



“Insecticides (India) Limited
Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Insecticides (India) Q2 FY2019 Earnings Conference Call hosted by Elara 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Tholiya from Elara Securities Limited. Thank you and over to Sir!

Pratik Tholiya: Thanks Aman. Good afternoon everyone. On behalf of Elara Securities, I would like to welcome all the participants who logged in to the Insecticides (India) Q2 and H1 FY2019 earnings conference call. From the management team we have Mr. Rajesh Aggarwal, Managing Director and Mr. Sandeep Aggarwal, Chief Finance Officer of the company. At the outset, I would like to thank the management for giving us the opportunity to host this conference call. Let me start by first congratulating the management on a very good set of numbers for the Q2. I would request Rajesh Sir to kindly give us an overview of the quarterly performance and also talk about the outlook of the company. Post that I will request Sandeep Sir to take us through the Q2 quarterly numbers and then we can have the call open for Q&A. Thank you and over to you.

Rajesh Aggarwal: Thank you. Welcome one and all. This is Rajesh Aggarwal, Managing Director, Insecticides (India) Limited. I thank all the people for sparing their time to connect to our conference call.

First of all, I would appraise you with the current scenario. Weather plays a very important role in the field of agriculture because farmer does such a hard work throughout the year, but a small impact in the rains extra rainfall, low rainfall that impacts his hard work a lot actually. If we look at the past two to three years, they are not very good from the perspective of rainfall because rainfall was not constant. If we look at this year also, it was I would say average year with good rains in North and East, issues in Central India and also some little issues particularly in South in Andhra and Telangana. Though the dams are full, which is a positive side, but the negative side or the flip side is that the dry crops had a suffering and dry crops had the suffering throughout actually because the rainfall was very, very tight in many parts of the country and if we look at the Kharif yields, the yields were poor because at one place the rainfall was scanty and at the other place there was rainfall in the final stages when the crop was in the final stages of yielding, so though the price of the crops has been good, but for the farmer it has been an average year in the Kharif season. The plus side again is that expectation from Rabi season is very, very good because most dams in the country are full and it is expected that most part of the country will have full cultivation during the Rabi season, so we are having a good opportunity from this Rabi crop actually, so I believe that

we have grown in the first half of the year and I see a similar growth coming in the second half also.

Now I will talk about the growth opportunities for the company. I would say that our style of working makes us different in the industry. Today Insecticides India is working for all round growth. When I say all round growth, we are developing in the field of R&D, manufacturing, marketing, development in training. I mean to say we are focusing on all the areas because our basic aim is to work for the farmer to make agriculture sustainable to provide him the new innovative products. For doing this, I have to invest in R&D. Today, we are a loan company, which is running five R&D centers with four different teams actually, which includes our JV also where we are doing product innovation. I can reclaim that it is the first R&D center of its type when a Japanese company has come outside Japan to India and we are doing a product innovation and the good part is that already we have selected our first candidate and we have filed more than 10 patents from this R&D center, so it is a very positive news. Along with this, our other R&D centers are also supporting a lot. We are coming with the chain of products, series of products or a pipeline of products I can say from all my R&D centers. My reverse engineering R&D center is working on all off-patented technologies and these off-patented technologies are coming very fast to us actually and I believe that every year we must be launching at least two to three new products out of this R&D center and most of these registrations will be 9(3) registrations because these products will be manufactured in India for the first time though the inventor is already here, so this gives an advantage. When the inventor is already in the country, the advantage is the product is known, but it is going to select it or progressive farmers only why because the product is expensive. This will give you two types of opportunities, one to take the product to the farmer at the correct price and to spread the product to normal farmers and normal counters because it becomes more affordable.

Second thing is developing the few formulations, so we are identifying the need of the farmer. Based on the need we are developing new formulations, new mixture formulations also and these products are also proving very successful in our strategy, this year the four products are launched into this segment and we have found a great success actually. If I look at my six launches, the six launches in the first half have contributed more than Rs.55 Crores and I expect to multiply it in the next year and the sale still continues in the second half of the year.

Then I will also like to talk about the biological, which is a unique thing. An agrochemical company putting up a biological R&D center and launching these biological products simultaneously because my belief is that the ultimate aim should be to reduce the dosage of chemicals on the ground or on the earth and making the agriculture more sustainable the way we take care of our health. If the farmer also takes care of their crop in the similar fashion I

mean to say for our good health we will do walking, we will do yoga, we will also go for some ayurvedic or sometimes some homeopathic means, we do not always go to a doctor till we have a disease. In the similar fashion, if the farmer takes care of his soil, he takes care of his plant and only sprays an agrochemical or an inorganic product when needed. When it reaches to a ETA level then he can reduce the dosage of chemicals on the field and the combination of organic and inorganic becomes more viable, so looking at this aspect we are working on this aspect also. At the same time, if we look at the international scenario, there is a huge opportunity of manufacturing. Looking at the current scenario of manufacturing in China because China is the pioneer in chemical manufacturing and also in the field of agrochemicals we have seen that these days China is not competing as it was competing in the past. It was making a lot of raw materials at a cost that the world is not manufacturing, but since the last one-and-a-half year, the situation has deteriorated, the prices are skyrocketing, which has created an opportunity for in house manufacturing, which means that we can do the import substitution by manufacturing in India and we can manufacture and market not only on India, but also in the international markets because world is looking at the substitute to China now. They want to generate other sources where India can be the second best source for all the parts of the world for manufacturing, so it is a big opportunity, so at one place we are planning to introduce new molecules, at another place we are planning to introduce new formulations and at the same time we are also backward integrating and trying to bring the new products, so by backward integrating we are trying to do the import substitutions so that we can become more cost effective and my product becomes more profitable.

The third is the marketing. Since we are regularly working on new generation molecules and we are trying to launch these products because I believe that we wish to become one company, which is very, very innovative because I believe today innovation is the key to success. If I continuously introduce new products then these new products act as the engine for me because if we do not do it somebody else might do it, so our strategy is that tractor brand pesticides or IIL should be known as a company providing the leading brands to the farmer and also providing the leading technology or the new technology innovative products to the farmer in his reach, so we wish to provide fresh technologies and to develop these technologies where my network and my team both are supporting. I believe that we are able to convince the network that if they need succession in two days time when the internet is gaining popularity, the departmental stores are getting popularity tomorrow if more competition comes who will come to their shop. What is the succession they are leaving for their children? I believe I am able to convince them that they should not focus on the product, they should focus on the solution what they are providing to the customer because if they give the solution then the customer is attached to them and he will come to them for more solutions every time. Similarly we have also convinced the team that by working on the new

generation products, new generation solutions, you are not only earning the currency of this world, but you are earning the currency of the other world because the good wishes you are getting from the farmer by doing the solutions is something, which is going to make both of your worlds good actually and somehow I believe that I am able to convince my team and my network with my philosophy and I am getting a very good support from all each and everybody including a good support from the farmer because farmer you may say is illiterate and is not knowing about the technology, but if we are able to show him ROI, if we are able to show that you invest Rs.1 you get a benefit of Rs.5 or Rs.10 then he is interested to invest in the product, so we are doing those demonstrations, we are training the network, we are training the farmer, so that we are able to convince the new technology. The biggest advantage by doing this we are getting is number one we are getting the popularity in the market, number two we are getting the reason to go into the field because sometimes the rainfall is not that good as expected, but we have got a reason. We are launching new technologies, new products, we are meeting the farmer with that reason, so then it is acting like an engine. Engine is pulling the entire train despite of industry not growing at that speed we get that advantage and we are growing faster than the industry and I believe with this strategy of continuously introducing new generation molecules and focusing around the new generation molecules we will be able to grow faster than most of our peers. The vision is very, very clear that we have to make agriculture sustainable and we have to like make the earth more greener and far more safer and we are working with that strategy in mind that yes we have to feed each and every human being on this earth and with good modern technologies, so we are working with that. The short term, midterm and long term strategies are very, very clear and we have got a strong pipeline, so it is not only the strong pipeline of products because that is a dream of any company to have the products because if I have the products then my salesmen is very, very charged. My network is very, very charged because they automatically are getting more market share, more market presence and the reason to talk into the market, but it is also the pipeline of people to adopt these products because I need the pipeline of customers, customers in the form of farmer who are my ultimate customers and customers also in the form of network, the distributors who are ready to accept these technologies. I believe with our all round plan of development, training, manufacturing and R&D we are able to give this vision to the trade and also to the farmers and we are very successfully able to launch multiple products in one go. To mention about this year 2018-2019, we in the first half have introduced six molecules, six new products or six new brands and there are three others, which are in pipeline in this fiscal and if I look at one year I mean to say this Diwali to next Diwali there is a pipeline of almost one dozen products actually and I believe all these products are going to give great success to the company, so in short I can say the vision is very, very clear. It is to work with the newer technologies and establish these new technologies because when I am working with the new technologies I not only get the topline growth, but the bottomline growth becomes better and that is the strategy, which we

have been following for years because these products take five to seven years to launch actually and we had started planning this strategy in 2010 and now it is coming to force and that is one reason, which gives me the confidence of saying that we will keep on increasing our topline and we will keep on increasing our bottomline also at PBT level by roughly 150 basis points. It is very, very confident I would say the declaration when I do this, but we are getting very good response, very good response from our R&D centers and if I talk about the JV as I told you that the first product is already selected. Of course data generation is going to take some time and in reality, it will be coming after three to four years from now, but still I believe that it is going to be the first invention of the country and should get good respect and image in the markets and with our targets of expansion, expansion in the sense that expansion it is a controlled industry. We have to get approvals from all the departments, but we are going for Brownfield expansions and as the need would be we will be going for Greenfield expansions also, based on that, but we are improving our domestic market, our B2B business, B2C business and also we are growing in the international markets. The good thing, which I would like to announce today, is that we have recently bagged the start export house status. We started working on exports just four years back. Before this, this was very nominal actually, but now every year we are doubling our export business. Last year, we had closed at about Rs.35 Crores, this year the target is to double and next year again we will have a similar target of doubling our international business. We are tying up with more and more partners and we are signing more and more contracts. Looking at that success, we are also planning to establish the export oriented unit where we will have the formulation facilities as well as mini technical manufacturing plant along with the piloting facilities and we see a good future for ourselves in manufacturing, marketing, in the domestic markets as well as the international market and in the current scenario of tightness where the raw materials are becoming more expensive currency is declining. Looking at that to combat that the strategy is we do manufacturing in house and do the maximum backward integration so that we are competitive not only in the domestic markets, but also in the international market. With this, I would like to open. Before that I will give to the CFO to give the highlights of the current quarter what we have done.

Sandeep Aggarwal:

Good afternoon everybody. As the results are there with you, the correction is that sales have been increased by 10%, profit before tax has been increased by 25% and PAT increased by 19% and some more data required by you. The B2B and B2C sales comparison is B2C sales is around 75% and B2B sales is 25% during this first half. Exports have been increased from Rs.6 Crores to Rs.16 Crores. The capex, which we had done including advances for the machines are around Rs.18 Crores. As far as in house consumption versus technical sales are concerned, the in house consumption is around 58% and outright sales is around 42%. The loans as on September 30, 2018 Q2 end is around Rs.135 Crores, so let us open for the question and answer session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: Thanks a lot for the opportunity Sir. Sir just wanted to understand like as you indicated that your new products are doing good for you so in 2019 you already launched six new products and that has given a contribution to something around Rs.55 Crores in the first half and as you also indicated that three new are going to be launched can you help us understand what was the new product contribution was in 2018 and what is the kind of margin profile difference between the new product versus the older one?

Rajesh Aggarwal: Like every year, we launch about three to four products on a routine, but now since lot of R&D centers as I told you that we are working on four themes. All the R&D centers are contributing. Along with this we have certain collaboration partners also. Particularly I would like to talk about my Japanese partnerships. First of all is Nissan followed by OAT Agrico Company and then we also have Nichino, so these three partners also are offering more and more products to us actually and we believe that with these supports and also through our R&D center, the number of products, which will be coming in future are going to go up because if my every R&D center gives at least one product then I have at least five to six products from our R&D center. If one or two products will click out of my collaboration then it becomes seven, eight, so I see about half a dozen launches for next five to 10 years actually. We are lined up for seven to eight years already actually, so it is increasing. These launches are going to come continuously. Here the importance of the new generation product is like when you are launching any new generation product, which is a 9(3) registration it will be generic, generic means that a product, which has recently bagged the off patent it may be a new generation product, which is new for the country, in both cases the gross profit margin is plus 30%.

Amar Maurya: Plus 30%?

Rajesh Aggarwal: Plus 30%. The risk with the generic products or where it has bagged the off-patent days that you will reduce your cost by doing scales because you will be improving the technology, but at the same time other people will enter into that business and the profit margin in terms of percentage is going to decline, so it is a two to three years job basically where you make maximum margins and then it depends on your brand because you get the advantage of creating the brand before some of the other competitors get that advantage.

Amar Maurya: Got that. Sir what was the revenue contribution in 2018 from a new product Sir?

Rajesh Aggarwal: It is difficult to say, but generally every year the new product contributes Rs.50 Crores, Rs.60 Crores, Rs.70 Crores type of business actually the exercise and it is not only into that year when it comes to year two some product grows so we are focusing around the products, which we have launched in the last four to five years actually. We are making lot of AIs or technicals like about 18, so these 18 products are becoming our major focus for brand business also. Like initially we used to talk about Navratna, which means nine big products, now we talk about Maharatna because slowly when we are adding the technical manufacturing and we are introducing new molecules, the profit margin increases because here we get the profit of both the technical manufacture as well as formulations.

Amar Maurya: Correct, so what I wanted to understand here is as you said that six new product, which we had launched this particular first half has contributed about Rs.55 Crores to the topline, which means that Rs.13 Crores approximately from the one particular product right?

Rajesh Aggarwal: From not one, but from six new products.

Amar Maurya: Six new products given you Rs.55 Crores, so I am saying each product has contributed something around Rs.12 Crores to Rs.13 Crores each right?

Rajesh Aggarwal: Whatever, you are better in calculations, it will be about Rs.9 Crores.

Amar Maurya: What I am saying here is that in this context that means what would be the revenue growth trajectory in these kind of products over a period of time let us say Rs.9 Crores to Rs.10 Crores kind of a product in the next four to five years how much it could be?

Rajesh Aggarwal: When we are launching these new products, the major focus is to grow these products. All the products will not be equally successful. When we say the average is nine, there will be some products, which will be 15 to 20, there will be other, which will be two to five, so the products, which will not grow or which will not be equally successful they will phase out and along with this we are also phasing out certain old products because already my range is touching almost 120 odd products actually. It is such a big range. It is unpractical to carry this range. We are on a tail cutting strategy also that we are discontinuing at least 5% of our generic business every year. We are growing at one place. We are degrowing at other place to improve the margins because when it comes to generic products there are certain products where it becomes very difficult to make any margins actually. We are identifying those products and discontinuing. Our strength is that we provide the complete solution under one roof, so we will continue providing that solution that for every disease there is a solution under Insecticides India, but the generic solutions or the older solutions will get replaced by the new generation solution that is the vision.

- Amar Maurya:** Out of all these new products, which you are introducing so basically you said that your technical manufacturing will be in house for this right?
- Rajesh Aggarwal:** For most of them.
- Amar Maurya:** Meaning your technicals largely are remaining same or as the new products come you have to also expand your capacities for technical manufacturing also?
- Rajesh Aggarwal:** There will be expansions. Expansion is a continuous part actually, but there will be changes because some of the older generic products where the margins are very low we may discontinue that and we may manufacture three new products because when it comes to new products the quantity is less demand is more. When it is generic product the case is reverse.
- Amar Maurya:** Currently how many technicals we are manufacturing as of now?
- Rajesh Aggarwal:** More than one-and-a-half dozen.
- Amar Maurya:** Whatever it is the number probably out of that basically 120 or 130 formulations, which we are manufacturing today?
- Rajesh Aggarwal:** We buy a lot of technicals from outside also. Some are from Japanese collaborations also, so may be using about 30, 40, or 50 technicals, from there it is 120 formulations come actually. The only strategy is that we wish to bring down this number to two digits means 70 to 80 should be the reasonable target. We will have about 70 to 80 formulations in the long term. If we talk about five years down the line 70 to 80 formulations where all the old products will go and we will only do new generation products.
- Amar Maurya:** Out of this technical, which we import from Japan so basically what contribution of the overall raw material would be this Japan and China both?
- Rajesh Aggarwal:** Our total import in the first half is less than Rs.150 Crores. Generally our imports from abroad are to the tune of Rs.250 plus or minus Crores every year.
- Amar Maurya:** Because why I am asking this to you Sir, you had shown a margin improvement despite the currency behaving and I believe the technical prices are going up, so is it that you had been able to pass on all this things or how your margin expanded it is largely because we are just unable to understand that?

- Rajesh Aggarwal:** There are two different things actually. One is the change in product mix. I am changing the product mix where my cost is less, so I am able to do that only because of launching innovative products. That is the only reason.
- Amar Maurya:** What would be your contribution to the total revenue in a formulation today would be innovative products?
- Rajesh Aggarwal:** They will be major contributors actually because our focus is around that. If I talk about the Maharatna, the Maharatna are going to contribute about 40% actually in our total business and Maharatna majorly are our focus products. They may include one or two generic brands also, which are very big brands. Otherwise generally they will contribute only with the new generation products, which we are focusing.
- Amar Maurya:** Basically you are saying that Maharatnas are largely new products because I believe in Maharatnas there will be lot of older products also right, which will be phased out?
- Rajesh Aggarwal:** It is changing actually. Now the major focus is the new generation products only.
- Amar Maurya:** This Maharatna have a higher gross margin relative to the traditional business?
- Rajesh Aggarwal:** Yes.
- Moderator:** Sorry Mr. Maurya may we request you to join the question queue for any follow-ups.
- Amar Maurya:** Sir what would be the margin differential between the technical versus the formulation?
- Rajesh Aggarwal:** If you can come later and be in the queue because so many people if I answer 10 minutes for one question will be difficult.
- Moderator:** Thank you. We have the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir Congratulations on a good set of numbers. Sir my question is on this discontinuation of some of your products so that you mentioned that impact is around Rs.160 Crores so how confident are you to replace these with the newer products if you can give some idea like what about?
- Rajesh Aggarwal:** As I told you that we are taking it as an opportunity. Already, we are working on a tail cutting exercise and some of our products have come into stress because the government is phasing out some of the products, so we are established into those segments. I mean to say that we

are an established brand into the granule segment and into this segment, so now we have to see that what is the alternate product we can give into that segment, which can retain our topline and which can improve our bottomline, so like Thimet, Thimet is a granule, which majorly goes on paddy and it is going on many other products also, so we are introducing at least five. We shall be focusing on five new granules now and out of this five at least three will be new products actually altogether where the profitability will be much, much higher than what we already had in the traditional product. Of course, I will not be able to match the volumes, but I will be 100% able to match the value of the product with these new products actually. Similarly, there is another product going, which is Nuvan, which is my major product again, so there are two things. First is these are being phased out, so we have two years of selling, so I will continue selling the product and at the same time I have to establish new heroes into the market. As I was telling you that there is about one dozen launch into this period so I am very, very confident that we will surpass whatever we lose, so there is no risk on the topline and of course the bottomline my guideline continues that I will continue improving 150 basis points year-on-year with the growth in the topline.

Dikshit Mittal: In spite of this going away we can actually maintain our topline growth that is what you want to mention right?

Rajesh Aggarwal: We will maintain the topline growth with the bottomline growth also.

Dikshit Mittal: Sir we have been hearing that these products, which are getting phased out there have been sharp uptake in the prices of these products, so is that also helping in terms of margin expansion in this quarter?

Sandeep Aggarwal: In the second quarter it has not helped much, but yes in the third quarter it will be helping.

Dikshit Mittal: Last question from my side Sir you were hoping to launch one new licensed product before this season, so have you got the permission for that?

Rajesh Aggarwal: My CRB registration is clear, but I have not received it because once any new product comes into the country there is a WHO approval also involved, which generally takes two to three months after the clearance, so we are expecting the registration in our hand by the month of January and we have already conveyed to the Japanese that we will need the product in January, so January or February that product should touch our Indian shores.

Dikshit Mittal: The contribution will be from next year only for this product because earlier we were expecting in second half?

Rajesh Aggarwal: Yes of course. The contribution should come in the next year.

- Dikshit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Rajesh Aggarwal:** Sir the Rs.160 Crores business, which will get phased out will get phased out in how many quarters?
- Rajesh Aggarwal:** December 1, 2020. I have got two years to decide to launch, but we are very, very proactive. We have already planned the combat strategy. We are launching so many new products because I do not want to tie up the fate of my company with any single product actually. We are launching new products where the margins are going to be more heavier, better and the technology is going to be more new generation.
- Pritesh Chheda:** What is the margin on this Rs.160 Crores revenue?
- Rajesh Aggarwal:** It should be a good margin product roughly I can say 20% to 25%.
- Pritesh Chheda:** The second in the first half we have grown about 2%, we had opportunity in spillbacks as a product line and we were supposed to introduce some products this year, so which part of the business has disappointed in your opinion for the 2% topline growth?
- Rajesh Aggarwal:** Nothing has disappointed. Actually, it was the delay in the season. The season got delayed, the rains were delayed, so it did not begin because Q1 and the June. The season starts generally in the month of May and June actually. Since the rain got delayed the season got extension. Generally the season ends in the month of September, but this year it ended in October, which means the Q3 is also going to surpass what we generally do in Q3 and since I got that extension in the month of October now we have to see what we can do in the month of November and December, so my results can surprise you of Q3.
- Pritesh Chheda:** There is no disappointment whether it is domestic business or technical or exports in view of it?
- Rajesh Aggarwal:** I have touched last year figures of exports already. Our brand business I have already grown than last year. Institutional business is picking up, so I do not see any disappointments actually.
- Pritesh Chheda:** Lastly on the spillbacks side of the business now what is the size of the market is it growing some colour on the pricing trends?

Rajesh Aggarwal: The size of the market is not growing to the extent, which it was believed, but now we are trying to bring in newer solutions by making the mixer and other products actually to extent that product further, so it will take some time, but if we look at all the products, which are becoming off patent. The life is very small. The life is not very long actually. Though we have got the advantage because we have become the second largest brand in the country now, so that gives me the advantage, but the institutional business it is declining. We are going to make it up by selling the technicals into the international market or to some customers who are going to sell it into the international market. Next year, we may also start selling in bulk because so far we were giving P2P, so there will be strategies to do it to get the profit from the same product, but when it is a generic product strategy or the off-patent product strategy the competition comes in very fast in one to two seasons actually and you cannot get a similar type of profit percentage basis year-on-year, but yes the business can remain at the similar level in terms of topline and there is a possibility of maintaining the bottomline also, so every year the price goes down like last year there was a fall of about 15% to 20%, this year the prices have not fallen much in the brand for us. I see a decline of hardly 10% for me, but for the trade it has fallen down to 15% to 20% because our brand got established, so we could manage with just 10% fall in the price.

Pritesh Chheda: With the 10% fall in price and no volume increase does it mean that it is a 10% decline in this business for you this particular product?

Rajesh Aggarwal: Like when I say volume decrease the volume has decreased in case of P2P in case of brand, the volume has almost grown by 50% plus. The brand is growing. The P2P is declining, but I am also able to sell the technical, so this technical export business is going to continue. The ultimate numbers are going to come by the end of the year, but in terms of total technical manufacture my technical manufacture in the year 2018-2019 may exceed what I had manufactured in the year 2017-2018 and it should be consumed.

Pritesh Chheda: For this molecule in totality would grow that is what you want to reflect?

Rajesh Aggarwal: Yes because we have to find out other avenues to grow, so since the domestic market has not grown so much we have entered into international market also.

Pritesh Chheda: Lastly in the first half if you could tell what was your technical growth or decline YoY and what was the B2C business?

Rajesh Aggarwal: Major growth has come out of the B2C business only.

Pritesh Chheda: What is that number?

- Rajesh Aggarwal:** Exact number I will share. Technical is almost stagnant. Technical business has no growth because my plant was under shutdown in the month of April and May. Two months it was under shutdown because of some little change of product mixes actually, so there was a partial expansion, which was happening in this period, so I did not get the advantage, but in the case of my brand business I did not get any heat actually the entire growth has come out of my brand.
- Pritesh Chheda:** Technically stagnant, exports have doubled and B2C growth is how much?
- Rajesh Aggarwal:** The entire growth whatever you calculated. I have not calculated. The numbers are in front of you. The entire growth has come out of the brand business whatever growth has happened it has come out of brand business, so ultimately it will come around 15%.
- Pritesh Chheda:** 15%?
- Rajesh Aggarwal:** Yes.
- Pritesh Chheda:** You were giving out a number new product contribution to your revenue, so until last year it was Bispyribac I think?
- Rajesh Aggarwal:** Bispyribac was something, which you had appreciated product you did not appreciate. After Bispyribac, the market has started appreciating the new products contribution before that nobody was interested to hear that. In your interest, I have launched six already. Three are on the way. Nine are on the way for the next year.
- Pritesh Chheda:** In your calculation, what was the new product contribution last year in FY2018 and what is the new product contribution?
- Rajesh Aggarwal:** Every year you can say roughly I would say about 8% to 10% has to come from the new product actually.
- Pritesh Chheda:** That number has to be 8% to 10%.
- Rajesh Aggarwal:** More or less it is stagnant, 10% growth from the new products and 5% degrowth from the generic products, which we are going to discontinue and 5% growth from the new products, which were launched into the previous years, which makes the average at 10%.
- Pritesh Chheda:** We want growth number then what you are saying is growth?

- Rajesh Aggarwal:** I am saying 10% growth from the new products. 5% growth from the new products launched in the last five years, which makes it 15% minus 5% from the discontinued products tail cutting, which makes it 10% net.
- Pritesh Chheda:** This is at the company level?
- Rajesh Aggarwal:** Yes of course.
- Pritesh Chheda:** Which means that the 10% growth is at company level, I was asking you the contribution of new products as a percentage of sales, which is basically new product introduced this year and whatever new products you had for the last four to five years?
- Rajesh Aggarwal:** How will it make a difference it is 1% more or less I have given you the major outlook. If 1% here or there how will it make a difference. I will give it to CFO, explain it to him he will give you the numbers. I will give it to the CFO.
- Pritesh Chheda:** I was looking at the new product contribution to sales what was it last year and what is it this year?
- Sandeep Aggarwal:** I think it would be better you mail me your queries, so I will reply to you on the mail. Then I will be able to give you the exact numbers. For the six months the new product contribution is around Rs.55 Crores for this year. For last year, I have to check, so I will give you the reply in the mail.
- Pritesh Chheda:** This new product Rs.55 Crores will be what products, which are launched this year and products, which were a part of the last four to five years right?
- Sandeep Aggarwal:** Which were launched this year.
- Pritesh Chheda:** Only this year. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Good afternoon Sir. Sir I was just looking at the receivable numbers, I think overall for all the fund raising companies mentioning that receivables have stretched quite a lot in this quarter end, so can you tell me what is this not just for our company, but for all the combination of players?
- Rajesh Aggarwal:** For all the companies what has happened?

- Ankit Gupta:** The receivables the debtors have increased.
- Rajesh Aggarwal:** Our collections are very good actually. Debtor would have increased because the sale increase is there, but overall the collection I do not see any stress on the collections because we are able to maintain our collection targets, so debtors would become reasonable actually. There is some increase in the debtors actually, but our collections are fine, so I do not see much risk in the debtors actually.
- Ankit Gupta:** Overall on the farmer's side because of the decline in prices of grains and equipment are you seeing any stress on the farmer's side?
- Rajesh Aggarwal:** There is a stress on the farmer because of low yield, low productivity in some areas because of the rainfall or extra rainfall when the crop was being yielded or something like that, but the prices are good, so overall it is the average thing, but we are supplying our material to our distributor who are engaged with us for generations like I have been into this business for the past three generations my grandpa started and I continued with the similar set of distributors when I started Insecticides India in 2001, so the distributors are same. We only change when the new generation comes and they do not align with us align with our targets actually because we as a company have a vision to continuously introduce new generation molecules and to promote these new generation molecules. If the new generation feels that this is not the correct way then we part with those distributors and we make more dealers or retailers actually and we have been continuously expanding, so I mean to say that our network is very, very strong. They have got very strong relationship with us and they have grown with us, so the risk is not that high actually. Even if farmer is paying or not paying that does not mean that my money will not come in time, so we are broadly achieving our collection targets every month and they are to the satisfaction level so that will be comfortable and generally first half is the selling period, second half is the collection period because in the first half generally the sale is 60% and collection is 40% to 50% somewhere in between. Second half is reverse, second half is more collection and less sales.
- Ankit Gupta:** Just wanted to understand one thing from you that from the new products, which are launched or the new patented products, which are launched after how much time are we able to launch 9(3) products for them if they are manufactured in India?
- Rajesh Aggarwal:** It takes a lot of time in registering the products. Most of the new launches, which are coming now will be in 9(3) launches more than 90% of my launches, which you will see will be 9(3). 9(3) means manufactured in India for the first time. It does not necessarily means that the product is new generation because sometimes the inventors are selling their product already into the market it has become off patent, but due to the policy of the country because India

has not promoted in the way it should have promoted the domestic manufacturing so the inventors are able to bring the readymade formulation to the country and they are restricting the Indian companies from launching these products. We have fought a long legal battle for this and we have successfully started with Bispyribac-sodium that is why everybody knows Bispyribac because Bispyribac was the first product, which became off-patent in 2009 and launched in 2016 after a long legal battle by us actually and that battle still continues. It has not ended. Now we have won in High Court. It is now going to Supreme Court as per the rumors. I mean to say that now we are launching all these off-patented products and we are on the verge of getting the registrations because that precedence has already started, so lot of these products will be coming and along with this we are also working for formulations, so these new formulations wherever we are manufacturing which are more cost effective, most beneficial for the farmer. They are the mixture of different products, so these are also coming in a big way, so for us we see a lot of launches coming through our R&D centers and also through our partner.

Ankit Gupta:

For 9(3) registrations are we required to do ground study as well and it takes almost six to seven years to do that?

Rajesh Aggarwal:

It takes lots of years from conception of product to ultimate coming into the market yes six to seven years is true, but sometimes you can expedite some of these studies so some products come in four to five years, some products come in three to four years, some products also take more than five years. It is a regular exercise like when I say I have seven to eight years of pipeline ready this means that I have already conceptualized some of the products, but they are going to come after seven to eight years. This means that first we have to identify, we have identified the product then R&D has to develop the product then regulatory department has to generate all the data then the application has to be filed by the concerned team. Then the product comes actually and then you have to focus on manufacturing, so there are different stages of developing a molecule and it passes through all these stages then the product comes actually.

Ankit Gupta:

How much will be for innovative products and how much will be through innovator partnerships?

Rajesh Aggarwal:

Like if you look at the Japanese business actually till last year it was about 15% I believe, but this will be growing now because more and more Japanese products we are expecting next year also and this year also the business is going to increase, so as the final figures come out we will be able to give the contributions from the Japanese business, but we wish to propagate the Japanese technologies actually because Japanese technologies are much more acceptable and we believe in quality of the Japanese, so we get the advantage at the market place, so we

shall be growing this business and we shall also be growing the other new products business because that is our key focus actually key focus area.

Ankit Gupta: The six new products that we have launched this year how many will be innovator products and how many will be 9(3) products?

Rajesh Aggarwal: Everything was 9(3) because for one or two products what we shared products with other companies they where their 9(3) registrations. Four were my launches actually, which had come out of my R&D center and they were the new formulations and three which are going to come there again out of three all three are going to be 9(3) yes all three 9(3), which will be manufactured by us. All the three new technicals, two manufactured by us and one will be Japanese product, which will be coming to India for the first time actually. Again it is patented technology, which will be coming to India.

Ankit Gupta: Out of this nine products?

Rajesh Aggarwal: Seven are 9(3).

Ankit Gupta: Two are?

Rajesh Aggarwal: Two are again 9(3), but they have come from other companies. I have shared their product actually, which is a 9(3) of other companies.

Ankit Gupta: Sir one last question on the technical manufacturing side can you give us an idea about increase in prices of some of the technicals like Lambda-cyhalothrin, Chlorpyrifos, how much has been increase in prices because of shortage from China any idea about that over the past three to six months, has there been a significant increase in prices of these raw materials?

Rajesh Aggarwal: As a percentage, but yes the prices of some of the products, if I talk about technical the prices have gone up from 10% to 15% to 50% to 60% actually, so there has been a huge change, which has happened into this year and that has made unavailable for many companies to market their brands because of the competition because in the market the prices of the technical went up by 50% to 60% and brand went up by 30% to 40%, so certain companies lost their interest, but despite of that situation the technical sales of all these products have increased. The brand sales for us for all these products have increased because incidentally I am the technical manufacture of some of these products like we manufacture Bifenthrin, we manufacture Lambda-cyhalothrin, and we manufacture Chlorpyrifos, so we have surpassed all previous records of technical manufacturing of these products and our brands are also flourishing.

- Ankit Gupta:** Is there any volume growth in that or is purely the price increase?
- Rajesh Aggarwal:** No there has been a volume growth. I am talking about volume growth. Volume growth will be huge phenomenal, but there has been a volume growth also.
- Ankit Gupta:** Are we going to increase enquiries from lot of MNCs or technical tie ups?
- Rajesh Aggarwal:** We are working on that actually, so once there is something concrete, we will let you know, but there is lot of interest basically because we are investing a lot on data generation. We are investing on GLP data generation for our products, so just to give a figure actually. We already have the three technical data packages ready. We are working on nine more to have about one dozen in the next fiscal and we already have generated datas for more than 20 formulations and similar number is in progress, so I mean to say that we are working a lot on GLP data generation and we may become one company having the latest data of so many products of a huge number of products actually in one year down the line.
- Ankit Gupta:** Do you expect the technical business to grow at let us say higher phase compared to the overall growth of the company that we are targeting by 15%?
- Rajesh Aggarwal:** It depends because when there is a new technical, so you get the brand business also, so there will be growth from all direction, there will be growth from exports, we have got a huge capacity of formulations, so sometimes when we are exporting and sometimes when we are manufacturing a new technical we only offer the P2P. We do not offer technicals, so once the competition comes in then we start offering bulks and when there is further competition we offer technical, so it is the phase wise launch of a product actually, initially you offer only packed product to the competition.
- Moderator:** Thank you Mr. Gupta. The next question is from the line of Saurabh Kapadia from India Nivesh Securities. Please go ahead.
- Saurabh Kapadia:** Thank you for the opportunity. My question is on the products, which are banned, so we are able to sell it till December 2020, so are we planning to stock up inventory for some of the products for the next two years?
- Rajesh Aggarwal:** We have our key brands, so which is Thimet and Nuvan, so Thimet I believe that we should be able to do the topline again in 2019 and of course with the better bottomline, but the quantity will go down because I will not be able to manufacture for one year, I do not have the capability to manufacture that huge quantity, but I will be able to maintain the topline and I will be able to better the bottomline because by selling lesser quantity I will be able to maintain the topline, which means another Rs.10 Crores, Rs.20 Crores of profit should come

in 2019-2020 from Thimet. When I talk about Nuvan, yes the prices are going up, it has got a huge image and since we were selling regularly so at that time we are not able to realize that we can improve the price to the extent we have done, so what market have accepted the increase and of course we will be trying to manufacture these products for two years, but I can say at least one-and-a-half year stock I should be able to make and I will carry that inventory actually and I see a lot of profit coming in next two years from these two products.

Saurabh Kapadia: Second question is on the other expense, there was a substantial jump in the other expense on Y-o-Y basis, so was there any one time impact of forex or was the marketing expense high this quarter?

Rajesh Aggarwal: Forex losses definitely they are because the currency has undergone such a huge change and as far as there is mark-to-market losses also which you have to bill, so there has been a huge forex losses into this fiscal roughly more than Rs.10 Crores we have given the loss in the first half, precisely it is Rs.11 Crores, so Rs.11 Crores is already absorbed into our results whatever are there including MTM.

Saurabh Kapadia: On the six new launches four as you mentioned it was your 9(3), so two products which you have shared so with which company?

Rajesh Aggarwal: Are you very keen for that, they are the smallest products what we have done, we do not want mention the companies, but if you are keen then I can like you can send me the query, so CFO will give the reply because I believe that we must highlight ourselves not my competition.

Saurabh Kapadia: You said Rs.55 Crores from six products, so basically four products.

Rajesh Aggarwal: Four products contribute Rs.50 Crores let me be very open.

Saurabh Kapadia: That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Devansh Nigoita from Securities Investments. Please go ahead.

Devansh Nigoita: My question was in the concall you mentioned that initially we launched a product and our margins are highest in first and second year and gradually they dropped?

Rajesh Aggarwal: You have heard the half story actually.

Devansh Nigoita: Can you just elaborate on that?

Rajesh Aggarwal: This happens in case of off-patent product, is there is a off-patent technology I invest Rs.1 Crore, I give a example only on getting that registered, I get a 9(3) registration. What advantage I get is I can create a market of Rs.10 Crores, Rs.15 Crores with a 30% margin, so Rs.5 Crores in first year gross margin. So by the end of the first year, the competition comes in because people come with 9(4) and Me-Too registrations, so if I get two seasons Rs.10 Crores or Rs.12 Crores just an example, there may be a possibility of making Rs.15 Crores, there may be a possibility of only making Rs.5 Crores, so the advantage I get is that in the market I am establishing as a player, which is giving the new technology, so the network becomes intact and more align to my company. The strength of my team becomes higher on the network because they are able to convince the network that we are giving the new products where you can make more margins and you are getting the monopoly products, but the competition is slowly entering into that business by doing the Me-Too registration and there may be further 9(3) because it is not necessary that only one company get 9(3), four companies have applied for 9(3), all will get the 9(3), so the competition ultimately comes in, so only in case of old products the quantity declines, the profitability declines and ultimately if you have established your brands the quantity can go up, but profitability is declining, but it is the reverse case in the case of patented product. When I am launching a patented product, the quantity is growing, the profitability is also growing. It is different in case of off-patented product and patented product, it is exactly reverse.

Devansh Nigoita: In these six products that you have launched in first half, so where these all the patented products?

Rajesh Aggarwal: My four mixtures, which I have launched from company, which has contributed Rs.50 Crores plus they all are patented. The two products, which have taken from other companies, the other company is patent and I won a small margin.

Devansh Nigoita: Two were off patent and four were patented right?

Rajesh Aggarwal: Please focus on what I am saying. Two are also patent, but they are patented by my competitors. I have marketed that product on a smaller margin of say about 20%, when I have marketed my own products, which are patented by Insecticides India there the margin is much, much higher. All six are patented, but of course the margin is different.

Devansh Nigoita: Thanks Sir. That is all from my side.

Moderator: Thank you. We have the followup question from the line of Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: Thanks a lot for giving me the opportunity again Sir. I just wanted to understand margin profile largely in a technical and formulation.

Rajesh Aggarwal: There is no certain norm for a technical business or a formulation business. Whether it is a brand business the margin will be highest, these are making our own technicals. The technical is not yours then it is a share margin. In case of a new generation molecule, when you are bringing the new generation molecule, margins are the highest actually.

Amar Maurya: Even in technicals?

Rajesh Aggarwal: Even in technicals because number one I am not giving you the technical, I am giving you the readymade formulation packed. When I am saying work on 20% markup I will not give you more or work on 25% markup or 20% margin. Just give 20% margin to you, you know that my costing is Rs.1000, marketing at Rs.1500, so I give you Rs.1200 in that case and if it is Rs.1800 then Rs.1500, so I am making Rs.500, you are making Rs.300 and you are incurring all the marketing cost.

Amar Maurya: Got that, so but then like if I just wanted to understand like overall gross margin is currently in the range of 29% to 30%, so if I just want to breakup so what would be a ballpark probably if you can share, if you want I can ask you offline also that is not an issue for me?

Rajesh Aggarwal: You can ask offline, but when you are launching these new generation products the gross margin sometimes are 40%, 50% also.

Amar Maurya: Okay.

Rajesh Aggarwal: This has to be a margin, but you do not work on a lesser margin because the expenses involved with these products are huge. Why expenses because you do all the development exercise around these molecules, we are doing development activities, training activities around these products, all meetings, conferences, B2B activities, advertisements, again are around these products, so have to bill everything on them, but when you are pushing the engine, every engine is running fast, the entire train is running fast actually, so boost the sale of your entire range, but all the expenses are build on these engines actually, so the gross margin looks lower apparently, which is technically higher.

Amar Maurya: Got that and Sir you indicated that the overall contribution of the revenue today from Japan is about 15% right?

Rajesh Aggarwal: I am talking about last year figure and it will increase.

- Amar Maurya:** And this would be largely a formulation business you are talking about right Sir?
- Rajesh Aggarwal:** Brand business.
- Amar Maurya:** And Sir what would be the total contribution of in-licensing business today to you in a formulation?
- Rajesh Aggarwal:** Major in-licensing business from Japan is one thing and another Rs.150 Crores is coming from Thimet and Nuvan, this will discontinue now. In-licensing business, which was from USA and that will go, that is going to phase out in two years.
- Amar Maurya:** Correct Thimet and Nuvan that is Rs.150 Crores, so that was in-licensing and this 15% Japan is in-licensing?
- Rajesh Aggarwal:** Japan, it is a new generation molecule. From USA they have purchased the brand of the multinational companies and they give those brands to me are marketed till the time they were there and now since they are phasing out they have to go, but now I have got the entry into those segments actually and in those segments we are number one brand. I am able to compensate that product with another product, so my market remains intact. My team, my network, my farmers all have the habit of doing the work in that particular segment, so I have now to simply replace that product A with product B and product B is going to be the new generation product, which means at least 10% to 15% more margin than product A.
- Amar Maurya:** Got that.
- Rajesh Aggarwal:** So that is the strategy. If we do not lose our market share we keep on getting more market share from those segments in the new generation molecules.
- Amar Maurya:** The topline growth of 10%, which we had shown, which is largely from the formulation side of our business, is there a ballpark breakup between the volume and pricing, the realization growth as well as value or volume growth?
- Rajesh Aggarwal:** I do not have it handy, but of course you will send it in writing we can give you.
- Amar Maurya:** Sure.
- Rajesh Aggarwal:** But here I can say that we are changing the product mix actually. Relatively we will give you the exact number, when you shift to a new generation molecule the volume goes down, value goes up.

Amar Maurya: Correct that was the understanding, which I wanted to get that how much of this was growth from a value and a volume probably volume might have degrown.

Rajesh Aggarwal: Because in the long term we are not running after volume topline, we are not running after topline. The vision is that we are running before creating the demand for innovative products because if I do not give the innovative solutions then I will get phased out. If I have to grow faster than the industry then I have to give innovative solution faster than anybody else can give, so I believe today we are in that sweet spot, multinationals may not be the right word, but we are the companies, which want to enter into the country, which are of course sort of multinational companies. They select us as their partner to penetrate those products and of course the large MNCs, they look at us as the supplier for their products because when they had created these products at that time their vision was that their product should have the efficacy, but when I started making those products in India my vision is that my technology will be more stronger, my product must be more cheaper, the quality should be better. If I qualify in these three products then only my product can exist in the market. So we are making our technicals, keeping these three products focuses in mind and in certain cases we are competing well with China also, which means that looking at the future I see a good growth, good potential of exporting my technicals formulation also to the multinational companies and also to the smaller companies who are become my partner in the international scenario because we have partnered with more than 100 companies already across the world with more than 500 contracts already signed, so which means that we are working across the world to establish our products and we are going to get a good growth in the international business market also, but at the same time we are going to get a good growth in the domestic business both P2P and other businesses and also our brand. This institutional business has not grown because my factory was shut down for two months because of these reverse engineering things and some setups, but I will get that growth into this year in the next two quarters because this year generally I do a long Diwali shutdown, so this year that Diwali shutdown has reduced to less than 20%, 25% actually. I will be producing in the third quarter selling like **(inaudible) 1:4:12** in the third quarter. So my expectation of growth in this quarter also is quite big, my expectation of exporting in this quarter is also quite big and I also see the potential of good brand business in this quarter, so at the end of when we discuss our third quarter results we will be discussing growth in all segments, international business, institutional business as well as brand business. It will be different.

Amar Maurya: Thank you Sir. Thanks a lot for the opportunity.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Pratik Tholiya for closing comments. Thank you and over to you Sir.

Pratik Tholiya: Thanks Aman. On behalf of Elara Securities, I would like to thank the management for giving us the opportunity to host the call and so it is really a very detailed discussion about the company and the future growth prospects of the company. Thank you so much for sharing your thoughts on this call. Sir would you like to make any closing comments?

Rajesh Aggarwal: It is absolutely my pleasure. Many interesting questions came in actually and I believe that I am able to reply mostly to them, but if still there is any query you can send your mail we can give a detailed reply for everything and please do not mind if I have cut down something or I have been little stronger in saying some perspective actually sometimes when you are speaking so some perspective comes in and you are bagging that idea, so it happens sometimes. Please ignore if you did not like something, but yes we are on a growth path and definitely we are going to grow faster than our peers. Thank you very much.

Pratik Tholiya: Thank you so much Sir.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes today's conference. Thank you all for joining us. You may now disconnect your lines.