

February 06, 2021

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

Corporate Relationship Department
BSE Ltd.

Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001

Symbol- DHANUKA

Scrip Code : 507717

Sub: Transcript of Conference Call held on 02nd February, 2021 with Analysts/ Investors to discuss Un-Audited Standalone & Consolidated Financial Results of the Company for the Nine Months and Quarter ended on 31st December, 2020.

Dear Sir,

In pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015, Please find enclosed the Transcript of Conference Call held on 02nd Feb 2021, which were hosted by Antique Stock Broking Limited through virtual mode with Analysts/ Investors to discuss Un-Audited Standalone & Consolidated Financial Results of the Company for the Nine Months and Quarter ended on 31st December, 2020.

Please take above information in your record.

Thanking You,

Yours faithfully,

For Dhanuka Agritech Limited


Jitin Sadana
Company Secretary/ Compliance Officer
FCS-7612



Enc/-



“Dhanuka Agritech Limited Q3 FY-21 Post Results Conference Call”

February 2, 2021



MANAGEMENT: **MR. M. K. DHANUKA - MANAGING DIRECTOR,**
DHANUKA AGRITECH LIMITED
MR. HARSH DHANUKA – WHOLE TIME DIRECTOR,
DHANUKA AGRITECH LIMITED
MR. V. K. BANSAL - CHIEF FINANCIAL OFFICER,
DHANUKA AGRITECH LIMITED
MODERATOR: **MR. MANISH MAHAWAR - ANTIQUE STOCK BROKING**
LIMITED



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Moderator:

Ladies and gentlemen, good day and welcome to Dhanuka Agritech Limited Q3 FY21 Post Results Conference Call hosted by Antique Stock Broking. As a reminder, all participants' lines will be in 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you, sir.

Manish Mahawar:

Thank you, Bikram. On behalf of Antique Stock Broking I would like to welcome all the participants on the call of Dhanuka Agritech. From the management we have Mr. M. K. Dhanuka – Managing Director; Mr. Harsh Dhanuka – Wholetime Director; and Mr. V. K. Bansal – Chief Financial Officer on the call.

Without further ado, I would like to handover the call to Mr. Dhanuka for opening remarks. Over to you, Dhanuka Ji.

M. K. Dhanuka:

Thank you, Manish Ji. Good afternoon friends. Ladies and gentlemen, hope you all are doing well and keeping safe. I M. K. Dhanuka, Managing Director of Dhanuka Agritech Limited would like to welcome all of you to Dhanuka Agritech Limited's Q3 FY21 Results Conference Call. I have with me Mr. Harsh Dhanuka – Wholetime Director and Mr. V. K. Bansal – Chief Financial Officer of the company.

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

Dhanuka has shown stellar performance in the first half of FY21 with revenue, EBITDA and PAT growth of 35%, 65% and 63% respectively year-on-year. However, industry growth was muted in October and November led by prolonged rainfall especially in Southern India which contributes one-third of the industry's agrochemical sales and two cyclones in the month of November has resulted in lower consumption of agrochemicals in South India.

Further the insecticides category got impacted severely due to lower pest infestation. However, herbicides and fungicides categories continue to do well. The company has witnessed a healthy performance in a few top-line products like Targa Super, Chempa, EM-1, Lustre etcetera. Coming to the financial performance for the quarter, revenue from operations stood at Rs. 295.67



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crores in Q3 of FY21 versus Rs. 271.48 crores in Q3 of FY20. Representing an increase of around 9%.

EBITDA stood at Rs. 50.22 crores in Q3 FY21 versus Rs. 34.34 crores in Q3 of FY2020, up 46.24%. EBITDA margins improved from 12.65% in Q3 of FY2020 to 16.98% in Q3 of FY21 led by strong operating leverage. Profit after tax stood at Rs. 40 crores in Q3 of FY21 versus Rs. 28 crores in Q3 of FY20, up 42.86%.

PAT margins improved from 9.91% in Q3 of FY20 to 13.13% in Q3 of FY21. If you talk about 9 months ending December 2020, our revenue from operations stood at Rs. 1,111.91 crores versus Rs. 892.5 crores in the same period in FY20, representing an increase of 24.58%. EBITDA for the said period stood at Rs. 204.48 crores versus Rs. 127.7 crores in the same period in FY2020, up 60.13%.

EBITDA margins improved from 14.31% in 9 months ended FY20 to 18.39% in these nine months led by strong operating leverage. Profit after tax for nine months ending December 2020 was Rs. 162 crores versus Rs. 102 crores in the same period in FY2020, up by 58.82%. I would like to congratulate the complete team for these good results. Now coming to the zone wise share of turnover for Q3 FY21, the North contributed 20%, East zone contributed 13%, West zone contributed 27% and South India contributed 39%.

If for the South India sales would have not been impacted then the share of South Zone would have been even much better. Coming to the product category percentage share of turnover in Q3 FY21, insecticides contributed 37%, fungicides contributed 19%, herbicides contributed 31% and others contributed 13%. During this quarter the company has bought back its Rs. 10 lakhs fully paid up equity share representing 2.1% of the total issued and paid up equity share capital of the company at the rate of Rs. 1,000 per equity share aggregating to an amount of Rs. 100 crores and extinguished these shares on 13th November 2020.

Consequently paid up share capital has been reduced by Rs. 20 lakhs. We are happy to announce that the board of directors have approved in today's meeting for setting up a plant for technical manufacturing of pesticides that is backward integration process at its Dahej land in Gujarat. The company has a plot of approximately 137,000 square meters at Dahej, Gujarat which was acquired in the year 2013 which is in chemical zone.

The setting up of this unit will involve an investment outlay of approximately Rs. 200 crores initially which will be managed from internal accruals of the company. Dhanuka proposed to appoint Shah and Talati, Vadodara as architect and structure engineering consultants who have 45 years experience in this field. Also we propose to appoint Uday Consultancy, Valsad as basic and detailed engineering consultants who are having more than 25 years experience.



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The setting up of said units will improve the company's position with other players for procuring the raw material under the barter system. It will help the company to expand its market share and to open new avenues for the export of the company's products. The company may explore in future for exports of intermediates the Japanese, American and European companies as per mutual agreement. The complete project plan for setting up this unit will be finalized within next six months.

The board has decided that Mr. Kapil Dev Gajanand Vatse, Vice President of the company will be responsible and in-charge of this project. As you know Dhanuka regularly organize various seminars, Krishak Goshthis, 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 innovations the streamlining policies and collaborating with indigenous entities to boost the integration of technology across business segments.

In the same endeavor we have tried to boost our reach through online farmer interactions and aggressive use of TV advertisements for our key products such as Sempra and Targa Super. We are focused on expanding our market coverage through our network of distributors and our digital platform where we engage with the end consumer. We consider ourselves responsible to us securing the farmer's welfare and preserving food security of the nation. We continue to strengthen our association with the farmer producer organizations Krishi Vigyan Kendra and other physical institutions to increase our business expertise and boost our market presence.

Yesterday the budget was presented in the parliament and more focus was given on health and agriculture sectors. The credit for the farmers has been increased from Rs. 15 lakhs crores to Rs. 16.5 lakhs crores. Apart from this the government has decided to further add 1,000 mandies through the eNam platform which will give benefit to the farmers to sell his crops at better prices which will ultimately improve the profitability of the farming community. So we hope that definitely this budget will further strengthen the agriculture and farmer's financial conditions.

To summarize at last, Dhanuka continues to demonstrate our liability to overcome challenges and emerge stronger despite uncertain business environment. We will aggressively roll out new formulations in the upcoming quarters and will ensure that it reaches to the consumer. I reassure our shareholders 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. And on this note, I would like to handover the mike to operator to enable us to take the question-answers. Thank you very much.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have our first question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.



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Rohit Nagraj:

Congrats on good set of number plus the announcement on CAPEX. Sir, my first question is related to CAPEX. So herein we have said that the strategy is to expand market share and open up new avenues for exports. So currently I understand that we do not have any exports as of now so how are we going to go ahead with this particular strategy? Is it going to be new products, generics, branded generics? So if you could just expand little bit on this?

M. K. Dhanuka:

You know the export is mainly happening for API. The technical exercise. Till now Dhanuka was only in branded sales, that is formulation. So formulation exports are happening. It is not that they are not there but they are very less in comparison to the technical exports. You can be basically viable in exports only if you are manufacturing technical grade pesticides. So once Dhanuka has decided to enter into the backward integration in technical grade pesticides there will be export opportunities once the production starts taking place. So we will definitely explore the possibility of exporting the technical grade pesticides from India.

Rohit Nagraj:

The second question is in terms of reducing import dependency. I understand that most of our products are imported from Japan. So how will the scenario change once this particular facility comes to shape?

M. K. Dhanuka:

Actually Japanese products are most of them are either the patented products or they have their basically recipe secret with them. So those products are not available in China or anywhere in the world. So those products are special molecules and it is difficult to manufacture those molecules in India until and unless you have a tie up with that Japanese company.

Definitely the products which we are importing from China they will be definitely start manufacturing initially and in case in the meantime Dhanuka is able to have a tie up with any of the Japanese companies then we will look into those areas of a tie up with Japanese company and start from this facility molecule in this unit.

Rohit Nagraj:

So just concurrent question to this. So right now what is the percentage of imports that we have and may be 5 years hence how that will change once this facility comes on stream?

M. K. Dhanuka:

We are having around 25% of our raw material consumption from imports so once we are able to establish our technical plant then definitely the share will reduce from 25% to may be in two, three years 20% or even lesser than that.

Moderator:

Thank you, sir. We have next question from the line of Himanshu Upadhyay from PGIM India. Please go ahead.

Himanshu Upadhyay:

I have a basic question. Even when the prices of technicals were going up we were not very keen to invest on the backward integration. You always wanted to be a formulator company and we



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believed this is a high margin and high ROC business what we were there. And the technicals was more cyclical business. That was the thought process what we always had. What has changed so dramatically that in last few months we want to be in I would say technicals.

Can you elaborate more means what was happening one year back and why this is a norm means even when the prices of technicals were moving up we were not so keen but now we had thought of putting. Is it the right time also then because at some places we have said that price technicals are coming down? So some thoughts to get more clarity on this decision?

M. K. Dhanuka:

You see lot of pesticides are being imported from China and in China also number of times the government becomes strict because of the pollution and there the prices start increasing and the availability also become question mark. Recently India was having some tensions at the border with China and because of this Covid event the foreign companies they are now preferring India as a better supplier in comparison to China.

So we foresee that in times to come lot of exports will increase from India apart from the indigenous consumption. So considering the Chinese factor and reducing the dependency on China it is advisable to go ahead with the backward integration and we are hopeful that we will be in a better negotiation power after basically putting up a technical plant with other technical manufactures also.

Himanshu Upadhyay:

And one more question on this. See with the capacity what we are putting up Rs. 200 crores and we produce or what we sell in formulations are a number of products. So how many APIs or means would it be 5, 10, 15 products we could make on our own or means what percentage of our formulations would we be able to get backward integrated through this Rs. 200 crores CAPEX? Can you throw some light on that also?

M. K. Dhanuka:

It is too early to say. In principle basically management has decided to enter into the backward integration technical manufacturing. Mr. Kapil Vatse has been appointed the Vice President for the project so he will work on the project and we have in my basically initial remarks I have already said that it will take six months time to further streamline the projects and we will come back to the investors once the things are taking shape.

Himanshu Upadhyay:

And one more thing. When we are talking about export opportunity which we will also look at so will that be formulation exports also you are talking about or you think even technicals you would like to export with this facility?

M. K. Dhanuka:

Mainly it will be technical but if there will be opportunity for formulation export also then definitely Dhanuka would like to explore those opportunities also. So both way we are open but major exports will be for technicals.



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- Moderator:** Thank you. We have next question from the line of Probal Sen from Centrum Broking. Please go ahead.
- Probal Sen:** With respect to the project that is being undertaken any timelines you can put on it? You obviously said that you will take six months to sort of finalize the plant but from the time of finalization what sort of timeline are you realistically looking at to complete construction and really start sort of seeing production from this plant?
- M. K. Dhanuka:** It will take around 2.5 years time to basically start the production from there and although the things will streamline once the project report is in hand but I am talking an approximate time it will be around 2.5 years to 3 years time.
- Probal Sen:** So sir, sitting here today we can comfortably say that it is basically about 3 years before this plant really starts to contribute to our numbers give or take, right?
- M. K. Dhanuka:** Yes, approximately 3 years time definitely you can consider.
- Probal Sen:** And the second question was sir, with respect to the product launch schedule any details you can give have any new products being launched in this quarter or any plans in Q4?
- M. K. Dhanuka:** Yes, Harsh will reply to this question.
- Harsh Dhanuka:** Yes, so we have introduced six new products in this year and out of them two of them were 93. In this current quarter we do not have any plan for further introduction. However, in the next financial year that is 2021-22 we have two new 93 products in the pipeline which will be introduced and some other co-market lead products will also be there.
- Probal Sen:** Any color you can throw on these two products, the herbicides, fungicides?
- Harsh Dhanuka:** Both of them are herbicides.
- Probal Sen:** And the other question I had was with respect to FY22, I know you have mentioned this before that broadly the guidance still remains that barring any unforeseen monsoon related events 10% to 12% growth is doable on a consistent basis but given the high base that we are now working with where FY21 very clearly will be a record year. Are we still comfortable maintaining a 12% to 13% growth in revenue over the next couple of years or any other guidance you would like to give?
- M. K. Dhanuka:** Absolutely we can expect a little bit of growth.
- Probal Sen:** Sorry sir, I could not get you there?



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- M. K. Dhanuka:** See the monsoon we definitely can expect this much of growth in next 4 years to 5 years.
- Probal Sen:** About 12% to 13% can be maintained, right?
- M. K. Dhanuka:** About 10%, 12%, yes.
- Probal Sen:** The last question I had was sir, with respect to the other Opex that number has been fairly volatile going from Rs. 30 crores to about Rs. 40 crores and back to around Rs. 30 crores for this quarter. So while gross margins one can understand were perhaps impacted this quarter because of the higher freight rates and should get back to normal. In EBITDA terms from these levels, from Q3 levels what kind of improvement should we be building in for FY22 on an annualized basis?
- M. K. Dhanuka:** You see improvement is absolutely very, very difficult sort of not possible now. Maintaining this level is also very difficult because this year was a different year it is not a normal year so whatever savings we have made in the other expenses side that is not possible in the next financial year.
- Probal Sen:** So EBITDA we should be working with a broad range of around 16% to 17% or 17% to 18%?
- M. K. Dhanuka:** EBITDA I am expecting it would be in the range of between 16% to 17%.
- Moderator:** Thank you, sir. We have next question from the line of Ashish Thavkar from Motilal Oswal AMC. Please go ahead.
- Ashish Thavkar:** Sir, on this new CAPEX probably if you could help us understand in greater details as to whether you are also resorting to CRAMS kind of opportunities wherein obviously you said in your comments that with Japanese customers you will be wanting to manufacture technicals for them but apart from that anything like specifically on the CMO side of the business any global contracts with European players? Is it some kind of game plan there on the cards?
- M. K. Dhanuka:** No, nothing as on today. For future definitely we do not know. We are in negotiation with some of the Japanese companies but until any concrete agreement take shape we cannot basically comment anything right now.
- Ashish Thavkar:** Sir, on this Rs. 200 crores of CAPEX could you breakdown what is the growth CAPEX and how much would be the replacement CAPEX?
- Management:** Please repeat your question please?
- Ashish Thavkar:** On this Rs. 200 crores of announced CAPEX how much would be for the growth part and how much would be for the backward integration?



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- Management:** See it is too early to comment. It is just a ballpark figure because see management has basically shared their intention to go into the backward integration. It will take a little time. Once the things are ready we can see at that point of time.
- Ashish Thavkar:** And sir, one last question. Would we fall into the new tax regime of 15%?
- Management:** Absolutely not because this is our same company. For getting that advantage a separate company is must probably we will not get.
- Moderator:** Thank you, sir. We have next question from the line of Saurabh Kapadia from AMSEC. Please go ahead.
- Saurabh Kapadia:** Sir, on this new CAPEX so if I understand the initial focus will be for backward integration and then on the export. So once the production start then may be for the first year it will be entirely better integration with the manufacturing and then from second year we should see additional revenue coming in?
- M. K. Dhanuka:** Your voice was not clear basically please repeat the question and little loud.
- Saurabh Kapadia:** Yes, sir, I was saying for the first year the commencement of the operation it will be largely backward integration and only from the second year we should expect any incremental revenue coming in from the new technical manufacturing plants?
- M. K. Dhanuka:** Yes, you are right. Initially it will be backward integration and once basically things streamline then definitely we will look for export as another opportunity.
- Saurabh Kapadia:** So this backward integration will help in terms of like what kind of margin expansion we are looking at or is it more of securing the supply on time that is one of the key reason why we are looking at?
- M. K. Dhanuka:** You see it is very early to comment as I had already shared management has shared their intent only so far now. So it will take little time. Once they are ready we will share it.
- Saurabh Kapadia:** And one more thing like to setup the technical manufacturing plant you will require more investment in R&D and people having the expertise so you are also looking at some setting up of the larger R&D center or that kind of thing over the next couple of years?
- M. K. Dhanuka:** Still it is difficult to comment from the time.
- Moderator:** Thank you. We have next question from the line of Varshit Shah from Emkay Global. Please go ahead.



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- Varshit Shah:** Just follow up on this expansion. How much this total Rs. 200 crores is towards land or is it fully towards machinery? That is question number one. And what is the tentative IRR zone you are looking for this kind of project?
- M. K. Dhanuka:** The land was purchased by the company in the year 2012 or 2013 so that is already in the books of the company. There will no fresh investment in land. I am talking that is ballpark. Only tentative figure. As Mr. Bansal has shared that the management has just shown the intent to enter into the backward integration. We have recently taken Mr. Vats as the Vice President-Project and once the things are finalized then we will further share the details with you.
- Varshit Shah:** And secondly, you mentioned it will take approximately 2.5 years to 3 years from now. So would we see any volumes coming in at the end of FY22 or in somewhere in 2023 or it will be very negligible as per your plan as of today?
- M. K. Dhanuka:** As shared once the project report is there only then we will be able to share the details. It is only in very basically infant stage. So once it starts maturing then we will share the details.
- Moderator:** Thank you, sir. We have next question from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.
- Rohan Gupta:** Sir, I think that after every quarter you have been chased and asked on the same question that any intent on putting a plant or backward integration and finally we hear the announcement. So sir, you have repeatedly been saying that you have always been evaluating this option for manufacturing but now you have finally decided on and I understand that right now it is at intent state so many things may not be clear and as going forward may be next six months you may come up with more plans.
- Sir, what I want to know that you have always mentioned and maintained that you do not want to only go into manufacturing for the sake of backward integration only to meet your own requirement until unless you see the bigger opportunities in exports primarily. You would not be comfortable putting a plant. Sir, as a company Dhanuka has almost maximum number of relationship with the global players with almost 10 plus players you have the relationship and has been sourcing and selling their products in India.
- Sir, before getting into manufacturing did you discussed any of your these relationships your intent and did you get any kind of comfort or any assurance that you may get any manufacturing opportunities from them and that can lead to some export opportunity for you going forward?



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- M. K. Dhanuka:** We are talking with definitely our Japanese partners but nothing concrete. These are only at discussion stage. Once any concrete things takes place then definitely we will let you know but no any agreement or no any commitment as on today.
- Rohan Gupta:** So as of now that your generic business which is roughly one-third of your total revenues it means that roughly Rs. 300 crores to Rs. 400 crores. For that only you need probably all these material which generally comes from China and as of now you plan to only put the plant for these generic materials and backward integration only so is that right to understand sir?
- M. K. Dhanuka:** I cannot comment right now as I told you once the project report is ready in next six months time then definitely I will come out with the figures. At present I cannot basically make any comments on your query.
- Rohan Gupta:** Okay sir, we will wait for more quarters to get some more clarity on that. On sir, current quarter numbers definitely you have done a great job in 9 months and every quarter has seen a strong growth at bottom line. Sir, but that last portion of the bottom line has also come from the restricting your employee expenses and other expenditure. So we have seen that though your top line growth in nine months have increased by almost 24% your employee expenses and other expenses have been curtailed almost at the last year level that lead to margin a bit expansion at EBITDA level.
- Sir, do you see that you have been cautiously cutting down on the expenses and now with the top line growth coming back all these expenses are going to increase at a sharper rate in next year or they will have a growth in line with the top line growth?
- M. K. Dhanuka:** You see as per other expenses are concerned definitely there will be increase significantly in the next year. This year the expenses were lower because of Covid but as far as employee cost is concerned that will not grow I hope in more than say around say 10% kind.
- Rohan Gupta:** So other expenses you see that can increase much sharply next year may be even higher than the top line growth of 10% to 12% which you are expecting?
- M. K. Dhanuka:** Yes, that is what you are absolutely right.
- Rohan Gupta:** So we have not seen and the continuing of this question only, so we have not seen any significant expansion in gross margins this year though we have seen that EBITDA growth was driven by below gross profit expenditures. So sir, you see that there is a pressure on margins next year if we cannot improve our gross margins in near future sir? And with the rising price of imports and raw material cost do you see that there is any opportunity in expansion of gross margins?



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- M. K. Dhanuka:** I think you are saying EBITDA margin is basically driven by the saving of the employee cost or other expenses, I am not convinced with your argument because the large is driven by the expense and the gross margin as well. And if you see the Q3 numbers our expense and the gross margin is 199 basis points. So that is a significant part.
- Rohan Gupta:** Yes sir, there has been a little bit improvement but do you see that there is further scope on gross margin expansion or it will remain at best in the current level only?
- M. K. Dhanuka:** There is an improvement of 200 basis point is a little bit then yes, if it is little bit then it is little bit. I think it is very difficult to see go beyond that. And two are in the same, 200 basis points we are very comfortable and happy with the type of expense in margins.
- Moderator:** Thank you. We have next question from the line of Saumaya V from Spark Capital. Please go ahead.
- Saumaya V:** Congrats on this new announcement. I was one person personally asking you every time on this investment. We sincerely hope that you go the CRAMS model and not do too much of generic sir. That is just at least from my side I will just say that and we will await to hear more from you in the next six months. Sir, my question essentially is about the I mean most of it have been answered but from a next year's standpoint how do you see the I mean any rough guidance because we are having a significant base effect that has already been there. How should we see the broad industry growth for us?
- M. K. Dhanuka:** You see basically India is consuming one of the lowest pesticides in the world and government is basically focusing on increasing the agriculture and the income of the farmer. The government is checking about doubling the farmer's income by 2022. Even in yesterday's budget Mrs. Nirmala Sitharaman has categorically said that they want that the farmer should get minimum 50% profit on his core stock produced.
- So that way there is lot of opportunities from India for export also. So the consumption of pesticides is also expected to increase in India. So that is why we are hopeful that Dhanuka will be able to deliver 10% to 12% growth if the monsoon is normal.
- Saumaya V:** Okay 10% to 12% revenue growth is what you are highlighting?
- M. K. Dhanuka:** Yes.
- Saumaya V:** And how is the raw material scenario now from China any price improvements we are seeing any rough number that you can guide I mean the rough average cost for you to have been reducing by what percentage or anything that you can guide on this?



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M. K. Dhanuka:

The prices in China are on increasing trend because of the two, three reasons. One is the raw material use in manufacturing of intermediates and pesticides with technical. They are increasing. Number two, because of the Covid some of the factories in those provinces have been shut down and thirdly because of non availability of containers the freight cost has tripled. Earlier one FCL of 20 feet was coming at \$1,000 from China. Now the cost has gone \$3,000 per container.

So because of these three reasons the prices have increased in China for most of the raw materials. Let us hope that May possible after three months the prices stabilize and starts coming down but at present the prices are on the rise.

Saumaya V:

On an average base how much is the increase like versus last year to last couple of quarters to now any rough average that if you could give us?

M. K. Dhanuka:

In comparison to last quarter may be around 6%, 7% increase. It depends on product to product. In some of the products the increase is even up to 20% and some products are at par, some products are 5% to 10% so on an average you can say 6%, 7% increase.

Saumaya V:

And just one final question. Because you are doing this CAPEX now would it be fair to say that we may not expect dividends in the fourth quarter or you would really go ahead sir?

M. K. Dhanuka:

Dhanuka has already rewarded its shareholders by doing a buyback of Rs. 100 crores at the rate of Rs. 1,000 per share. So dividend as we are giving dividend so for the sake of dividend definitely we will give dividend to a nominal expense but otherwise apart from the CAPEX we have already rewarded the shareholders for FY21.

Moderator:

Thank you, sir. We have next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia:

I just had a follow up on the question on the CAPEX part. In the past one of the reasons also we should say so we have this whole approach of focusing on formulation and having an asset light model because the foreign partners used to have a more concentrated manufacturing and supply chain approach. And they were not willing to share the technology and hence we continued with this model as well.

So now what are we when we are talking to them and when we have decided to go with this approach of CAPEX and backward integration what is the communication we are getting from them in terms of the technicals is there a change in thought process or if you can just elaborate a bit more on that?



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M. K. Dhanuka: As I shared earlier that because of the China relationships with India as well as globally the companies the importers are giving preference to India in comparison to the China. And India is largely depended on China for the generic products whether it is intermediates or technical grade pesticides. So there is lot of opportunity for exports of technical grade pesticides from India.

So considering the export opportunity as well as the demand in India because lot of captive consumption is there in brand also by Dhanuka. So once Dhanuka has decided to go into the backward integration so we will do captive consumption. Apart from this we will supply indigenously to other formulations and we look for the export opportunities. So these will be three avenues for which seeing the futuristic approach we have decided to enter into this field.

Viraj Kacharia: But when it comes to say those specialty molecules which we have through our partnership with the MNC partners is there a thought process in sourcing or localizing those as well the AIs here is there a change in thought process of the partners or that is outside the ambit for now?

M. K. Dhanuka: No, at present there is no basically tie up with any of the global partnerships but definitely we are discussing with one of the Japanese companies. Once anything take shape we will definitely share with you but as on today we have decided to enter into the field with the generic products.

Moderator: Thank you, sir. We have next question from the line of Hemang Khanna from Kotak Securities. Please go ahead.

Hemang Khanna: Sir, just wanted to understand that we were indicating that inputs from Chinese has been on a rising trend sir, just to understand that from a gross margin perspective for the fourth quarter. Would it be fair to say that we did about 42.8% in the previous year in fourth quarter? Would there be a very sharp moderation from this as you have indicated about 6% decline, it is 6% higher inputs and about 25% of our total comes from China. So should we still be comfortable somewhere at about 40%, 41% margin all across margins for the coming quarter?

M. K. Dhanuka: Actually the question is not clear, will you please repeat the question?

Hemang Khanna: Sir, I was trying to get a sense of the gross margins which we look at for the next quarter. So in the fourth quarter on a YoY basis our gross margins were about 42.8%. Would it be fair to say that in the coming quarter we should be able to be somewhere at about 40%, 41% on the gross margin basis or would the contraction in margins be sharper because of the China impact?

M. K. Dhanuka: I think the gross margin in fourth quarter would be in line with the last year gross margin in Q2. It should be similar to the last year. The prices we are passing on to the customer so that is why we will pass on whatever the price increase we are getting on the raw materials.

Hemang Khanna: And sir, just to get a sense what would be our CAPEX numbers when we look for FY22-23?



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- M. K. Dhanuka:** As I shared it is only at infant stage so presently we cannot say but once we have decided in to enter definitely it will be much higher in comparison to earlier year so how much CAPEX will be there in next financial year once the project report is ready then we will be able to share with you.
- Moderator:** Thank you. We have next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, one question is about the Dahej land. So we have planned Rs. 200 crores of CAPEX. How much more CAPEX can be done at this particular facility?
- M. K. Dhanuka:** As I shared it is too early to basically comment. It is just a ballpark figure so basically once the project report is ready by our Vice President and the Project Incharge we will be able to share more details in next con call.
- Rohit Nagraj:** Sorry my question I did not put it rightly. So sir, on this particular land how much the entire CAPEX can be done beyond Rs. 200 crores I mean the land bank can access a CAPEX of Rs. 400 crores, Rs. 500 crores that is what I meant?
- M. K. Dhanuka:** So we have around 37 acres of land so we will see how much land is being utilized for the first phase of the project. So in second phase definitely there is possibility to increase the CAPEX if we decide to go for the second phase. But everything will be clear once the report is ready and we will share more details by next year.
- There is huge possibility because the land area is 37 acres. So there is definitely more opportunity to have more CAPEX and increase the number of molecules to be manufactured over there so it will depend on that that how much capacity we will build over there.
- Rohit Nagraj:** And sir, second question in terms of product pipeline so we have already mentioned that for the next couple of years we have around 8 to 10 products in the pipeline. Beyond that whatever products we are currently working on say for the third, fourth, fifth year so are we thinking of putting up the technical manufacturing at this particular new project from a long term product pipeline perspective?
- M. K. Dhanuka:** No, the new project for the backward integration is presently for the generic manufacturing only because there are lots of exports for generic happening from India and there is good consumption in-house by the company in branches. So considering both these parameters opportunity for exports, opportunity for the institutional sales as well as for self consumption. We are going ahead with the manufacturing of generic products and if anything matures with any of the Japanese partners then definitely we will come out and we will share with the investors.



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Moderator: Thank you. We have next question from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Sir, I have just two questions. So first is as you mentioned in your opening remarks that there has been some impact in the Southern India because of monsoon and the cyclonic impact. So what we have heard is that there has been sowing has actually deferred and we have seen a good improvement in the months of January. So is that something which will just got deferred and not fully got impacted let us say in quarter 3?

M. K. Dhanuka: You are absolutely right Mr. Jain that the sowing has taken place in especially Andhra and Telangana so both these states have shown good growth in the month of January and the things are reviving. So we are hopeful that like January, February and March should also show good growth from South India and last year because of the lockdown we have suffered since in the last week of the March.

So this year last week of March will also give us a reasonable sales because the staff basically to complete their targets they try to basically do the sales in the last week of March so we hope that as per our earlier guidance we will definitely able to achieve our targets this year.

Resham Jain: Sir, my second question is on competitive landscape and you have highlighted that in your second quarter call that lot of this smaller marginal players are seeing some impact earlier because of their factories not running at good utilization and now we are also hearing that because of this Chinese logistical issues increasing cost and all again some of the importers are facing lot of challenges. So how do you see the overall competitive landscape in this context?

M. K. Dhanuka: Yes, you are right, Mr. Jain that because of these central insecticide both and the custom department has become very strict and rigid on the documentation and the legality part. So the consignments which used to be imported in India from unauthorized sources instead of the approved sources they have now stopped. So only where you have the authorized stores registered with central insecticide board only those consignments are now being cleared by the customs.

So some as per information number of consignments of various companies have been detained at the customs especially at Nhava Sheva port so in future we are expecting that it will have the impact on the spurious and basically duplicate manufacturers so which will basically give the benefit to the genuine manufacturers. So we hope that this will also give a growth to the genuine manufacturers because the phase of the illegal manufacturers will be minimized.

Moderator: Thank you, sir. We take the last question from the line of Himanshu Upadhyay from PGIM India. Please go ahead.



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- Himanshu Upadhyay:** I had a question on this slide #7 which is on the innovation turnover index. If we look at it FY16-17-18 and till FY19 we were around 20% and 17% but which has fallen to 12% and 11%. What would be the reason because we have launched a number of products in last few years but still revenue from new molecules has tapered down quite significantly in last three to four years? Can you elaborate on that?
- M. K. Dhanuka:** Yes, you are right. It is fall down less 12% this year. It is mainly because of you see few products you see in the year probably in 2018-19 we have not launched any new molecules. That is one reason. Secondly, few molecules we have launched we could not make big molecule. That is the reason but however I am sure it will improve in the next financial year definitely.
- Himanshu Upadhyay:** And do we want to have a target or do we have a thought process that this much percentage of revenue we want to have from new molecules means any thoughts do we have?
- M. K. Dhanuka:** Yes, we have thought in our mind that it should be more than 15% plus.
- Moderator:** Thank you, sir. We have one last question from the line of Dhruv from HDFC Fund. Please go ahead.
- Dhruv:** Sir, in the earlier question you mentioned that the customs are restricting imports from unauthorized sources. What I used to understand is all imports have to be registered with the registration authority, the chemical registration authority. Is that not the case, I mean they can also import from unauthorized non-identified sources also?
- M. K. Dhanuka:** There are a number of cases some of the you can spurious manufacturers, they are importing in the name of chemicals or the intermediates for which there is no registration required. Chemical are freely tradable and imported, there are no registration. So they are importing in the name of chemical instead of pesticides. For pesticides technical grade also they basically were able to clear just showing that the product is manufactured by that company.
- They were importing from the traders but basically showing it as the manufactured by that authorized source. So they were creating some documents which is basically on the basis which they were able to clear the consignment from customs and customs was basically not knowing the exact CIB guidelines but now they have become very strict and they are not clearing the consignment until and unless it is from the authorized source approved by the concerned insecticide board. So because of which number of consignments has been withheld at Nava Sheva Port. So we do hope that these unauthorized imports will be stopped in future and which will give a boost to the genuine manufacturers.



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Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Manish Mahawar from Antique Stock Broking for closing comments. Over to you, sir.

Manish Mahawar: Thanks, Vikram. 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. Dhanuka Ji, would you like to make closing comments, sir?

M. K. Dhanuka: I have already covered and as Mr. Resham Jain was talking that January in South India has shown good growth. So it is expected that February, March should also remain good as far as Rabi season is concerned. So we are confident that Dhanuka will be able to perform well in the fourth quarter also and this year will be a very good story year for Dhanuka because we will be achieving the all time record high top line as well as bottom line growth. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Antique Stock Broking, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.