



Insecticide (India) Limited
Q3 FY2020 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Insecticides India Limited Q3 FY2020 earning conference call, hosted by ICICI Securities Limited. 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to Sir!

Aniruddha Joshi: On behalf of ICICI Securities, we welcome you all to Q3 FY2020 results conference call of Insecticides India Limited. We have with us, Mr. Rajesh Aggarwal, Managing Director and Mr. Sandeep Aggarwal, Chief Finance Officer. Now I will handover the call to the management for initial comments on the quarterly performance. Thank you and over to Sir!

Rajesh Aggarwal: Thank you very much. This is Rajesh Aggarwal, Managing Director, Insecticides India Limited. First of all, I take this opportunity to welcome all the participants to our conference call. Thank you very much for sparing your valuable time.

Here I would like to say that we will be very, very truthful and transparent in whatever we say today and we always try to be as transparent as possible in all our results and all our deliveries to the market.

To start with I would like to highlight the climate changes as there are challenges which the markets are facing continuously. There has been extension of rainfall, there were heavy rainfalls when they were required, and also heavy rain falls in the time when they were not required, despite of that it was a good season, I would say, good for the brand in many of parts of the country due to our reach. We got extension of the Kharif season and then we also saw this extension happening in the Rabi season, though there were differences as some people were thinking that the demands will be low so the institutional sales got impacted but overall I have seen a very good effect in the brand business in this total year.

As I told you that there has been a prolonged Rabi and prolonged Kharif season this year, so talking about our revenues, we have done total revenue of about Rs. 263 Crores in Q3 FY20 and we have registered growth of revenue of about 22% on Y-O-Y basis. Here I would like to mention that it has been our company strategy that we wish to focus around our brand sales and I am happy to tell you that this year we are very much in line with our target, in this quarter particularly we could grow our brand sales by about 70% YOY basis and it has contributed about 75% of our total turnover. Here there is one more important thing to mention, that this year we are moving ahead to cross Rs. 1,000 Crores of brand sales and this is going to be a very big achievement for Insecticides India in the agrochemical industry.

There has been a situation where in there has been a decline in export and also decline in institutional business, particularly due to the global disturbances and in Pakistan particularly for this Rabi season, one of the customer for us. Last year it had contributed more than 50% of our

total export revenues and the basic sales which we used to do is majorly for the wheat herbicide. So, wheat as you know is sown in the Rabi season and the major sales used to happen between September and December month, where we were exporting a lot of wheat herbicides to Pakistan and this year it came to a halt because of the policy. Pakistan did not import anything so there was abundance of this wheat herbicide which we prepared for Pakistan market and the prices in Indian markets also fell. So, there was an overall impact on our business - the exports went down, also the institutional business went down and there was an impact but still we could register an increase which was possible only due to brand sales.

Overall, there is one more factor which we are seeing and that despite we have increase in our sales, the EBITDA margins as well as the PAT margins has shown the fall. The EBITDA is just Rs. 23 Crores with a decline of about 28% whereas the PAT has come to Rs. 9 Crores with a decrease of 49% which is a big number, you can understand, but here I would like to point out the major reasons for that.

There are two major reasons, one, yes there has been an impact of export because export did not make any profit due to this impact and also the institutional sales profit declined but along with these, the major impact has come due to the revaluation of the stocks because the international market was growing and the prices were increasing for the past two years but the trend changed in the middle of 2019, so we started getting the cheaper price for all our purchases in this quarter and when we purchased the cheaper stocks due to the IFRS process, the stocks were again revalued at a fair value. This means that without impacting the financials, our stock were revalued again and that registered the loss in the books of this quarter.

As you know the international situation is again bad and there has been a heavy Coronavirus attack in China which is disturbing the demand and supply situation in the markets and I see that the prices have already touched the bottom and they have started going towards north. This means that the prices have started moving up again and that there will be chance of revaluing this stocks again during this quarter itself and this demand supply situation which will lead to increase in the prices not only in the domestic markets but also in the international markets, which means that our performance for Q4 in this fiscal year is going to improve a lot and it is going to show good signs and we must be able to come out of the situation what it has been in Q3.

Now I would also like to discuss about the new launches. We had a plan to launch about 10 new products during this fiscal. We launched 8 products so far and here I would like to mention that some of the launches happened in Q3 only particularly Kunoichi, Chaperone, Bhimma Super. Here I would like to mention that Kunoichi and Chaperone are very promising products and we hope that they are going to give good business during these two to three months also and in the next year you will find a wonderful growth.

Similarly, here I would like to mention about the products which we are launched in the last year. We have done a total business of about Rs. 70 Crores in the last year. This year we have already crossed Rs. 86 Crores and again in Q4 we are expecting good sales from these products, so all

our new launches are doing fine and in the year 2019 we could not get many registrations and they are lined up and we are expecting a lot of registrations in Q1 of this year so this year is going to see a launch of many good interesting products which is going to give us the boost not only into our brand sales but also in the institutional sales. So, I can say that we have a good future and along with this we are also starting some activities in Japan which is also going to impact our international business because we will be exporting some products to Japan and once that also channelizes, then it also has the impact on our export business immediately from the beginning of the new fiscal.

I would say that we are fully geared up to face the challenges of the market and you will find that this probably will make a recovery in Q4 and FY2021 is going to be very interesting for the company wherein we can again imagine for a growth of about 10% in the topline and the bottomline growth which we could not do this year, I believe that in the next year we should definitely do it. In Q4 of this year also we are going to show a good recovery and from 0.5% degrowth in PAT margin, it should definitely show the signs of growth in this full year also.

Now I would also like to talk about the two products, Thimet and Nuvan. For Thimet, we have met the last year sales and we are on the verge of finishing our entire inventory by March, so this means that Thimet from IIL will be over by March. For Nuvan again, we have met the last year sales and there had been a growth in the last quarter and we will definitely show a sign of growth in Nuvan and we will carry some inventory for the next year also, which should be good enough to last for about 6 to 7 months in the next fiscal. So we have a target to finish all Nuvan stocks by Diwali but there is nothing to worry because these products while going are going to give good revenues to the company and we have already worked on alternate products which are going to be launched in this fiscal itself, so that there is no loss in revenues.

With this I would like to hand over the line to the CFO to tell you more about the financials.

Sandeep Aggarwal:

Good afternoon everyone, Sandeep Aggarwal this side. As Managing Director has already discussed the quarterly results, let me tell you about segment reporting. As per category wise sales, we had 58% of the insecticide, 30% herbicides, 10% fungicide 2% PGR. These are combination and combination B2B and B2C and exports, we received 76% sales from B2C business, 21% from B2B and 3% from exports.

As far as technical and in-house actual sales are concerned, the sales are around 45% and in-house consumption is around 55%. In B2C sales we get around 50% revenue from Maharatna products and 50% from other products. In the segment reporting, you can see we had attained 30% growth in B2C business whereas there is a degrowth of around 16% in B2B business and around 38% degrowth in exports. Net sales in Maharatna category products also increased by around 18% though other products in B2C have increased by around 43%.

Moderator:

Thank you. We will now begin the question and answer session. We will take the first question is from the line of Nitin Chaudhary from Akash Ganga. Please go ahead.

- Nitin Chaudhary:** My question is for Sandeep Sir. I just wanted to understand in respect of fair valuation of inventory, was it on account of Thimet and Nuvan, because I understand in respect of other products even the raw material prices have fallen, we were able to pass on the prices in the B2C business and hence we were able to protect the margins on that side, in respect of the Thimet and Nuvan, we must have contributed to the decline in margins, am I right on that side?
- Sandeep Aggarwal:** Here I would like to say that the fair valuation inventory is lower on Thimet and Nuvan as the price have come down we have to revalue our total stocks on the current prices, so whatever cheaper materials we had purchased all those material has been revalued on December 31, 2019 which booked a notional loss of around Rs. 10 Crores in the books this quarter. This is a notional loss because when we sell all these products, all these revenues will be recovered at the time of sales.
- Rajesh Aggarwal:** Here I would also like to add that the prices of herbicide and some of the insecticides were coming down, but now they have already started going up. This means that due to the Coronavirus situation there was lot of supply, there was no demand and now it is the reverse so it has already started going up now.
- Nitin Chaudhary:** What kind of margins can we expect in Q4 and financial year 2021 onwards?
- Rajesh Aggarwal:** Like we always keep our target of about 10 and 15% growth- 10% on topline and 15% on the bottomline. For 2021 we will continue with the same. Talking about 2020, we will see a recovery happening in Q4.
- Nitin Chaudhary:** One question on the KMP's remuneration, we were just comparing it with our peer groups which is around 3% whereas in our group it is around 6%, any comments on it?
- Sandeep Aggarwal:** In this KMP salary have they included all those salary of directors and executives also?
- Nitin Chaudhary:** Yes, I have included Mr. Rajesh and promoters salary. Basically, I have included promoter's remuneration.
- Sandeep Aggarwal:** Okay, we have not seen the remuneration of other peer groups, but yes what we believe is that we are paying remuneration to our promoters as compared to others only, it is not on the higher side, but we have started paying some commissions to them since last two years. So, I do not know whether there are remuneration paid by my peer groups, but if you compare the salaries of the other KMPs, I think it will be in line of my peers only, also it maybe due to the sales commission or as our PBT base is low, so it might be that the percentage is coming out big as compared to others.
- Nitin Chaudhary:** Can we expect the remuneration to be around these levels or is there any further increase that is expected?
- Sandeep Aggarwal:** No, it will be around these levels only.

- Nitin Chaudhary:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddha Joshi:** Two questions from my side. Do you see that the entire inventory impact is now behind us or do you see any further write down possibility in Q3 or may be in FY2021 also and lastly where should we look in the tax rate for FY2021 and as well as the closing tax rate for FY2020?
- Rajesh Aggarwal:** To keep it specific and short, for FY2020, I do not see any further loss happening due to inventory because as I already told you that the prices have started rising, not only in the domestic market but also in the international market, so whatever feedback we are getting from the international markets, the prices are going up for most of the products. Talking about next year, it would be difficult to say because when you say it is a write down, I mean to say, there is no stocks which are going to go unsold, like Thimet we are finishing this year and Nuvan will be finishing by Diwali of next year, so there is no write downs that way, if that was the question.
- Sandeep Aggarwal:** As far as income tax rates are concerned, the rates of income tax will be somewhere around 24% to 25% during this year as well as in the coming year.
- Rajesh Aggarwal:** Roughly about 25%, we will decide whether we need to take some rebate or stay at 25% concept and we will take our call according to the situation. We are putting up a new plant in SEZ area so we successfully do that and claim the exemption and then will go for exemption route otherwise we will go straight vanilla 25%. So, at the moment you can assume 25% but definitely we think we should be able to start our SEZ plant and we will go for an exemption route.
- Aniruddha Joshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rakshit AD from Fair Value Capital. Please go ahead.
- Rakshit AD:** Good evening gentlemen. We joined the call a little late, so to start with could you give a little more color on the reason for the sharp decrease in margins during the quarter?
- Rajesh Aggarwal:** I would say it is just the technical decrease because the stocks have been revalued which has impacted the profitability. The profitability of our brand business was good but the profitability from export declined because Pakistan was the major market for the wheat herbicide which did not go a single kilogram to Pakistan because of their policy. They stopped purchasing from India. They put a ban and that ban is still in force so that an entire season finished. When the season finished so we had the opportunity to sell it into the Indian market, in India the prices declined because everybody knew there the stock is in excess, so in this quarter in particular the profit from the exports and also from the institutional business declined due to this negative aspect. Regarding the brand business, brand business is going very positive, there was no decline in the earnings from the brand, it is going very good actually and now since the situation has already

started reversing so there is not a single chance of further decline and we are going to make a recovery in Q4.

Rakshit AD: Can you please quantify how much was the impact of on account of inventory revaluation during the quarter and how much was the impact on account of margins for institutional sales?

Rajesh Aggarwal: The CFO had already explained about Rs. 10 Crores was the impact of revaluation and about Rs. 7 Crores to 8 Crores was the impact of institutional business and export, so a total of about Rs. 18 Crores.

Rakshit AD: Over the last couple of quarters we have been consistently been getting guidance of doubling of exports from the management. What we were told was that from the current levels of about Rs. 60 Crores, one could expect to see a number between Rs. 100 Crores and Rs. 120 Crores for FY2020, you do not seem to be anywhere close to that number as on date, so firstly what has been the progress on the export business and what are now our current estimates for how we intend to close FY2020 and FY2021?

Rajesh Aggarwal: I will explain step by step. Pakistan was the largest market last year, which contributed more than 50% of my total export, so since it has gone and it is dry now, so it is going to definitely give an impact to our business. We were trying to make the recovery from the other markets but today I have re-estimated and our export would be in the range of Rs. 70 Crores. We will not be able to achieve our target of Rs. 100 Crores. So, export in the complete year is going to take a hit and we will end up with about Rs. 70 Crores export business this year. Regarding the next year, we will keep the target of doubling our exports because we hope that Pakistan will reopen, even if Pakistan do not open, then we have added other customers which will be working and I also told that we are going to start our business in Japan, it got delayed a little, we are expecting some contribution in this quarter also but now it is going to be minimal but from next year we expect that our business in Japan is also going to start which will also boost our exports, so we maintain our target of doubling our exports in the year 2021 but yes the base from Rs. 100 has come down to Rs. 70, so we can say looking at the current situation let us hope for a sale of about Rs. 150 Crores, but if Pakistan opens up then again we can gear up for Rs. 200 Crores.

Rakshit AD: Now shifting focus to what is happening currently in China on account of Coronavirus, could you give us a little more color on what percentage of our raw material is sourced from China. What is our current level inventory? What kind of margin impact does the management foresee? Is this situation to continue and let us presume that this lock down in China continues well to the end of February, maybe till March, what kind of scenario you have been looking at?

Rajesh Aggarwal: Keep your assumptions in mind because you have assumed that the situation is going to be worst till February and March so That means that the goods from China will not be coming easily and there are different governments which are issuing different advisories and even the Indian Government has issued the advisory that whatever comes from China has to be quarantined. China itself is quarantining its people, its material, this and that so this means that there is going to be a tricky atmosphere for at least two months till the things settle down. In these two months

there will be acute shortage of products and whatever we are preparing for the next season the prices are going to take a plunge, because of demand and supply gaps. So, in the short term I see the increase in prices revaluation of all these stocks whatever you have in hand and you should be able to sell everything at a premium. That is my assumption for the short-term.

Rajesh Aggarwal: For the long-term many new units are started already in China, but China has shutdown from almost middle of January and the holidays are getting extended in many parts of the country and particularly, even if the people are trying to come to work they again put in quarantine for two weeks which means that till February the units are not going to start but once the unit starts full-fledged and China is out of Corona issue then from April again we can hope that with full fledged production the prices may come down but again it will depend on demand and supply situations, so overall next Kharif season is looking tough and reasonably good opportunity because you cannot bring get large volumes so whatever you have you have sell that at a good price.

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

Chirag Dagli: Thank you for the opportunity. When do you start procuring for Kharif of 2020?

Rajesh Aggarwal: Actually, there is no such deadline. You have to see what is the situation and since we produce lot of AIs we start selling from the month of December, because many companies they start procuring because they have to make for January and we also sell in first quarter because particularly the multinational companies they have the calendar year closing, they start their purchases and if there is a slightest of the reasons in the market, the other companies also start. So for us we start making our agreements or buying the things in the month of October itself because in October there is Chinafair where we participate and we sign many contracts and start from there but again February is a very important time where we have another exhibition which got canceled this year, here whatever balance is there we sign and try to cover the entire Kharif season so today I can say that I am covered for at least Q1, but there is no coverage for Q2 and we have to see how much quantity of that coverage comes because due to the advisory issued by Indian Government and also due to advisory issued by the Chinese government there are going to be logistics issue which are creating some problem and we have to see with the time passing by, that how it leads to the supplies and clearance of the goods which come.

Chirag Dagli: What percentage of our raw materials that we buy, comes from China Sir?

Rajesh Aggarwal: If we talk about the value, the value is about 30% odd. CFO can make it correct, but the problem is that they are the basic raw material because all the other things are coming from India, the solvents are coming from other countries and some basic chemicals are coming locally, but if there are no basic chemicals it is very difficult manufacture many, many products hence there is international dependence. Wherever we have crossed that international dependence everything is Make in India only those products will be able to make once the supplies are not reaching from China in that case.

- Chirag Dagli:** There is no substitute even at a higher price for this 30% by value?
- Rajesh Aggarwal:** Again, these are all tricky subjects. What has happened in the past is that China was supplying many products at a competitive price, so many companies stopped but whenever such situations arises, a lot of local manufactures also starts again, so there will be something but overall there will be pressure on supplies, so supply pressure means price and shortage.
- Chirag Dagli:** Fair point Sir. You talked about this product launches in Japan, can you give some more color around what these products are? Are these already generic opportunities and how much have we spent for the registrations or what is the addressable market for these products?
- Rajesh Aggarwal:** I would like to keep it simple, actually we have signed to supply one product to our company and we are working on that and that supplies should start soon.
- Chirag Dagli:** So that partner is going to distribute the product?
- Rajesh Aggarwal:** Yes.
- Chirag Dagli:** I presume this is a generic product, is it right?
- Rajesh Aggarwal:** I am doing a CRAMS activity for the other company. I will not be able to throw more light till the business practically starts in a big way, so it will come into public domain by April, I believe.
- Chirag Dagli:** Okay sir, this is an innovator company Sir, your partner?
- Rajesh Aggarwal:** Company is inventor, yes.
- Chirag Dagli:** Activities restricted to the Japanese market?
- Rajesh Aggarwal:** At the moment yes, but later on I am going to register this product in India also.
- Chirag Dagli:** Then you talked about, you said last year new launches doing at Rs. 70 Crores for nine months you are doing at Rs. 86 Crores. This is products that you launched last year, correct?
- Rajesh Aggarwal:** Yes.
- Chirag Dagli:** Over and above these, the ones that you launched in this year, which is about 8 of them will add to this?
- Rajesh Aggarwal:** Definitely, they are going to add, actually the progress has been very slow because many of these good product saw their launching in Q3, so far, the contribution is as little as Rs. 20 Crores, we can hope to double it actually in this fiscal but we can believe that next year again these products are also going to rise because the launch was very, very late for many of these products.

- Chirag Dagli:** And sir, historically we have had a very strong Kharif and Rabi has been slightly weakfish. With all these new launches how do you think this ratio, 70:30 ratio which is also an industry issue but for IIL specifically?
- Rajesh Aggarwal:** It is a tricky situation. Again, tricky I am using the word, because this year the weather conditions have changed in totality. The Kharif season which ends generally in August end, it lasted till October, the Rabi season particularly for the herbicides it ends in December and it lasted till January and rather in February also I have sold some quantities of the herbicides, which is not a routine so the seasons are taking the extensions. Now we have to evaluate this extension has happened only particularly for this year or the weather cycle is going to change, so it will depend how the weather behaves next year, because this year we have seen excessive rainfall so due to the excessive rainfall there was a tremendous demand for herbicides and then also initially some of the insecticide sprays went out because there was no chance to spray but later on insecticide sprays have come in many parts. So there is a complete change in weather cycle and it will depend on the weather cycle the exact situation but yes always the Kharif season will remain big, it is not 70s and two-thirds is Kharif one-third is Rabi, that situation is going to last.
- Chirag Dagli:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Rushab Bothra from Sharekhan. Please go ahead.
- Rushab Bothra:** Just wanted to understand the capacity for Thimet and Nuvan which will be released as we will not be manufacturing those products, where these capacities would be utilized?
- Rajesh Aggarwal:** The Nuvan plant already shifted to other molecules, because we were making the AI for Nuvan. We used to make the technical. So, we are already adding the new products and some of the capacities were already increased last year, there was a product shift. Regarding Thimet, some of the capacities are still ideal, we are waiting for our registrations of some of the new granules. Last year we started focusing around methyl granule but we had to launch two more, so the clearances particularly for my two brands I am expecting now, so expectation is March, April so we are keeping our fingers crossed, so we will receive these registrations we will start manufacturing these two granules also in this fiscal and utilize the facility.
- Rushab Bothra:** In terms of volume tonnage terms, what would be our utilization as of now and what would be the spare capacity?
- Rajesh Aggarwal:** CFO will be in a better position to give the exact percentages, but regarding the formulations we are trying to use the facilities as much as possible, exploit them. Granules I have quite a spare capacity because Thimet has gone which was giving the big numbers to us, so I can say my granules capacity if I total it in terms of volume, so we have come to half of the granules sales in this fiscal, so that way you can say 50% is ideal in this year 2020 but 2021 is going to see improvement in this utilization due to launch of these new granules. Regarding the technical

plant, since there has been the fight from one technical to another technical, the overall quantities are going to become low but still CFO is in a better position to highlight.

- Sandeep Aggarwal:** It is better if you want specific percentages then I have to check it product wise, only then I will be able to give you.
- Rushab Bothra:** I just wanted to understand what could be the delta of incremental revenue which could come in and by what time from this current capacity available this and since you mentioned your expanding in a SEZ zone so by when will that plan come up and what is the revenue potential from that and what is the capex will be incurred for that particular plant? These are the two questions.
- Rajesh Aggarwal:** Regarding the formulations, yes, we are putting up a SEZ plant so there we are expanding in two phases and the first phase should be completed by March and we should start this plant and the second phase is going to come in the next year actually. Our spent is about something to Rs. 40 Crores. So we are also coming up with the Brownfield expansions in both our locations of Rajasthan and Gujarat, so total budgeting for the expansion we had kept for about Rs. 150 Crores, out of 150 Crores we have already spent about Rs. 30 odd Crores actually and this Rs. 100 odd Crores are going to be spent in the next two to three years, it depends actually how it gets phase wise, plant wise, so two to three years in time there is a further spend of Rs. 100 odd Crores actually and when we spend that definitely the growth is going to come. So there are two major things which we expect further growth one is the registrations and of course this SEZ is going to contribute definitely, so at present we are not increasing the growth targets though we have seen a good growth in the brand business in this fiscal, but we will keep at 10% level at the moment but as the things pass by and we increase our plant will increase the targets actually.
- Rushab Bothra:** Margins, what kind of margin levels do we see?
- Rajesh Aggarwal:** Margins we will maintain and we will grow our topline by 10% and margin by 15%.
- Rushab Bothra:** Topline by 10% and margin by 15% and since capex of around Rs. 150 crore you said of which Rs. 30 crore already incurred so debt levels reduction will be from 2022 onwards, how is that situation will look like?
- Rajesh Aggarwal:** Debt, we are already reducing the impact this year, if you see by December we have decreased our inventory, though CFO will give the exact number, we have decreased our debt, so both numbers he will give and we have a target to decrease it substantially in 2020.
- Sandeep Aggarwal:** The inventory as on December 31, 2019, was around Rs. 450 Crores which has substantially come down from Rs. 650 Crores around March 31, 2019 and that debt levels the working CC limits has already come down, utilization is around Rs. 160 Crores and the total long-term debts will be finished by March 31, only one EMI of Rs. 1.75 Crores is pending. On March 31, it was around Rs. 300 Crores which has come down to already Rs. 160 Crores.

- Rajesh Aggarwal:** It will further reduce by March actually, so our utilization should be in the tune of Rs. 100 to 125 Crores. This will be the working capital limit.
- Rushab Bothra:** It has come down to Rs. 150 Crores and Rs. 150 Crores will come down to Rs. 125 Crores ?.
- Rajesh Aggarwal:** Yes.
- Rushab Bothra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ajesh Sharma from Cycas Investment. Please go ahead.
- Ajesh Sharma:** Thanks for taking my call. I just have a few questions about the issues in China so the way I understand is Q1 of FY2021 will have above average margin because of the higher raw material prices, right?
- Rajesh Aggarwal:** Yes, the raw material prices are going up, so initially it will show good margins actually because whatever inventories I have and they were devalued, now they will be revalued and I will be able to make better margins at least for next three or four months, but after that nothing is clear.
- Ajesh Sharma:** After that you will be procuring your inventory at a higher cost because of the supply constraints in China, so can we expect lower than average margins in Q2, Q3 and Q4?
- Rajesh Aggarwal:** I think you should expect higher margins in Q4 actually because of this. Because the inventory is going to be sold at a good price so the margins should go back.
- Ajesh Sharma:** I mentioned FY2021, next year?
- Rajesh Aggarwal:** FY2021 should also be good because there will be increase in some demand so whenever there is increase in demand it will be helpful because even if I purchase at a higher price there will be pull in the market, so it is like the share prices in the market are going up then there are lot of taker always, if they are declining then there are no takers. So, in the same way in the market if the prices are going up, then people want to hold, they want to buy they want purchase quantities.
- Ajesh Sharma:** Growth guidance is 10% value growth and 15% margin growth, you take into account the situation in China the supply constraints and all that?
- Rajesh Aggarwal:** Yes, definitely we do take it into account and majorly it is not going to come from the Chinese products, ultimately it is going to come from the new products which we are going to launch by the help of our R&D and also through our Japanese partners. So, they are the major profit churners actually, which is our target to increase in future, we call them Maharatnas and we focus majorly around Maharatnas actually.
- Ajesh Sharma:** That is it from my side. Thank you very much.

- Moderator:** Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddha Joshi:** Sir now this is the industry wide issue that probably for the raw materials from China, sourcing is going to get tougher and at the same time the prices may go up so, do you see this as an opportunity to gain market share from the smaller players because we may take a margin hit for maybe one to two quarters but then again the market share can go up significantly and once we gain the market share then again it is easier to regain the loss margins also so are we working out on some strategy something like that to gain the market share from some smaller players?
- Rajesh Aggarwal:** Generally, it becomes automatic whenever there is a tough situation. The decent companies always gain the market share and whenever your supplies situation is good, because we are the technical manufacture and sells formulators, so we have the advantage of selling more and more brand to the market so we can always gain the market share and for gaining the market share there is no need to put pressure on the prices. Sometimes we have to compete with the lowering margin but when there is more demand and less supplies there is no chance for prices falling actually, so we will gain the market share and we will gain the profit also and we will be able to sell it at good price, it is the salesman psychology that whenever there is low demand, he tries to reduce the price whenever there is high demand everybody is in full spirits.
- Aniruddha Joshi:** Sir, just last question, we are having both facilities that is technical as well as formulations and some of our peers do not have the full fledged ability of technicals and they are more focusing on formulations, so do you see more impact for the guys who are just focusing on formulations and the guys like us, who are more into the technical plus formulation should benefit more?
- Rajesh Aggarwal:** Definitely, there is a clear cut advantage to somebody, who is doing both the things but all these people who do the formulations are also clever. They will try to sign the contracts with company like us in the low season to book the quantity at a small margin or a small profit and if somebody is desperate then he will give them the advantage actually, so that is the reason their books also do not look that bad, but yes there is a definite advantage to one who is doing both the activities and who is fully integrated has got the advantage no doubt about that.
- Aniruddha Joshi:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Deepak Kolhe from B&K Securities. Please go ahead.
- Deepak Kolhe:** Thanks for the opportunity. Good afternoon sir. Sir you mentioned that 8 to 10 new products to be launched in the next year, so how many of that will be a 9(3) product?
- Rajesh Aggarwal:** Now the major launches which are going to come for our company are 9(3), so you can say I do not have data handy, but at least out of 10, six to seven will be 9(3), hardly three will be 9(4) or may be 2, I am not sure at this moment but majority will be 9(3).

- Deepak Kolhe:** Thanks Sir. As we have seen lot of supply disruption this year from the China, so how we are going to reduce our dependence from the China?
- Rajesh Aggarwal:** We are trying to backward integrate, we are trying to develop the products from the scratch, so that we can reduce the purchases from international markets, so we are already working on that and we are trying to introduce the new products from Japan because with Japan we can sign long-term agreements as there is no price fluctuation as per the market condition. So, we are trying to do all these activities.
- Deepak Kolhe:** Okay any opportunity you are saying because of this supply disruption or any inquiries are you seeing in case the enquiry from the innovators for the raw material or anything?
- Rajesh Aggarwal:** There has been a trend actually which is visible for the last two years, I would say, that the innovators are keen to establish their relationship with the Indian companies because they see India as the next alternate to China because no other country in the world is manufacturing as much what India is doing so everybody wants to tie-up with India and work with India but the registrations in all these countries take some time and that is the reason the business do not happen so fast but yes there has been a trend that people are interested in India.
- Deepak Kolhe:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC AMC. Please go ahead.
- Chirag Dagli:** Thank you for the followup Sir. In the initial part, you mentioned that you believe prices are bottomed out, this is irrespective of whether supplies normalized in February, right?
- Rajesh Aggarwal:** The supplies are not looking as if they are going to normalize in February and yes for some of the products the prices have already touched bottom. I said this because they have touched almost four to five years bottom in certain cases. I believe that there is no further chance of decline and already the feedback which we are receiving for the last one week is all disruptive, it looks that whatever was lying in people's godown is going to get delayed they are also not in a position to supply due to the internal transportation problem, then there is a custom clearance problem, then there is people movement problem and today a letter was also issued by the Ministry of Agriculture saying that you have to quarantine whatever you receive from China, which means that the goods are going to get stuck at the Indian customs also.
- Chirag Dagli:** When do you think these things will normalize Sir?
- Rajesh Aggarwal:** Very difficult to say, but I believe that China should come out by March, if everything is perfect. Things should start normalizing from April but Q1 and Q2 are peak season needs, April, May, June, July, August are the peak season months, so I see the decline not happening before August actually because by August the Chinese season gets over and India is into the final month

of its season generally. Though this year it was an extension, so I do not see a downfall before August if the prices go up then they are going to stay for four to five months.

- Chirag Dagli:** Sir your technical manufacturing capacities are multipurpose right? Multi-products, I am sorry?
- Rajesh Aggarwal:** Multiproduct, multipurpose we switch from one product to another as per need.
- Chirag Dagli:** Okay, when you think of in terms of the product mix is there some products that you are making here that you do want and then you can sort of gain advantage of the market, discontinue making that product and make a profitable one?
- Rajesh Aggarwal:** This is a regular exercise we keep on doing actually. We increase the quantity of certain products and we reduce the quantities of certain products, it cannot be a short-term target and we have to make a long-term planning that in this fiscal year we are going to do and can't abruptly keep on changing. So it is like changing your investment into mutual fund or somewhere where you keep on changing your stocks then you are definitely going to show a loss, so we have to plan and then only we will do so, sometimes during the beginning of the season we plan that these certain products we have to stop slowly and we have to increase certain products so that's the choice we make.
- Chirag Dagli:** This product mix improvement will continue in FY2021 as well? You have not peaked in FY2020?
- Rajesh Aggarwal:** This product mix will continue for life, I would say because we are married to the plant not to the product. If the products do not do well and we see the scope in another product we will keep on upgrading our products mix only. So we do about more than one dozen AIs per day, so we have several lines, some AIs will do in two or three lines and so we keep on improvising actually.
- Chirag Dagli:** Does it mean that the margin that you make on the technical or the B2B, we should think about it as an increasing line item Sir?
- Rajesh Aggarwal:** Yes, definitely because as we bag the new registration, many takers will come to buy those new products at a higher price and if you are just having like this year 2019 here I could hardly click any new generation molecule. The new generation products from Japan - two products, only hit during the last two months actually, so it is only my brand sales which is going to show the result in this fiscal but as we bag some more registration some interesting registrations in the next year, it will also improve my institutional business immediately.
- Chirag Dagli:** So just to complete this point, as we look at FY2020 what percentage of your B2B business would have been lower margin versus say high margin product, you know the ones that you do not want and you are just using to fill up capacities?
- Rajesh Aggarwal:** First question would have been easier to say but when you say that fill up capacities products, no. That is partially correct, partially incorrect, because there are some products which we are

working at a low margin, but there were some products which we sold at a loss and this loss comes because I told you that this wheat herbicide product declined particularly, sulfosulfuron, the prices fell by about 30% to 40%, so it had an impact but generally we do not sell at a loss, so as the institutional business generally we make about 5% to 10% sometimes 15%, but if it is a new generation products that can give 25%, 30%, 40% also.

Chirag Dagli: Can you share the percentage number between the high margin and the lower margin or maybe no margin ones?

Rajesh Aggarwal: That is difficult actually. Sandeep will we be able to give any number now?

Sandeep Aggarwal: If you see this year, then definitely all the products are in the low side, yes if will come up with some new generation product definitely that particular product will give us very good margins and like last year, all those products which we had sold give us a contribution of more than 12% in last year because of higher price tags, so B2B generally depends on the demand supply chain.

Rajesh Aggarwal: This year it has been low margin because the market prices were declining in the international market continuously and there was pressure to sell. So, this year the institutional business has shown very low profitability because every time we buy, the market prices are decreasing so any institutional business you have to pass over the price, if you do not pass over then it is difficult to sell.

Chirag Dagli: That is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Chaudhary from Akash Ganga. Please go ahead.

Nitin Chaudhary: Thank you for the followup. Sir my question is in regards to the backward integration. I just wanted to understand what would be our dependence on China, two to three years down the line, since you are backward integrating and we are trying to reduce our dependence on China so what sort of percentage number like currently which is around 30%, what sort of percentage number we should see two to three years down the line?

Rajesh Aggarwal: I do not see this number declining, but we will not increase this number that is important so I mean to say that whatever products we are making we have to buy the raw materials from China. If I am able to maintain 25% to 30% and do some raw material share in India, then it is good enough because a lot of raw materials are always going to come from China, till we backward integrate fully which is going to be a big expense or in some of the other companies they come up with chemical plants and supply locally then yes the situation might change but at present I do not see it going below 25%.

Nitin Chaudhary: Thank you. That is it from my side.

Moderator: Thank you. As there are no further questions, we will now request the management to give any closing comments.

Rajesh Aggarwal: Thank you very much once again for your participation. I will tell once again that we will be ending this year with solid growth, particularly with our brand business and very few companies in the country are doing Rs, 1000 Crores brand business which Insecticides India will be able to touch and we hope that for the institutional business targets and our export targets we should be able to reach near them and whatever decline has come during this quarter, particularly in the bottom line we should be able to make a decent recovery in Q4 and we will come in a big way with our new registration in FY2021. Thank you very much.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines now.