even since Q4 of last year the average selling price out of China has come down. Now, as Jai mentioned in the past really five or six months the price has been very stable.

But it's stable at a very low level. So, from a planning process we're anticipating that those prices will persist through our next fiscal year. So that's kind of our base assumption.

As Jai said at some point in time, we may see price increases out of China because at least based on current feedstock prices there's not a lot of room for prices to go down. But we're not in the business of predicting China. So, we're anticipating that this is the new normal and we're pricing accordingly and if in the future if there's some consolidation or prices go up then we'll be able to participate in that but again that's not baked into our guidance for next year.

Attendee :

Thanks.

Attendee :

Yeah, Nathan here. In seeds business was Q4 a bit exceptional because contribution margin has gone down to 48% as compared to normal 55%. And the second thing is related to R&D, what's the long-term thought process whether that 15% spend remains and what's the lead-leg relationship for coming out with products over growth?

Benjamin Marolda :

So, regarding portfolio gross margin on the Q4, it has been impacted compared to what we were looking for. There's a natural low gross margin happening as we expand in lower value regions. There was some extraordinary sales that helped us on the top line, but impacted on the percentage wise, but we should be getting back on track on the volume.

It's also important to understand what are the regions that we are serving in Q4. Mainly regions where we are having lower gross margins serving in Q1 or Q2. That would be on the gross margins. On the R&D, definitely, we are spending project wise.

There's important aspects on the R&D that once you commit to a given operating there's no way back to create savings because operation will be done. So, we have been operating extremely consciously on what we are deploying, but definitely R&D is the core of our business and we will continue investing. I mentioned the importance of time, but time is nothing unless there's investment in improving our genetics.

So, R&D will always be an area where we will, continue investing because that will create the pipeline for us to continue going in the future.,

Attendee :

So sustainable margins will remain 55% plus for this FY25.

Benjamin Marolda :

Yes.

Jai Shroff :

Thank you very much. No more questions, then we can meet outside. Thank you.

Anand Vora :

Thanks for joining us. Please join us High Tea.