“Insecticides (India) Limited
Q3 FY2021 Earnings Conference Call”

February 08, 2021

MANAGEMENT:	MR. RAJESH AGGARWAL – MANAGING DIRECTOR MR. SANDEEP AGGARWAL – CHIEF FINANCIAL OFFICER
ANALYST:	MR. SAURABH KAPADIA – AMSEC SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the Insecticides (India) Limited Q3 FY2021 Earning conference call, hosted by Asian Markets Securities Private 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 now hand the conference over to Mr. Saurabh Kapadia from Asian Markets Securities Private Limited. Thank you and over to Sir!

Saurabh Kapadia: Good evening everyone, on behalf of Asian Markets Securities, we welcome you all for Q3 FY2021 earnings conference call of Insecticides (India) Limited. We have with us today Mr. Rajesh Aggarwal, Managing Director of the company and Mr. Sandeep Aggarwal, Chief Financial Officer. Now I would like to hand over the call to Mr. Rajesh Aggarwal for his opening remarks. Over to you, Rajesh Ji!

Rajesh Aggarwal: Good evening friends, I welcome everyone to earnings call of the third quarter of Insecticides (India) Limited. This is Rajesh Aggarwal, M.D., Insecticides (India) Limited. I would like to wish everyone a very happy new year and hope you and your loved ones are staying safe and healthy. First of all, I will apprise you of the industry scenario. Agriculture in this third quarter of the fiscal year had multiple factors in play. While the sector saw a healthy demand in major crops, there were some unseasonal rains and extended monsoon, which impacted the sales in certain crops in certain states. The raw material availability was very, very tight, and the cost is going up. There are challenges of packaging material. As you know that the plastics, the metals, and everywhere else, the prices are going up and also there is a heavy increase in the cost of logistics, due to the international container shortage and the domestic logistic prices also saw some surge during this period, so which created some pressure over the business.

Now coming to the company performance; company recorded revenue of Rs. 299 Crores in Q3 of FY2021 with a growth of about 13.8% on a Y-o-Y basis. Total brand sales had declined by 3.7% Y-o-Y. In Maharatna, there was a slight increase of about 6.8% and other branded products increasing by about 1.4%. Institutional sales saw a jump of about 58%, with export declining by 1.2% so overall revenue growth was supported by brand sales, institutional segment, but we observed and focused on few aspects in this quarter. Cash sales and higher collection was the major criteria of this year, as it is a COVID year and we did not want to extend too much credit to the market so we were focusing around the cash sales, which means there was lot of sales of generic products and our popular products and some of the products, which are the specific target for us such as Maharatna, their sales is going little slower relative.

The marketing teams were not able to move into the market. The regional sales team had limited interaction with the market, which means that, at the ground level, they were not able to connect with the farmers. They were not able to contact the dealer the way they used to do in the past. I mean to say that people are not traveling. They are just moving from their house and coming back by the evening. This means they get only half they are working, whereas in the past they were working for 12 hours, 10 hours and staying overnight at different places and start the work early morning next day and meeting with the distributor in the evening, which elaborates or extends their contact with the market and ultimately, it turns out to increases the sales of our stressed molecules, which is not happening this year.

The third quarter EBITDA margin was impacted. The EBITDA is Rs.15 Crores, and the margin has come down to 5%, with the net profit of Rs.6 Crores, which is 2% of the turnover. The profitability during this period was impacted by various sectors. Number one, is the unfavorable product mix as I was telling you that the higher sales was coming for the demand products and not for the strategic products, so this was impacted because of lack of movement of our team into the market, contact with the farmer and contact with the dealer, both have come down actually, which has impacted the sale of certain of these products. Then, the increase in the prices of raw material and the packaging materials has impacted the profitability.

This year, we had a plan to launch 10 new products, out of which we have achieved various products. Like 7 were already introduced, and in this last quarter, we have introduced 2 more products. Contribution of Rs. 5.8 Crores has come from these 2 products in this quarter, and Rs.5.8 Crores is the total contribution from the new products. But I would say, number one, the registrations of the stressed products still are awaited of key products, and they are in the final stages, which means that we are getting ready for the next year for their performance and the products which have come also, they had a mild beginning because of the lack of travel of the people.

We remain focused for our long-term plan. Development of our 2 manufacturing plants at Gujarat and Rajasthan remains on track but a little slow, I would say, because my target was to establish them by March but there may be a delay of about one quarter. Some portions, we are going to start in this quarter and other portions, will be fully started in Q1 of next fiscal actually, so I would say that they are laying a concrete background for our backward integration, strengthening the manufacture and bringing the high-value products and improve of our product mix and also simultaneously, we are expanding into SEZ for export and this year, yes, a lot of exports are impacted because of lack of availability of containers, the material which is ready is not moving and the orders have slowed. Overall, the world is disturbed due to lot of impacts, but I believe that exports also should behave well in the next fiscal, and we should be able to see a good increase from this segment, though we have a lot of orders in hand, and they are awaiting dispatches. Somewhere there are product shortages and we are suffering due to that. But still, I think the export will also show a positive result in this fiscal, but though we will not achieve the desired targets, I believe that export will also grow with our total business in the next fiscal.

In the end, I would like to state that 2021 was a challenging period due to COVID-19 as it disrupted operations, supply chain, and there was a delay in receiving new product registrations. Combination of these factors have impacted company's performance, but I would like to assure you that in the fiscal year ahead, we will overcome these temporary setbacks and with our renewed focus on new product development, we will deliver profitable growth going forward. So here, I would like to add that Nuvan will be another big product, which is moving out of our segment, and we were under pressure because we had to finish the entire stocks by December 2020 and I am glad to say that we could finish the stock.

But in the end, we had to sell some stocks on discount, so we could not get the desired profitability, but there is Rs.100 Crores to our sales, which has come out of Nuvan so this, we have to take care in the next year. So here, I would like to tell you that as a strategy from our existing products which are already launched by 2021, the strategy is that we will grow the sales of these products by almost Rs. 200 Crores, or minimum 10% to 12% growth will be coming from these products, which will take care of the loss of sales, which is going to happen due to Nuvan. So this means that Nuvan and Thimet, the 2 products which have moved out of our portfolio, we have taken enough care to bring the compensatory products and bringing the other products as the star products to take care of their position and along with this, there will be many new launches which are expected in this year because many registrations are in the final phases and we will get the registration, and our plants are getting ready to manufacture these products, so the expectation from the year 2022 will be very, very positive.

I believe that it will be visible not only in the topline but also the bottom line of the company because the entire focus of growth is going to be around these new products, which are introduced in the last 5-6 years, which belong to Maharatna range and also to the new products, which are going to come from here. The products which will be the new launches in 2021-22, from there also, we target minimum 10% growth for the company and these will be all, I would say, strategic products coming out of collaboration and from our R&D center, so I am very, very positive on the coming year.

With this, I thank you very much for attending, and I open the house for questions, please.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Shanti Patel from Shanti Patel Investment Advisor. Please go ahead.

Shanti Patel: When you told that next year our new plants will launch at full stream, so what will be its impact on turnover of the company for the accounting year FY2021, FY2022 and first the return on capital employed and return on equity as on March 31, 2022?

Rajesh Aggarwal: So to answer your first question, the new plants will be coming into manufacturing by June so in the next fiscal, we have targeted a growth of about 15% and in this 15% growth, 10% will be coming from the new products which we are going to manufacture and they will be coming from the new plants itself. And even some of the older products, they will get manufactured in a better way in the new plants because we are doing backward integration and in the backward integration, we are making certain basic chemicals which we were not making in the past and also at certain places, we are improving our production capacity. So overall, I can say, there will be a growth of about 20% plus. But in this 20-25% growth, we will be missing out Nuvan, Rs.100 Crores sales, which amounts to about 8%. So in totality, we are targeting 15% growth in the next fiscal. About the contribution, the target is to bring the new generation molecules so they contribute to ROE and ROCE which will be good, I do not have the exact number handy so I am not commenting here.

Shanti Patel: Sir, will it be exceeding 20%?

Rajesh Aggarwal: Definitely, it should. But still, I would not like to comment on this at this stage.

Shanti Patel: Our EBITDA will go up as compared to the current year?

Rajesh Aggarwal: Yes. It has to go up actually. This was a very difficult year because of Corona, where we are not able to sell the desired products, which we wanted because the products which were launched in last 4-5 years, which are the part of Maharatna, they have not seen any surge of sales basically. There are many products, which are trailing behind 50% of the target, so that is a very difficult situation for me to explain. But it is happening in reality so we have to bring this target above 75%-80% to reach the next level of growth, and we should be able to do it in next year.

Moderator: Thank you. The next question is from the line of Rahul Sachdev from SEB. Please go ahead.

Rahul Sachdev: I wanted to learn the policy for appointing the Independent Directors and why not even a single Independent Director is part of the KMP, key managerial person? and secondly there is a lot of churning in the stock before the result, a lot of people give rewards about that so is there any insider trading practices? What are the company's policies related to that, Sir?

Rajesh Aggarwal: I can just tell you that there are no insider trading and regarding the KMP given to Directors, I will have to see because then somebody can raise the question that it is all internal team which is becoming the Independent Director, and I am not sure about this so since you have highlighted, I will look at this policy on what is the law of the land and according to the law of the land, we will decide if it is possible actually to appoint the Independent Director from the internal KMP.

Moderator: Thank you. The next question is from the line of Deepak Kolhe from B&K Securities. Please go ahead.

Deepak Kolhe: Yes. Sir, I have 2 to 3 questions. First question is, Sir, in the past, recently, we have launched 7 products in the 9 months, and another 3 products are expected to be launched in the coming months. Sir, can you please give us some idea out of this, which product is expected to do well and have a great potential?

Rajesh Aggarwal: Recently we have launched a product called Tadaki. The expectation from that is very good and before Tadaki, we have launched a product called Dominant. The expectation from that product also is very good, so these are the 2 key products, which I can recollect from the launches of this year. Because registrations were not coming, there were some other planned launches. For Avone we might have to change the brand name. But this product is also going to do good because I am going to make the technical by myself, so I may have to launch it by another name but yes, the expectation from this product is also very good.

Deepak Kolhe: Okay and Sir, what is the net cash position and working capital situation as on 9 months FY2021?

Rajesh Aggarwal: For this, I will give to the CFO to give you the exact position, but we had become debt-free, and we are keeping the cash balance in bank.

Sandeep Aggarwal: The net cash flow basically for these 9 months, as balance sheet is not required to be published but otherwise, I will tell you. The net cash position, we are using some working capital limits for minimum utilization compulsion. But against those limits, we are keeping FDR in the bank so net cash position is around Rs. 35 Crores minus, means we have we have Rs.35 Crores in our bank accounts.

Deepak Kolhe: Okay and about, Sir, working capital situation, like debtor days, inventory days and creditor days.

Sandeep Aggarwal: Debtor days overall working capital days are around 115 days and if you will see the debtor days, I think it was around 80-82 days and now it is 76 days. The creditor days are around 90 days and the stocks are around 120-122 days.

Deepak Kolhe: Okay and Sir, my last question is, Sir, what is our status on the backward integration?

Rajesh Aggarwal: For the backward integration, we are putting up the plant. We are going to manufacture certain intermediaries, which we were importing in the past so I think the plant should be ready by June and we will come into manufacture after that.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Just two questions. First one is continuing the previous question, what kind of benefits you are envisaging from the backward integration? What percentage at present is getting imported and what are the cost savings which you expect, so maybe what we can see effectively margin push because of this strategy and second question was that some of the products, which did not do desired performance, they are operating at a lower level, as you indicated, maybe somewhere around 50-55 so what are the strategies which you are taking going forward and when do you think they can start performing 75%, 80%, by next season or it will take more time or it is likely to not come to the expectation and you should rely on some other new products?

Rajesh Aggarwal: Okay. I will answer question one by one. First, the backward integration thing, by doing the backward integration, you save about 10% to 15% in certain costs because the market is fluctuating at certain point, the savings can be a little more than that actually in the cost of the raw material, and the more important factor is dependency because your dependency on the outside world goes down, and you are continuously producing that itself gives you the advantage in the market, so for this we are doing the backward integration because that is the law of the land. India wants to establish Make in India and Atmanirbhar, so based on that, we are doing this and the ideology is that we should be self-relaint in certain of our key products, so that we are fully backward integrated. That way we can manufacture, despite of whatever is the international situation and I see that challenge coming from the international market that someday, the raw materials can be very, very tight and if we do not do this, then we will be under a trap.

To answer your second question, yes, we have already identified that some of our key molecules have not done good. These were the stress products, which are there for the last 3-4 years, so these required a lot of work by the marketing and sales team. Since the team was not able to move in the market, that I have already identified, these gaps have come and in the next fiscal itself, we are going to make a recovery so, in the next 2 quarters, first quarter and second quarter of 2021-22, it will be evident that we are performing well in these products so I am very, very confident that this will come and as regard to products which are not performing, it is a regular process in our company that we are following a tail cutting policy also because I am not launching 10 products every year and not withdrawing the products, so whenever the products are not performing, we are withdrawing them simultaneously actually, and this includes the older generic products also because wherever we are establishing the newer solutions, we are removing them and if some by chance, some new product also is not performing, then we do the trial market and we remove that product so like this year, we have introduced 7 products already so out of 7, I can envisage, there might be 2 products which will not continue for the long run so that is also a regular process because, sometimes all the figures are not similar so at certain places, you may not get a similar result so we remove those products, actually. We do not get attached to those products so this is from my side.

Moderator: Thank you. The next question is from the line of Rakshit Sethi from Fair Value Capital. Please go ahead.

Rakshit Sethi: So firstly, of course, the last couple of quarters have been quite disappointing, Rajesh, as you have been trying to explain to us why that has happened. How is the current quarter panning out so far, Q4?

Rajesh Aggarwal: Like our business is a cyclic business, where Q1 and Q2 are the best followed by Q3 and Q4, I believe that we should be able to match last year figures in terms of topline. Bottom line should be improved because last year, it was a negative bottom line. This year, it should be positive so overall, giving a reasonable thing to this so it is not only my performance, we have to look the situation of COVID I have to run the complete plant. There are more than 1,300 people on our roles, and there are equal number of people on third-party roles who are working for the company, I have to take care of everything and then there is the market. In market, I give credit to distributors, more than 5,000 distributors, 60,000 retailers. I have to see how the current situation is, 1-year performance or 1-quarter performance is only for market, not for me. Now for the working of my company, I have to see the overall sustainability of the company out of our situation so I did not press any staff to move into the market. I did not press any team to work more than the desired hours, so whenever people want leave, wherever there was need those people have taken leaves, we have done this working with just 70%-80% total manpower working so we appreciate it. The topline is positive, it has to be appreciated. But yes, some of my competition has given very good bottom lines andy that I have to appreciate, and I really appreciate that in such difficult circumstances, some of my competition has better performed better than us so that is an example, which is in front of my eyes, and we are going to take a recovery. So far, we have been the fastest-growing company in this sector, and I want to maintain that actually and I have to like perform better in the next year so the target is in front of my eyes, and we are working on that, that how we can surpass the competition and, again, take the title of the fastest growing company so that is my reason also and in 2022, I am very, very confident that I should be able to show it.

Rakshit Sethi: When you say 2022, you mean FY 2022 or calendar year 2022?

Rajesh Aggarwal: FY2021-22, this is after three months. This quarter I will not say anything. I will talk about first quarter of next year.

Rakshit Sethi: Okay and what is currently, as we speak, what is the scenario with regards to raw materials coming in and is there still tightness in the market? What is the scenario with packaging?

Rajesh Aggarwal: You are aware that the prices of everything were going up. after the budget, they have stabilized. Certain products have come down a little, little as 2%-3%. They increased by 50%. Things have come down by 5%, hardly matters. All plastics, LGP, PET, all metals, as a matter of fact, crude, and everything else has gone up, so it has impacted all the products. In this year itself, the availability of raw material is badly impacted, and we had to depend on import. This year, which was a unique year, my imports are going to increase by 30% to 40% because a lot of things, which were available locally, this year, we could not get the supplies, and we had to depend on heavy imports for many of the products, which we were buying locally so the situation has changed, but I had to satisfy the market, I had to fulfill the requirement of the market. For that, I was used to import so it has been a unique year, where we have performed in very negative circumstances, where China was fully negative. But still China is an important raw material supplier as when it comes to chemicals so we have very high dependence on China and many other countries of the world so we had to do that.

Rakshit Sethi: Question was slightly more forward looking in the sense of what has happened until now is okay. But going forward, what I wanted to get a sense was that with the situation currently there, how do you see the stress? Is this status quo? What was the stress, has it become better and the new capacities that you are coming up with, to what extent will they reduce your dependence on imports percentage-wise?

Rajesh Aggarwal: Like we do about 18-20 AIs, and we will be adding another 5-6 in this year so the backward integration will be just for 2 products actually out of this so the backward integration is not going to support me a lot. But yes, it will make me self-dependent in at least 2 products, so which will give us a boost and which will show us a way that going forward, we can do backward integration for more and more products. Yes, I would say that since I am purchasing, so we will have the inventories to catch up for the season and since the cost is not only going up for me, for the competition also, so it will be recoverable from the market, so things look positive.

Rakshit Sethi: Have we passed any costs to the farmers in the last 2 quarters, as all the raw material increases or have we not?

Rajesh Aggarwal: There are some price increases, but not to the large extent because these are the low sales months. But particularly January itself, there are some corrections. Generally, during this period, there are discount schemes, which will be lower during current period, and there will be some price increase during this fiscal. Like if I talk about the fourth quarter, it would not be much, it will be nominal. But generally, this is the quarter when we have discounts in our trade so those discounts are not there itself means a price increase.

Rakshit Sethi: What is this current situation with regards to registrations, has there been any pickup or what is our pipeline like for new products I mean, this year was low, but how are the next 9 to 12 months looking like?

Rajesh Aggarwal: The pipeline is very, very strong. We are expecting 3 registrations for Japanese products from Nissan. There are another 5-6 important registrations, which will be relating to our backward integration, so there will be the new AIs, first time manufactured in the country products. So my expectations from the AI are very, very high, and we have a very strong pipeline and I hope that this should give us a big boost, but I am just talking about 10% because I do not want to give a very big number at this juncture. But when we perform, that number will be visible.

Rakshit Sethi: So we expect that with the launches this year, with the pipeline that we have, our topline should grow by 10% to 15% after taking out Nuvan from the equation so net-net, from whatever sales we've seen this year, there will be a growth, 10% to 15%?

Rajesh Aggarwal: Yes, you are correct. Net-net increase, we are targeting 15%.

Rakshit Sethi: 15% and we have come up with substitutes for Thimet and Nuvan?

Rajesh Aggarwal: Thimet, yes already, the products are launched. For Nuvan, we are trying to put in certain products, actually so as the new products come in, they will take best place.

Rakshit Sethi: And how is the market acceptance for Thimet's substitute?

Rajesh Aggarwal: Very good acceptance from the market. We have launched majorly 2 products so far. One is Lethal Granules which has given us a topline of Rs. 50 Crores plus and then the second product, which was launched 2 months back, it is Tadaki. Tadaki is showing very good signals. I am not able to manufacture to meet the market requirements. My production is a little slow actually so it is picking up next year. It should also give good numbers for both the solutions.

Rakshit Sethi: The reason for the slow production, is because imports or what is the reason?

Rajesh Aggarwal: The technical is imported. So, for formulation once you start at the first time, we do not know how will be the response. You start at certain capacity and then as per the market demand, you have to increase the capacity. So this is going to happen and then there will be one more launch in this segment, so for Thimet I believe that I should be able to capture the entire Thimet, whatever was my best performance. The entire quantity in terms of quantity and value, I should be able to capture fully in 2021-22. With Nuvan also, I have a similar expectation, but products are yet to come, actually so I am not announcing so once the products are there, so I will not let a single litre of sales going anywhere else.

Rakshit Sethi: When can we expect new products, will be in the market by second quarter?

Rajesh Aggarwal: They should be.

Rakshit Sethi: What about biologicals, Mr. Aggarwal? Any new products in that space?

Rajesh Aggarwal: In the biological segment, also we are working. We have launched 2 products this year. One is KK Pro, which is the extension of Kayakalp, which was launched in the past by the company. So there were certain hiccups by the farmer when they were using it because the usage has quite a long period, that they had to make a solution and keep it for a week and then only they could use it so we have come out of that and now the newer solution can be used in 8 hours. You just put it in the water, and you can use it after 8 hours so we have looked after the convenience of the farmers. The initial response is very good, and only launched 2 months back, it is quite positive, and I expect that this will grow. Apart from this, the contribution is small, the contribution at this moment is not big. But yes, in future, the expectation from biologicals, it is a difficult market, but the expectation is good that it will grow with time. And then we have launched another product called Bio Zinc so there also, the response is positive so the numbers are not very big, maybe Rs. 1 Crores worth for Bio Zinc or maybe a little lesser than this KK Pro at this juncture. But yes, the numbers will come so we have not completed our budget exercise for next year, so I will not be able to give the exact number of next year for biologicals. But yes, they will be positive.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, we have improved our working capital situation during this quarter, and it is good to know that we are now net cash positive so in this regard, where we have offered most of our products on cash and carry, have we given more discounts because of which probably there has been some pressure on the margins or is it a normal practice?

Rajesh Aggarwal: There is some more Cash Discount actually involved with this because in the past, we are not focusing so much on cash sales so you can say that there is a little pressure. But I would say that this was a typical year actually where we did not want to extend too much credit to the market. So as a strategy during the COVID period, I wanted to be little cash and carry actually because, unfortunately, the risk in the market was very high, so I did not want to take that risk actually. And due to this cash and carry policy only, we could maintain the growth in our sales, I can say. So this was very helpful, but yes, some extra cash discount has gone into the market, but this has also increased the capability of the company to pay cash to the suppliers and we would have taken some benefits on the purchases also, though since it is a seller's market these days, so that benefit majorly is not visible. But yes, as we start from the beginning, that will be visible, I believe and then we have done a lot of capex also from our internal accruals itself this year.

Rohit Nagraj: Right, Sir. Sir, second question is on the gross margin, so earlier, I mean, before last year, our gross margins were about the closer to 30%-31%. Last year, obviously, was a washout. I am talking about FY2020. Again, there was pressure. And then last quarter was complete washout because, of course, the margins have compressed. And in this year also, the margins have been closer to about 25%-26%, so for 9 months, it is hardly 23.5%. Now we have plans of backward integration, probably which will save us certain margins for and the price increases in raw materials that we have spent will be partially passed on to the customers. So once the plant is running for our backward integration product, at the end of FY2022 I mean, exit rate of FY2022, what would be our gross margin expectation, which will probably stay for FY2023?

Rajesh Aggarwal: Actually, we should be making a good recovery in the next fiscal. That is the vision, because we will be pushing the entire sales, whatever jump we need because Nuvan is gone, so Rs. 100 Crores is gone. This Rs. 200-Rs.300 crores, whatever has to come, it has to come from the new generation strategic products, which is capable of bringing better margins to the company. So I believe that we should be able to touch our past glorious figures, in terms of percentage, and absolute number will be at par with the increase in the sales so we should be able to reach our glorious figures once again.

Rohit Nagraj: Right so 29%-30% gross margin is possible in FY2023?

Rajesh Aggarwal: It is possible, actually. I will not deny it, but let's see how the things go ahead, actually, and we give the numbers once we complete our budgeting exercise so I am not declaring any numbers as of today. But yes, shortly, we will be giving numbers actually and the things will be positive. I would say that we should be coming somewhere near 2019-20 percentages.

Rohit Nagraj: Sure, Sir that is pretty helpful. Sir, and one last clarification so you have indicated that during this 9 months, because of COVID issue, the marketing was impacted quite severely, which has got concurrent impact on our sales so what are these steps that are taken now that mostly the COVID situation has been normalized, and people are coming back for work and travel restrictions have been lifted? How the marketing has now improved and what are the steps taken to make sure that our connect is further established and probably the lost market share to maybe some of the other competitors can be taken back in a couple of quarters because Q1 and Q2 is usually our bumper quarter?

Rajesh Aggarwal: The people have started moving in the fields, so that movement has increased. And at certain places, they are getting hotels also for staying, so vigorous exercise is going to begin now because in the last complete calendar year, the people didn't go to the fields also. The senior people from the head office were not moving. There were very few dealer meetings, distributor meetings, farmer meetings so all of that got impacted but now as situation is improving, we will come into the full glory, and we should be able to conduct all the meetings, all exercises, all training programs in-person, which will make an impact, so because always I say, once you are sitting across the table with a person to close a deal, that deal gets closed. Talking on phone or just like that, then things linger and we do not get the desired results.

Moderator: Thank you. The next question is from the line of Abhijeet Bora from Sharekhan. Please go ahead.

Abhijeet Bora: Yes Sir, part of my question has been answered, but if you can give more details about how margin will expand, say, over FY2022-23 and the second question is on the capex guidance as there will be some delays in the processes and execution.

Rajesh Aggarwal: Capex, we are doing step-by-step, actually. So the capex is a moving process because the manufacturing plants are under construction so it is going and some part is going as advances and the other part is being capitalized. Regarding your second question of maintaining the profitability, I would say that the entire growth is being planned from the strategic product. From a non-strategic generic molecule, I am not planning a growth of even a single rupee, so the strategy is that entire growth of Rs. 300-odd Crores come from the strategic products where the profitability is higher, which will improve the overall profitability of the company, that is division. So Rs.300 Crores will be in, Rs.100 Crores will be out, giving a net-net of Rs.200 Crores and this entire Rs.300 Crores growth will have better margins than what the other products have so this will drive it actually and then, again, we will try to pass on some price increase to the market, which should also help in targeting the better profitability for the company because last year, it was mostly telephonic business, so you cannot charge, you cannot push the strategic product. It becomes difficult sometimes or more time taking actually to do the strategic sales. At that time when the shopkeeper was demanding whatever was his interest and we were not able to push anything from our interest in these desired quantities.

Abhijeet Bora: Okay so we expect next year, like 15%, if I am not -- please correct me, I missed some part, 15% revenue growth and improvement in margin, right?

Rajesh Aggarwal: Yes, 15% in the topline. Margins will be have better improvement, much, much better improvement than this.

Moderator: Thank you. The next question is from the line of Puneet from Fair Value Capital. Please go ahead.

Puneet: My first question was regarding our product portfolio, so basically, we have many products like, let us say, we have Hakama and Hakama Super. Now we have Lethal Gold and earlier, we had Lethal Advance so with these similar named product, is it just a concentration difference or slight difference in formulation or they are completely different products that we are trying to kind of capture goodwill of earlier brand that we have built?

Sandeep Aggarwal: These are different formulations, so of course, they contain the same AI, but I would say they are different, and they are not different, different because if I talk about Lethal Gold it is a mixture product, just like Krosin and Combiplant so when it is a mixture product, so it becomes different. Like we have introduced Lethal Granules in place of Thimet again, we have tried to encash the equity of the Lethal brand, and I believe in the next year, I should be able to make Lethal brand in totality to a size of about Rs. 200 Crores and that is my vision, to make it my biggest brand in my portfolio because. Today, if I look at individual brands, there are hardly few brands, which are touching Rs.50 Crores so I need a big brand, so Lethal, I am going to take it to that height, actually so that is our strategy. Hakama also, we are going to launch our next version and the new name will be Hakima and this product is under clearance, this will be again coming with the Japanese collaboration, though we will be making it now because we will use one technical of our in-house production. One technical will be the Japanese product so by mixing these 2 products, we will be giving into the market so expectation from this is, again, very high for us. Sometimes, we use the same brand equity because remembering so many brands for the farmer becomes very difficult so if the product is doing good and we can do the brand expansion, we sometimes use that brand and sometimes, we change the brand names.

Puneet: Okay and on export side, what is our outlook there, so even in last quarter, we were targeting Rs. 100 Crores for FY2021, whereas in the last 9 months, we have done only Rs. 42 Crores so far?

Rajesh Aggarwal: Actually, there are 2 problems. Number one, the supplies are very, very tight, so I am not able to fulfill the demand. The orders are there, but the products have become shortage products. Number two, the container movement is very, very dull. Factories are full with materials, but the material is not moving out because we are not getting the containers so the suppliers are not getting the containers and we are not getting the containers. It has become a very critical problem, which was never seen in the past. Like containers, which used to cost just say about a container from China used to cost me less than Rs. 50,000 today, it is costing Rs. 2.5 lakh. Similarly, a container movement from our country to any other country, the costs have multiplied and the containers are not available. It is a problem, which we have seen for the first time, actually. A lot of containers are stuck in the U.S. and Europe, basically, which has created a complete problem. A complete disruption of trade in the international market, I can say, has happened.

Puneet: Okay and so what is our outlook there? Are we planning to increase exports or first, focus will be on domestic market only?

Rajesh Aggarwal: We have set up a plant in SEZ area so this plant will be fully operational by March. Yes, there will be a definite push for the exports, so we will be looking at exports also. And then we are investing a lot of money on data generation, and some of our registrations are clicking. Last year, we compromised because the availability was limited. I had to first satisfy the domestic market and I could not fulfill the export orders, so I give our priority to the domestic market. But this year, we are going to be more careful in fulfilling our international demand as well as the domestic demands. So we are trying to build up the inventories well in advance, so that we can meet the requirements of both the markets.

Puneet: Okay and my last question is on our product freshness index so basically, if I look at our earlier launches, like the products that were launched in, let us say, 2013, 2014, 2015, I mean, till 2016, so basically, in recent times, their revenue has not dropped that significantly, whereas if I look at product launches, let us say, in 2017, 2018, 2019, so basically, their contribution has dropped significantly.

Rajesh Aggarwal: Your observation is correct. What has happened is the products which were launched 7-8 years back, they are already established into the market and do not require a lot of footwork, whereas the new products, which are launched in the last 3-4 years still requires the footwork and this year, the leg work could not happen because people were not moving in the market. So next year, we will see the recovery because once I have started giving something, I do not want to withdraw it and I want to be very, very transparent in front of the market, so we have given the transparent numbers what has happened in this year, but you have to believe and understand that the teams have not moved in the market actually. They could not do dealer sales, they could not do distributors sales, they could not do the farmer sales. What they do is there is a marketing team, which generates the demand from the farmer. There is a dealer team which moves to the dealer and generate demands from the dealer, and the demand could not be generated on telephone actually and it became very difficult to operate in this year, and we could not sell these strategic products. All these products, which we are observing, their targets are below 50%, the achievement is below 50%, and I want to improve that in the next fiscal, so that is the reason. We have already identified that, and we are working in this direction.

Puneet: So this marketing outreach to farmer and distributor, is it normal now or there are some still hiccups there?

Rajesh Aggarwal: It is improving. If on a scale of 10, I can say that it was 3 in the last year. Now it has come to 7, 8 so it has still not touched 10, but at this moment, it is about 7, 8.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Rajesh Aggarwal: Thank you very much, all the participants. I believe I have tried to answer all your queries and thanks for attending this call. We will continue touching the market whatever ups and downs we face and for the future, I am very hopeful, and I believe that during this quarter only, we should be able to recover from the past and with the new products coming in because strategically, we are now continuously launching whatever registrations we are getting. I know that there is no season, but still, I am trying to bring on the first, I am not holding for next year. So in the next fiscal year, we have very good expectation from the Maharatna products and also from the new launches, which are going to come, which should give a very good recovery to our performance in the topline as well as the bottom line and bottom line should show very good growth, which has declined in the past one year majorly due to COVID and due to some other factors, which I have already explained. But the performance should show a very nice improvement in future. Thank you very much.

Moderator: Ladies and gentlemen, on behalf of Asian Markets Securities Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2.