# "Sharda Cropchem Limited
# Q2 FY2020 Earnings Conference Call"

## October 24, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to the Sharda Cropchem Limited Q2 FY2020 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now handover the conference to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Sir!

**Manish Mahawar**: Thanks Stanford. On behalf of Antique Stock Broking, I would like to welcome all the participants in the earning call of Sharda Cropchem. From the management, we have Mr. R.V. Bubna - Chairman & Managing Director, Mr. Dinesh Nahar, General Manager - Finance and Mr. Jetkin Gudhka, Company Secretary on the call. Now, I would like to hand over the call to Mr. Bubna for opening remarks. Over to you Sir!

**R V. Bubna**: Thank you Manish. Good day ladies and gentlemen. A very warm welcome to everyone present here for the earnings call of Sharda Cropchem Limited for Q2 and H1 FY2020. Sharda Cropchem is represented by myself, Ramprakash Bubna, Chairman and Managing Director, Mr. Dinesh Nahar, General Manager - Finance and Mr. Jetkin Gudhka, Company Secretary. Talking briefly about second quarterly results, the revenues grew by 4.9% year-to-year from Rs.309.0 Crores in Q2FY2019 to Rs.324.2 Crores in Q2FY2020. This was due to strong growth of 30.4% in Europe. We had a degrowth of 11.6% in LATAM, 10.7% in NAFTA and about 9% in rest of the world. The gross profit declined from Rs.95.2 Crores in Q2 FY2019 to Rs.87.4 Crores in Q2 FY2020. The gross margin declined by 386 BPS from 30.8% in Q2FY2019 to 27% in Q2 FY2020 mainly due to lower gross margins in Europe and NAFTA region.

EBITDA declined from Rs.33.9 Crores in Q2 FY2019 to Rs.28.7 Crores in Q2 FY2020. During the quarter, EBITDA margin declined by 211BPS from 11% in Q2FY2019 to 8.8% in Q2FY2020 due to lower gross margins. Profit after tax stood at Rs.-5.6 Crores in Q2 FY2020 compared to Rs.16.2 Crores in Q2 FY2019 due to higher depreciation of Rs.33 Crores in Q2 FY2020 compared to Rs.19.7 Crores in Q2 FY2019. The net working capital days stood at 113 days in H1 FY2020 as against 102 days in H1 FY2019. Net cash balance as on H1 FY2020 stood at Rs.199 Crores as compared to Rs.28 Crores in H1FY2019. With this review, I would now like to hand over the call to our General Manager - Finance Mr. Dinesh Nahar for discussing our financial performance. Mr. Dinesh Nahar.

**Dinesh Nahar**: Thank you Sir and a very good evening to all of you. I will give you the brief about the Q2 FY2020 performance. During Q2 our revenue grew by 4.9% year-on-year this was due to favorable product and price variance of 2.8%, volume growth of 5.3% and decline in foreign exchange by 3.1% in Q2 FY2020. During Q2 FY2020, our agrochemical business revenue degrew marginally by 0.6% year-on-year with growth in Europe and decline in NAFTA, LATAM and rest of the world. Our non-agrochemical revenue grew by 23.3% year-on-year. Cash profit stood at Rs.27.4 Crores in Q2 FY2020 as compared to Rs.35.9 Crores in Q2 FY2019. Capex stood at Rs.47.4 Crores in Q2 FY2020 as compared to Rs.33.2 Crores in Q2 FY2019. Thank you. We now open the floor for the questions.

**Moderator**: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Chirag Patel from Adinath Shares. Please go ahead.

**Chirag Patel**: I have a few questions with respect to our business performance. First question like we have a revenue decline significantly in this NAFTA and Europe, what is the reason behind it and how we look going forward from particularly these two territories regarding growth and volume growth?

**R V. Bubna**: The main reason has been adverse weather factor. In NAFTA region, the winter was very much extended which has resulted into contraction of the spring season and application of agrochemicals. Similarly, in Europe region also there was some adverse weather, but we have been able to do better in Europe as compared to NAFTA region. As I have explained LATAM and rest of the world also had some degrowth, in LATAM region mainly because of the financial problems in that region and rest of the world again due to the weather factor.

**Chirag Patel**: From where onwards we are expecting normalization of things particularly in these two territories, NAFTA and Europe?

**R V. Bubna**: Sir we hope the second half of this year, we expect some improvement.

**Chirag Patel**: Okay and particularly on our plant and property side on balance sheet, balance sheet related question one, we have seen an addition on PPE side? Particularly what is it?

**Dinesh Nahar**: I will answer this. This is basically there is a change in accounting standard 116, so we have an office in Vile Parle on lease.

**Chirag Patel**: Okay.

**R V. Bubna**: As per the new accounting norms, the lease asset has to be capitalized, I am sure you must be knowing about it more than me. So, we have some assets, which are on lease and they have been capitalized as required by the statutory auditors.

**Chirag Patel**: Did you give the like-to-like (LTL) figures for comparison purpose for P&L as well as on the balance sheet?

**R V. Bubna**: Pardon.

**Chirag Patel**: LTL basis figures as you know the lease amendment happening in many other industries also, so they are providing the LTL comparison figures for P&L?

**R V. Bubna**: What is LTL, I am unable to understand gentleman?

**Chirag Patel**: Okay, I will take it offline. Thank you.

**Moderator**: Thank you. The next question is from the line of Chirag Dagli from HDFC. Please go ahead.

**Chirag Dagli**: Thank you for the opportunity. Sir, for the upcoming Q4, which is a season for us, have we hedged our Euro and dollar exposure?

**R V. Bubna**: To some extent, yes.

**Chirag Dagli**: To what extent have we hedged Sir and what is the sort of number that we should, because this is a very important aspect of our fourth quarter profitability, so if you can just give some sense of what our rate should be?

**R V. Bubna**: We do not go in a very big way as far as hedging is concerned. However, we have hedged Q3 & Q4 numbers are insignificant, but we are continuously keeping track of it and whenever we get the opportunity we are hedging more, at this moment quantum hedge will not be very significant.

**Chirag Dagli**: By the end of the third quarter you may probably hedge a lot of Q3, Q4, is that how we should think about it?

**R V. Bubna**: Yes Sir, as and when we are getting opportunities, we are booking forward contracts.

**Chirag Dagli**: Okay Sir and we understand that for many products raw material prices have come down, this is for the industry. For Sharda in our key products if you can just give us a sense of how prices have moved past may be two, three quarters that would be helpful.

**R V. Bubna**: I think there is not a significant decline in the prices. There is some decline and the effect will be seen in the Q3 and Q4.

**Chirag Dagli**: On a blended basis, for our important products for our portfolio, if you can quantify how much has been the decline Sir?

**R V. Bubna**: I do not have the figure of quantities, but there is some decline in the prices. One minute Chirag, this is also being offset by increase in the taxes in NAFTA region, mainly USA, so this decline has not been very much – we are not able to take advantage of it because of the increase in the import duties imposed by the President of USA and the customers are not able to absorb all that.

**Chirag Dagli**: Just to put things in perspective, in the fourth quarter of last year, let us say raw materials for 100, where would they potentially be now?

**R V. Bubna**: We cannot generalize Chirag it is product to product. In some product, it is more comfortable, but in other products they are stable, they are not going up and we were there in China last week, many of the factories are closed and they have not been able to open up, so the availability is also not as abundant as it used to be about two years back.

**Chirag Dagli**: The impact of these duties given that China supplies to many, many people in the industry including innovators, is not this like an industry wide phenomenon and what is happening, why the industry is not being able to pass it on?

**R V. Bubna**: The industry wants to pass it on, but the customers and consumers are not able to absorb it, so it is not the desire of the industry, but the ability of the customers to absorb it. Customers are showing a very big resistance, down the line customers.

**Chirag Dagli**: Okay, is there a guidance you want to leave us with for the full year?

**R V. Bubna**: We hope to perform better in the next second half.

**Chiraj Dagli**: That has always been the case of seasonalities, second half is the biggest, but generally for the full year versus last year.

**R V. Bubna**: We have been proved wrong, the circumstances had been beyond our control in Q2 so we are little hesitant to give our figures, but overall we feel more encouraged in this quarter and the next quarter.

**Chiraj Dagli**: If this on the back of new approvals that we are expecting?

**R V. Bubna**: Approvals are also there.

**Chiraj Dagli**: Okay, Sir. Thank you.

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

**Vishnu Kumar**: A very good evening Sir, thanks for your time. Now that fourth quarter has almost up on us, how do you see the fourth quarter being out in terms of order enquiries, in terms of distribution, in terms of inventories at the end market, if you could just give some color on that?

**R V. Bubna**: We have been encouraged by the figures and enquiries available to us at this stage, that fourth quarter will continue to be the best quarter for us.

**Vishnu Kumar**: Okay, so in terms of any rough growth you think you can clock in compared to the last year, anything that you think if you could share?

**R V. Bubna**: Fourth quarter the starting basis is also always high, so we should be able to do only slightly better as compared to the fourth quarter last year.

**Vishnu Kumar**: Got it Sir. You did mention that there is a customs and taxes rate increased in US specifically, if you can just explain if this is because we are directly sourcing from China and imports of the China or is it any other particular reason, if you could just broadly touch upon this?

**R V. Bubna**: Mr. Vishnu it is a well-known fact to everybody that the US President has imposed very heavy duty on import of lot of products from China. Agrochemical come into that category and there is no basis for it, this has been discussed in the press and everywhere, they are also sitting down and negotiating, but they are not able to come out and the President gives various statement sometimes he says that we will discuss and negotiate and other times he says no they want to continue to increase. So, abruptly he has increased the import duty on lot of Chinese products starting from 10% to 15%, some products it is about 25% as compared to the previous years. This is in addition to 6.5% that was usually being charged prior to all these hikes. Customers are not able to absorb that. So, there is a big competition and the margins are under severe pressure in US markets.

**Vishnu Kumar**: In the interim, if there are someone who has supplied sources from some other countries they will end up selling the products in the country or how does it play, because at the end of the day there is very little production of pesticides and agrochemicals in the US as well, so which countries or from where is exactly the product coming from or is it from some other companies they are able to fulfill the demand or how is it working?

**R V. Bubna**: Not much of a significant supply from any other country. Mr. Vishnu, China is a factory to the world and these products are governed by the process and restrictions of registrations. If Sharda wants to import the product from any other country, it is being prohibited by the registration law. As per the registration rules, we have to source the products only from the registered source, which is declared in our registration application or registration document and this is applicable to every supplier in USA.

**Vishnu Kumar**: Okay, got it. Sir if this situation prolongs, let us say you do not find China, US, this trade tariff keeps playing out, do you see that our NAFTA growth which is supposed to be the fastest growth region for us, it will continue to be under pressure until the scenario plays out?

**R V. Bubna**: Sir, we will be under pressure.

**Vishnu Kumar**: Okay, got it Sir and there was one molecule which you were supposed to get the data rights, and have we started selling that in the end market?

**R V. Bubna**: I cannot recollect, which product are you referring to Vishnu?

**Vishnu Kumar**: I think it is Acetochlor if I am not wrong.

**R V. Bubna**: Acetochlor, we have been selling the product for the last one-and-a-half years, but there have been some issues about formulation and shelf life of the product, because nobody else is selling this product except for the innovator in USA, that technologically is not very widespread and not widespreadingly available, so we are making a lot of efforts and we are continuing to improve upon the technology, this has come in the way of our getting better volumes.

**Vishnu Kumar**: Okay, so if I remember correctly, we already have lot of stock of the product in the country, are we able to clear the stock and fresh stocks have taken or we are still disposing the older one?

**R V. Bubna**: We have been able to clear the stock and we are also taking fresh stocks.

**Vishnu Kumar**: Okay, but the technology now we got it right Sir in terms of the formulation, so no issues from that side or we still are getting in that?

**R V. Bubna**: There are many formulations some of them we have been able to get on top of it, others we are in the process.

**Vishnu Kumar**: Got it Sir and if you could just give the margin profile, which you normally used to give region wise, if you could just give that.

**R V. Bubna**: Margin for Q2FY2020 in Europe has been 32.3%, NAFTA 17.5%, LATAM 28.4% and rest of the world 23.1%.

**Vishnu Kumar**: Got it Sir, when you say that the fourth quarter we will be able to do better, now that you are saying that the US trade tariffs will continue, is it coming basically from the European market or you see from the US market itself they will be able to absorb things?

**R V. Bubna**: Mainly from the European market.

**Vishnu Kumar**: Okay and if you could just give the volume breakup again also the revenue breakup once more between volume, price and mix?

**R V. Bubna**: Volume breakup…

**Vishnu Kumar**: Revenue breakup, you give between volume, price and currency split again?

**R V. Bubna**: I am not able to understand, you want the volume breakup for the four regions?

**Vishnu Kumar**: Yes Sir.

**R V. Bubna**: For Q2FY2020 in Europe it was 24,33,000 units, NAFTA 10,33,000, LATAM 5,54,000, rest of the world 4,77000, total 44,98,000 compared to 42,73,000 in Q2FY2019.

**Vishnu Kumar**: Okay and the revenue growth if you can split that down between volume, price and currency if you can give the split again?

**R V. Bubna**: Pardon.

**Vishnu Kumar**: I was asking growth rate Sir, you give your growth rate about 5%, you give the split as 5.3% volume you have given, I just want the rest of the two, the price and currency impact in terms of the percentages?

**R V. Bubna**: Volume is 5.3%, forex impact is -3.1%, price variance is 2.8% and hence, revenue growth of 4.9%.

**Vishnu Kumar**: Got it Sir, in general steady state, our EBITDA margins used to be about 20% odd close to 20% for a quite considerable amount of time, but the current run rate is quite low, in your best case when do you think, one the supply situation in China will kind of ease out may be 12 months, 18 months, 24 months, what is the best guess that some of the things will change, because considerably visit the country many times, so how do you think the situation will pan out from here and how with them impact our cost?

**R V. Bubna**: I can only tell you the Chinese manufacturers this year were not so much filled up with enthusiasm, they have been impacted on two fronts, one is poorer off take for USA which was a very important market for them and second is the government hammer of still closing down many factories, some more explosions going on there, so there is a lack of enthusiasm in the manufacturers. We hope this thing will correct in the course of natural variation in the next two quarters.

**Vishnu Kumar**: Okay, same time next year you think many of these suppliers will come back to the market to restart factories or new factories will come up because of which you expect prices to come down?

**R V. Bubna**: We expect no factories to come up, but then the pollution control measures again being very heavy on the manufacturers in terms of cost also, the government insisting on following up the effluent standards means that they have to spend lot of money on effluent treatments. This is also another factor, which is not very motivating for the manufacturers.

**Vishnu Kumar**: Okay, but whoever is creating a new facility, you at least expect supply to improve next year and may be some reduction in cost next year may be 5%, 10%, or 10%, 15% with that extent we see some reduction come?

**R V. Bubna**: That we are expecting.

**Vishnu Kumar**: Okay, historically you used to say that we are never a price taker, most of our margin essentially come from relatively better RM cost, so in that sense is it likely or at least you believe that there could be a margin uptick may be next year or so if the situation plays out?

**R V. Bubna**: We are expecting the margins to improve in the next two quarters.

**Vishnu Kumar**: Any guidance on the number you would put roughly both in terms of top line and rough margin range?

**R V. Bubna**: Mr. Vishnu, it is a very difficult at this stage considering so much of uncertainty of weather, political, mainly China, US trade war and also the foreign exchange, the cross currency exchanges, they have been not so encouraging, Euro is subdued against dollar and many currencies are subdued against the dollar which is having adverse impact on our total results.

**Vishnu Kumar**: Finally, just on the capital expenditure part if you could just tell how much would be the number you see? I think you spend about Rs.50 Crores you mentioned, what will be the full year number?

**R V. Bubna**: For this year, we are expecting the capital expenditure to between Rs.150 Crores and Rs.170 Crores.

**Vishnu Kumar**: So, we would spend the rest of it in the second half?

**R V. Bubna**: Pardon me.

**Vishnu Kumar**: We have spent only Rs.50 Crores, so another Rs.100 Crores we will spent in the second half.

**R V. Bubna**: I think Rs.50 Crores is not a correct figure we have already spent Rs.48 Crores in Q2 and about Rs.85 Crores plus in H1.

**Vishnu Kumar**: And one final again, if the China, US trade war continues to prolong, and if you find other sources that are there, how easy is it for you to add another supplier let us say coming from India or some other countries that are there, whatever you supply you get to add and is it a very lengthy process or if you believe that the China, US trade war is going to prolong can you add it quickly and supply fast?

**R V. Bubna**: It all depends from country to country, in Europe, it is not so easy, it does take time, in USA, it is possible to add that process is not so lengthy, but it takes time there also.

**Vishnu Kumar**: Is it costly or is it like just a procedural aspect we are going to spend too much money.

**R V. Bubna**: In some countries we may have to repeat the trials then it becomes costly, other countries if they accept the laboratory results then it is not so costly.

**Vishnu Kumar**: How about US specific, that is where we have the issue?

**R V. Bubna**: In US, laboratory is not so expensive.

**Vishnu Kumar**: Okay and do you think that you might want to add more so that we mitigate some risk at least from future perspective that you might have to add other sources and countries, which may reduce our risk from this side?

**R V. Bubna**: We are working in that direction Vishnu.

**Vishnu Kumar**: Okay Sir, thanks a lot and all the best.

**Moderator**: Thank you. The next question is from the line of Chetan Thakkar from ASK Investment. Please go ahead.

**Chetan Thakkar**: Good evening Sir. Just one question, most of the amortization that we are seeing, because of capitalization of intangible last year, is most of the registrations in Europe, because just wanted to get a sense if it is in Europe, we can probably expect upside in Q4, if it is in NAFTA then probably it will be difficult, so just wanted to understand that?

**R V. Bubna**: I do not have these informations available readily with me, we had done a lot of capitalization last year and also reasonably good amount of capitalization this year in the first half.

**Chetan Thakkar**: Most of the registrations received were for supplies to Europe or for NAFTA?

**R V. Bubna**: Both the regions.

**Chetan Thakkar**: So probably the ones in Europe we will see upside of that in Q4 and NAFTA you are saying will continue to remain a little weak till this trade war issue gets resolved?

**R V. Bubna**: Now you are talking about capitalization or?

**Chetan Thakkar**: The revenue coming because of capitalization, so we have received the registration…

**R V. Bubna**: Revenue coming is getting affected in NAFTA region mainly because of the pressure on demand.

**Chetan Thakkar**: It is more because of the flood that we had seen in Mid West and winter issue that you mention.

**R V. Bubna**: Winter issues has gone now, but the spring has also been very weak and autumn we do not see much of an enthusiasm among the customers because of the stocks they have, and they are all expecting more reduction in the prices.

**Chetan Thakkar**: And one thing on the Europe gross margins that you mentioned, earlier we used to operate at 40% to 45% range, it has now shifted to 30%, so is it purely on account of higher raw material cost or there is some pressure on pricing also?

**R V. Bubna**: Sir, it is both put together, the pricing is not increasing there, unfortunately because of the approach of multinational companies and on the other side the costs are going up, so that is impacting the gross margins.

**Chetan Thakkar**: So, in Q4 this year probably there will be some softening in raw material as you mentioned, so that will be some amount of benefit than in the European market?

**R V. Bubna**: Yes Sir, but we will also have to keep a watch on the Euro dollar. Euro dollar is I think almost at the lowest end in the last two years, so we hope this will also improve otherwise this balances the small margin growth that we are expecting.

**Chetan Thakkar**: Okay Sir, thank you so much, all the best and Happy Diwali.

**Moderator**: Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities. Please go ahead.

**Rohan Gupta**: Good evening Sir. First question probably since the time the company got listed, this is the first quarter ever I am seeing that the company has reported losses, more to do probably the margin pressure and one of forex impact of Rs.9 Crores. Do you see that the situation will continue to remain challenging until unless either we address the issue of raw material availability from China, because with due respect Sir, but we had been seeing this challenge from last two years and you have been very hopeful and confident that China situation will be addressed may be next two quarters to quarter, being almost two years now that the problem continues and we still are in dark that how the supply from China will be resorted to the earlier level, so do you have any alternate plans or any other long term thought process you have which can address the issue because our business model is completely disrupted because of the China issue?

**R V. Bubna**: As I have told you before China is the factory to the world in my opinion, the other alternative does not exist, slowly we see some small information here and there, but that is very minuscule. The amount of production that China is doing nobody can match and the new facilities that are being created, the investors are also very much hesitant because they do not know when the situation in China will take a turn and if China starts producing in a normal way then it will be very difficult to compete with them. So as far as we are concerned, as I have explained to the previous investor that we have to add new manufacturers in addition to China and when we look around, we do not find very good and encouraging manufacturers coming up offering big quantities and competitive prices. So, we remain in the same situation as I have been telling you in the last two years. We have to depend upon China, and it is very difficult to find an alternative.

**Rohan Gupta**: As far as it is concerned as on one side now definitely our raw material procurement is hit because of China and on other side that because of the high competition, we are not able to take the price increases as well, so this is probably new norm in terms of margin profile of company that if were to continue, do you see that there is a really serious risk that the kind of EBITDA margins which we have reported now, we will continue with those margins only, our margins will settle down at just only 11% to 12%, 14% range?

**R V. Bubna**: We must see how the things unfold to us in the next two quarters. There is one more element, which has not come up on our discussion as far as the Chinese situation is, the China government has also deliberately started devaluating their currency in order to meet the challenge from the US - China trade war, so this is giving the manufacturers in China a little breathing space that they are getting more revenues for the same dollars in Chinese currency. So Chinese government is also looking at things with a lot of seriousness, how to meet the challenge of the China - US trade war.

**Rohan Gupta**: That is US- China trade war, but I think given the China government and they want to cut down the pollution and lot of chemical plants are getting closed, so one angle is definitely US- China trade war, but second angle is the government itself in China want to reduce the production of chemical or dependency on chemicals, I think that is hurting more to our business model. So, it is still not clear that you want to say that we do not have any other way and if the China situation continued for longer, do we have to live with this kind of margin profile forever or there can be some alternate?

**R V. Bubna**: Please tell me which country will have more lenient pollution control norms as compared to China, every country, the governments are very serious and nobody wants to compromise at least on paper to allow the industry to pollute their atmosphere and pollute the waters and environment. So, this pollution control cost every industry in every country need to bear, there is no relief on that front. China was the only country where the government was lenient and the cost were not so significant, now they have also rose up to the situation and come up with more stricter norms.

**Rohan Gupta**: Okay, second question on this forex loss, it is about Rs.9 Crores?

**R V. Bubna**: This is mainly the exchange rate fluctuation.

**Rohan Gupta**: It is already booked?

**R V. Bubna**: Yes, we need to value all our receivables and payables on the last date of the quarter that is September 30, 2019. In this quarter, on September 30, 2019 if the rates are unfavorable then we come up with a loss.

**Rohan Gupta**: So, it is more of mark-to-market, which has not yet booked right?

**R V. Bubna**: Yes Sir.

**Rohan Gupta**: It is a mark to mark given the currency rate on that day, yet not booked it can be reversed?

**R V. Bubna**: I take my words back it is not booked.

**Rohan Gupta**: Okay, another is on the payables, there has been significant reduction in payables you have from March 2019 to H1FY20 balance sheet, so you have paid down almost from Rs.635 Crores payables it has come down to Rs.290 Crores roughly Rs.287 Crores to precise, so is it basically that suppliers demanding payment upfront or they have reduced the credit days to you or you yourself are trying to reduce this and trying to get more cash discounts?

**R V. Bubna**: None of these, Rohan. We have paid them on due dates as per the normal norms and the Chinese manufactures are not hesitant to giving us a credit, they are giving us the same amount of the credits, we normally buy on use and pay basis where the manufacturers get paid onsite and we pay to our bank after 180 days. So, we have not had any deliberate or planned change in the strategy, we are following up the normal cash flow situation as we have been doing in the past, it has just happened out that we have paid a lot of our manufacturers in the normal and the natural process.

**Rohan Gupta**: Okay, you said 180 days credit is given for you by the bankers?

**R V. Bubna**: Yes.

**Rohan Gupta**: Okay. Fine Sir. Thank you.

**Moderator**: Thank you. The next question is from the line of Chirag Dagli from HDFC. Please go ahead.

**Chirag Dagli**: Given whatever is going on in gross profitability coming down lower, what are the levers on reducing fixed cost that we have if at all?

**R V. Bubna**: Chirag in my opinion we are very tight on the fixed cost and we do not have much of a room to reduce in the fixed cost side.

**Chirag Dagli**: On an overall basis, for example last year between other expenses and staff cost we had Rs.265 Crores, how should we think about an increase in this general inflation, how should we think about increase?

**R V. Bubna**: It will go up as per the inflation, we have to give increment to all our teams, staff members every year in the normal course to keep up with the inflation and to encourage them to work harder and motivate them.

**Chirag Dagli**: Okay, what is our tax rate guidance?

**R V. Bubna**: It is a normal 34% and last year we had paid higher tax under the MAT, this year we hope to get a refund on that front, so our tax liability will come down. We are not opting for the new tax rate of 22% or 27%, we prefer to go by the old rate in order to take advantage of our benefits that we are going to get as per the old system.

**Chirag Dagli**: So, the cash tax that we pay will remain in the 27%, 28% range Sir?

**R V. Bubna**: I think so.

**Chirag Dagli**: And P&L tax that we record will be?

**R V. Bubna**: I am not able to understand.

**Chirag Dagli**: What you show as tax in P&L and what you show in cash flow, you said you will keep paying tax as per the old system I can see as per the last few years we have been paying about 27%, 28% cash flow, but P&L is different Sir, so what is it that we should assume for P&L?

**R V. Bubna**: I will tell you. Last year for the first time we had to pay minimum MAT which was higher than the normal tax that we would have been required to pay, so this year we are going to get benefit of that. Secondly as it is because our margins are under pressure, the net profit is also on the lower side, so the tax liability will be proportionally lower.

**Chirag Dagli**: When will we move to the new system Sir?

**R V. Bubna**: I think not for the next two years.

**Chirag Dagli**: Okay, thank you Sir.

**Moderator**: Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

**R V. Bubna**: Thank you everybody. It has been a very nice session, very informative and we will continue to stay in touch. Very happy Diwali to all of you. Thank you.

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