GSP Crop science

Operator: Ladies and gentlemen, good morning, and welcome to the GSP Crop Science Limited Q2 and H1 FY27 earnings conference call. As a reminder, all participant lines will remain in listen-only mode, and there will be an opportunity to ask questions after management's opening remarks. Should you need assistance during the conference call, please signal the operator by pressing star, then zero, on your touchtone telephone. Please note that this conference is being recorded. Before we proceed, please note that this conference call may contain forward-looking statements about the company, which are based on the company's beliefs, opinions, and expectations as of the date of this call. These statements are not guarantees of the company's future performance and may involve risks and uncertainties that are difficult to predict. I will now hand the conference over to the management of GSP Crop Science Limited for the opening remarks. Thank you, and over to you, sir.

Shailesh Shah – Executive Director Finance & CFO: Good morning, everyone, and thank you for joining us today for the GSP Crop Science Limited Q2 and H1 FY27 earnings call. I am Shailesh Shah, Executive Director Finance and CFO of the company, and I am joined by our investor relations team from Adfactors. I hope you have all had the opportunity to review our financial results.

The company recorded approximately 20% revenue growth in Q2 FY27, navigating industry headwinds while sustaining its growth momentum. The first half of FY27 has been very challenging for the agrochemical industry, with uneven rainfall and cost pressures across the industry affecting market conditions. Despite the below-normal monsoon, Kharif sowing remained broadly stable. However, prolonged dry spells in states such as Maharashtra and Karnataka have raised concerns over final crop productivity, while lower reservoir levels in southern India could affect irrigation availability.

The monsoon season has had a bearing on agricultural activity across the country. This has been a year in which cumulative rainfall, as per the IMD, has been around 87% of the long-period average, marking the lowest level since 2015, with El Nino contributing to the deficit. The outlook for the coming months also remains a concern, as El Nino is expected to peak in November, while below-normal rainfall is anticipated across most parts of the country from October to December. Against this backdrop, the Rabi season could also face challenges due to declining soil moisture and lower reservoir levels in some regions, potentially affecting irrigation availability and sowing decisions. This could influence the acreage and output of key winter crops, including wheat, pulses, and oilseeds, as well as agricultural input demand, including demand for crop protection products.

Against this backdrop, [pause] I would like to brief investors about the company's financial and operational performance. At GSP, we have been managing input costs while maintaining product quality and operational efficiency, with this as a key focus. We continue to monitor raw material price movements and supply conditions closely while working to navigate cost pressures and respond to changing market requirements. As a research-driven agrochemical company with over four decades of experience, GSP continues to focus on developing and manufacturing both technical-grade active ingredients and finished formulations. Our integrated manufacturing capabilities and investments in backward integration remain important for improving operational efficiency and strengthening our supply chain.

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Innovation continues to be a key part of our strategy. We are focused on expanding our product pipeline, developing differentiated formulations, and introducing patented products that address farmers' changing crop protection needs. We believe these efforts will help us remain competitive and create value over the long term. Going forward, weather conditions, farmer demand, fertilizer availability, and raw material prices will remain important factors for the agricultural input industry. Our focus will continue to be on cost management, operational efficiency, product development, and strengthening our presence in domestic and international markets.

Considering the vulnerability and volatility that have been present, it becomes more important for us to use [pause] our innovation capabilities to bring more solutions to farmers. During this difficult period, when the weather is uncertain, we should be able to provide better solutions to farmers to increase their yields and sustain themselves in this environment.

Coming to our financial performance for Q2, revenue from operations stood at 558 crores, registering growth of 19.5% over the corresponding quarter last year. Growth across our key products was mainly driven by increased realizations, which were also due to the increase in raw material prices. EBITDA for the September quarter stood at 73.6 crores compared to 93.2 crores in the previous year. In Q2 FY27, the EBITDA margin stood at 13.2%. Overall, profitability during the quarter was primarily impacted by higher raw material procurement costs, supply-related challenges, and the lower contribution from high-margin products. However, some cost-optimization measures helped improve EBITDA sequentially. Profit after tax stood at 44.6 crores in Q2 vis-à-vis 58.5 crores in Q2 FY26.

If we look at the H1 numbers, revenue from operations increased by almost 12% to 944 crores. EBITDA stood at 116 crores compared to 135 crores in the previous year. The EBITDA margin stood at 12.3% in H1 FY27. Other income during the period was higher, primarily due to gains from the sale of fixed assets and foreign exchange gains. Profit after tax stood at 71 crores. I think that is all from our side. Thank you very much.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We take the first question from the line of Mayuresh Rao from Invest For Value. Please go ahead.

Mayuresh Rao – Invest For Value: Thank you, sir, for the opportunity. My first question is that due to pollution, there is stress on Rabi output. How broad is our product portfolio to address this? Also, what is our presence in terms of market share?

Shailesh Shah – Executive Director Finance & CFO: [pause] Hi, Mayuresh. Good morning, and thank you for your question. We have a presence in the Rabi market in micro crops, such as fruits, vegetables, and some pulses. We have also recently launched one of our patented insecticides, which is helping us during the Rabi season. Overall, we are a Kharif-dominated company, as Rabi has not been [trails off]

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Management: ...a bigger share of our business. However, with the introduction of new patented products and our overall penetration into different geographies through the expanded network, we expect to perform at least better than last year in the Rabi season as well, despite the challenges we have been seeing at the macroeconomic level.

Mayuresh Rao – Invest For Value: Yes, sir, I wanted to follow up on that. Some news articles suggested that Rabi sowing is likely to normalize in the next few quarters. What is your view on that, and what is the ground reality?

Management: Yes, sowing has been impacted. There have been some delays, and there are specific geographies where we are seeing the impact of delayed sowing. There is an expectation that it could normalize, and everybody is hopeful. At the ground level, we are also seeing certain challenges, particularly in the south, where the reservoirs or dams have not been filled. Therefore, farmers are somewhat hesitant about the second crops they have to take. Overall, for crops such as chillies in Maharashtra, grapes, and other pulses, we do not see much of a challenge. However, a second paddy crop is where we see that there could be some challenge. Everybody is hopeful that it should normalize this month or within another 30 days.

Mayuresh Rao – Invest For Value: Okay, sir. Which key crops and geographical markets could be most affected by the expected El Nino conditions and below-normal rainfall? Again, how are these changing weather patterns influencing farmer spending behavior and demand for agrochemical products?

Management: Particularly this year, parts of Maharashtra were significantly impacted. Karnataka was impacted, along with other areas such as Andhra Pradesh and Telangana. Even in the east, there were certain specific pockets where rainfall was a constraint. This change in weather patterns has impacted farmers in a way that they are delaying sowing to some extent in order to gain more visibility on how they can manage the risk and obtain assurance regarding their crops. Therefore, they are trying to delay sowing.

Number two, we have seen changes of around 5-10% in the crops in some of these regions. Certain crops have been replaced by crops requiring less water or having a shorter crop cycle, so that the uncertainty is lower. These are some of the changes that we are seeing.

In terms of agrochemical spending, being in the crop protection business, we typically come into play at a later stage of the crop cycle, after seeds and fertilizers have been applied. Once a crop is around 45-50 days old and the farmer is somewhat confident that the crop will survive, the farmer is inclined to spend on crop protection because that is how the farmer can protect or increase the yield. However, if there is a possibility that, during the early stages, a significant gap or deficit in rainfall means that the rain is insufficient, farmers are somewhat reluctant to use crop protection products because they do not have visibility on whether the crop will survive the entire cycle. These are the broad changes that we have seen during the current year.

Mayuresh Rao – Invest For Value: Thank you, sir, for such a detailed explanation. One last question. In the last conference call, you highlighted the challenges in Brazil due to delayed customer buying, liquidity constraints, and competition from Chinese suppliers. While we have seen 20% growth in international business, could you provide an update on the sustainability of this growth and how we

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are progressing with new registrations and distribution partnerships in Brazil, Latin America, and other international markets over the next 2-3 years?

Management: The growth has been predominantly in the domestic markets and not in export markets, which is the competitive segment that you mentioned. Particularly in Brazil, what we have seen is that the crops have now normalized. They are also facing issues due to weather changes. Logistics has been a challenge for international business, particularly the availability of vessels and the additional time required for consignments to reach Brazil. These have been areas where Indian suppliers are facing constraints. That is where we are navigating these issues along with the increased cost pressures.

Overall, regarding our registration portfolio and our efforts to develop a basket of products for Brazil, we have made some investments in registrations while creating our own registrations and acquiring some registrations in Brazil. Over a 2-3-year timeline, we expect to conduct sizable business in this geography once we have acquired a sufficient number of registrations with adequate variability in the portfolio that we offer to that market.

Mayuresh Rao - Invest For Value: Thank you, sir, for such a detailed explanation, and good luck for the future.

Management: Thank you. Thank you very much.

Operator: Thank you. We take the next question from the line of Anirudh Sharma from Ekaant Investment. Please go ahead.

Anirudh Sharma - Ekaant Investment: Good morning, sir. Am I audible?

Management: Yes, good morning. You are audible.

Anirudh Sharma - Ekaant Investment: I just had a few questions. Firstly, the company currently has a presence across 37 countries. What are the key markets driving export growth?

Management: The key markets driving export growth are Latin America and Southeast Asia. These are the two areas where we have seen growth. Latin America, in particular, is an area where we are also aligning our investments. As I mentioned in the earlier question, over a period of 2-3 years, we expect this area to contribute a good portion of our export business.

Anirudh Sharma - Ekaant Investment: How is the company progressing with its expansion plans in Brazil and other Latin American markets?

Management: We established our subsidiary there 3 years ago and have been obtaining registrations there. We have gathered quite a few registrations. We have also established a small administrative office to conduct some B2B business. We expect it will take at least 1-2 years to set up a platform through which we can scale up our business, particularly in Brazil, and from Brazil into other Latin American countries, with Brazil as a base.

Anirudh Sharma - Ekaant Investment: Understood. What is the current contribution of exports to overall revenue, and what is your target contribution over the medium term?

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Management: Currently, exports account for almost 20% of our total business. Going forward, over 3 years, we see this could increase to 25%. Since growth is also being planned for the domestic business, we expect domestic business to grow proportionately as well, and there could be a 5% proportionate increase in the export business as part of the total contribution to revenue.

Anirudh Sharma – Ekaant Investment: One last question from my side. How does management view the growth opportunity in international markets, particularly in patented products and differentiated formulations?

Management: Anirudh, that is where our forte lies. The entire idea is to replicate the business that we have in India, where we sell differentiated products and patented formulations. We are trying to obtain patents for these products in international markets as well, such as Brazil and other parts of the world, where obtaining a patent is also a long-drawn process. Sometimes it takes 5-7 years.

As the products are established in India, and we have seen the response from farmers and the excellent results that we have achieved on the ground, we plan to take these products to important markets globally and register them. The registration of these patented products has already been underway for the last 3 years. Maybe 2-3 years down the line, we will see these registrations coming through with intellectual property protection, enabling us to maintain our margins in these markets as well.

Anirudh Sharma – Ekaant Investment: Understood. That is all from my side. Thank you for the opportunity.

Management: Thank you.

Operator: Thank you. Participants who wish to ask a question, please press star and one. We take the next question from the line of Mahesh Kumar from MU Investment. Please go ahead.

Mahesh Kumar – MU Investment: Hello? Hello, am I audible, sir?

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Management: Yes.

Mahesh Kumar – MU Investment: My first question is on revenue growth. We have seen good growth in this quarter and in H1 as well. What were the key drivers for this growth, and how sustainable do you think the growth momentum is?

Management: The key drivers for growth were our B2B business, particularly the domestic B2B business, where we saw good growth. We also saw growth in our B2C business, but the majority of the growth came from the domestic B2B business.

It is only because of this that the growth in the business, or the increase in revenue, has not been reflected to a significant extent in the bottom line. In the B2B business, there were significant cost pressures due to the increase in raw material costs. As a result, gross profit margins declined to some extent, and the increase in revenue could not be converted into an increase in the bottom line.

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Mahesh Kumar – MU Investment: Was this growth volume-led or realization-led?

Management: It was mainly realization-led. In some products, volumes also increased.

Mahesh Kumar – MU Investment: On the demand environment across the domestic and international markets, do you have any comments for the first half of FY27?

Management: Regarding demand, while the beginning of the year was fairly satisfactory, when sentiment regarding El Nino started developing, demand began to decline. Demand was satisfactory until July, but August and September were very dry. The entire focus shifted toward liquidating the inventory that was present in the market.

Demand was somewhat subdued in the domestic market at both the B2B and B2C levels because every company and our distributors were focused on how to liquidate the stocks they had at the farmer level and ensure that the crop was protected. That was the situation.

Mahesh Kumar – MU Investment: Thank you, sir. I will rejoin the queue. All the best.

Management: Thank you.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star and one. We take the next question from the line of Mahadev Das from GN Investments. Please go ahead.

Mahadev Das – GN Investments: Hello, good morning. I hope I am audible. Thank you for the opportunity. I have a few questions. First, what proportion of the company's raw material requirements is currently being imported, and how does management plan to reduce this dependency?

Management: Almost 40-45% of our total raw material requirement is imported from China. We have already set up a plant for backward integration, and our R&D team is continuously working on developing products for which we can create backward integration opportunities for our active ingredients and technicals. This will enable us to reduce our reliance on imports and have a consistent supply chain, along with better margins, as we will be able to cover more of the value chain across the product line. That is the idea.

Mahadev Das – GN Investments: What are the key priorities for us over the next 2-3 years?

Management: The first key priority is to increase the base of our patented portfolio in the domestic market, for both our B2C and B2B businesses. We plan to grow significantly in this area. We want to further scale the established products that we have and launch new patented formulations in different segments to achieve better market presence and market share in different geographies.

The second priority will be to reap the benefits of our investments in Brazil, where we have acquired registrations and invested certain amounts in registrations.

The third priority is to further strengthen our R&D to increase our cost-competitive advantage by carrying out backward integration of the key technicals that we manufacture. These are the three key priorities that we have as a company.

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Mahadev Das – GN Investments: That looks good. If I can ask another question, what are the key growth drivers that management expects to support our revenue and profitability in the remainder of FY27 and going forward?

Management: The key growth drivers are the patented formulation that we launched last month. In the Rabi business, we believe this product will be positioned well considering the agro-climatic conditions. It is a product that will help farmers and crops boost production. We expect this product to drive growth, and, as it is an anchor product, other products will also move in that market.

Secondly, going forward, we are establishing certain anchor brands. Based on these brands, we plan to establish products around each anchor brand so that we can further penetrate the overall market in the different geographies where we want to be present and increase our distribution network to that extent. These are the key growth drivers that we see emerging.

Mahadev Das – GN Investments: Thank you very much, sir, for answering the questions so patiently. Thank you for the opportunity.

Management: Thank you.

Operator: Thank you. We take the next question from the line of Shravan Modi from Sunidhi Family Office. Please go ahead.

Shravan Modi – Sunidhi Family Office: Yes, good morning, sir. Am I audible?

Management: Good morning. Yes, you are audible.

Shravan Modi – Sunidhi Family Office: My first question is regarding revenue growth. Despite revenue growth of 19.5% in Q2, EBITDA has declined by 21%. I want to understand the key factors behind the contraction in operating profitability.

Management: There are two broad factors. One is the increase in raw material costs. As a result, gross margins decreased. Secondly, in operating costs, we saw increases in expenses such as power and fuel, along with an increase in manpower costs as part of our routine annual exercise. These are the reasons for the EBITDA contraction, primarily the increase in raw material costs and power and fuel costs.

Shravan Modi – Sunidhi Family Office: How much of this margin pressure was attributable to high raw material costs, supply chain challenges, and lower sales of high-margin products, respectively?

Management: We can say that almost 50% of the margin pressure was due to raw material costs. The remaining 20-30% was due to supply-chain-related issues or costs, and the remaining 20% was due to other factors, including high-margin products.

Shravan Modi – Sunidhi Family Office: If you look at the gross profit margin, it has declined from 40% to 34%. When can we expect the margins to stabilize going forward?

Management: We expect that there could be some further pressure for another quarter or so, but I think in Q4 we could see the margins returning to normal levels.

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Shravan Modi – Sunidhi Family Office: I have a couple of final questions. How does the company differentiate its products from those of competing domestic and multinational agrochemical manufacturers?

Management: [pause] We try to create unique combinations of formulations from the existing and newer chemistries available, and we try to patent them. To give you an example, if there is a product called Chlorantraniliprole, it was a product that went off-patent, and we were the first to come under 9(3). With Chlorantraniliprole, we have certain patented combinations.

These patented combinations help farmers solve multiple problems by using one product, and they help us create a niche in that market where we are able to differentiate ourselves from other existing products or generics. That is how we try to develop synergistic combinations through which we can provide a more value-added product at the farmer level, enabling farmers to solve multiple problems or obtain better coverage in terms of time, so that the spray cost involved [trails off]

Shravan Modi – Sunidhi Family Office: ...either due to a reduction in the number of sprays or due to the coverage of the crop.

Management: [pause] Right, sir.

Shravan Modi – Sunidhi Family Office: I also want to know about our current level of investment in R&D and whether management intends to increase this investment in the future.

Management: [hesitates] Sorry, I could not understand your question.

Shravan Modi – Sunidhi Family Office: Sorry. What I wanted to know was our current level of investment in R&D and whether management intends to increase this investment in the future.

Management: [pause] Our current level of investment in R&D is around {? 2-2.5% ?} of revenue, and we plan to increase it going forward, considering the types of products and the backward integration plans that we have. Perhaps from next year onward, we could see some increase in investment in R&D.

Shravan Modi – Sunidhi Family Office: Understood, sir. Thank you very much for your inputs. That answers my question, and I wish you all the very best.

Management: Thank you very much.

Operator: Thank you. Participants who wish to ask a question, please press star and one. We take the next question from the line of Meha Jain, an individual investor. Please go ahead.

Meha Jain – Individual Investor: Hello. Hi, sir. Hi, good morning.

Management: Hi, good morning.

Meha Jain – Individual Investor: I wanted to check: H1 FY25 PAT has declined by roughly 12% despite revenue growth. What were the key factors affecting this performance?

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Management: The key factor was a decrease in gross margin due to the increase in raw material costs, which was also reflected at the PAT level. There was also some increase in operating costs due to the increase in power and fuel prices. These are the two reasons why margins declined compared to last year.

Meha Jain – Individual Investor: Do we expect it to increase going forward once these prices stabilize?

Management: We expect Q3 could be somewhat subdued, but Q4 is when we expect prices as well as overall realizations to improve with the forecast for the upcoming season. Therefore, we expect normalization in Q4.

Meha Jain – Individual Investor: Coming to other income, which has increased this half-year, I believe because of the sale of certain fixed assets, what do we consider to be a normalized level of other income excluding such fixed-asset sales?

Management: Typically, other income would be in the range of {? 20 million ?} or so, excluding the additional income from the sale of fixed assets. As you rightly mentioned, the additional income was due to the sale of a fixed asset. A land parcel was sold.

Meha Jain – Individual Investor: Right now, as we were discussing PAT margins, our EBITDA margins have also improved sequentially. Should we expect this improvement to continue in the coming quarters?

Management: Yes, EBITDA margins should improve sequentially in the coming quarters, considering the types of products that we have planned for Rabi and the fact that Q4 is the pre-placement period.

Meha Jain – Individual Investor: One final follow-up question: does this mean that Q4 margins will be better than Q3, as you previously mentioned for PAT as well?

Management: [pause] Yes.

Meha Jain – Individual Investor: Sure. Thank you very much, sir, and good luck.

Management: Thank you.

Operator: Thank you. Participants who wish to ask a question, please press star and one. Participants who wish to ask a question, please press star and one. Participants, please wait for the question queue to assemble. Please stay connected. As there are no further questions from the participants, I will now hand the conference over to Mr. Sahil Shah for closing comments.

Sahil Shah: Thank you, everybody, for joining the call. We look forward to seeing you on the next call. Thank you.

Operator: Thank you. On behalf of GSP Crop Science Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

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