



“Insecticide (India) Limited  
Q3 FY2022 Earnings Conference Call”

February 11, 2022



**ANALYST: MR. SAURABH KAPADIA – ASIAN MARKETS SECURITIES PRIVATE LIMITED**

**MANAGEMENT: MR. RAJESH AGGARWAL – MANAGING DIRECTOR – INSECTICIDES INDIA LIMITED  
MR. SANDEEP AGGARWAL – CHIEF FINANCIAL OFFICER - INSECTICIDES INDIA LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Insecticides India Limited Q3 FY2022 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:** Thank you. Good evening everyone. On behalf of Asian Markets Securities, we welcome you all for Q3 FY2022 earnings conference call of Insecticides (India) Limited. From the company we have with us today Mr. Rajesh Aggarwal, Managing Director; and Mr. Sandeep Aggarwal, Chief Financial Officer. We will start the call with the opening remarks from the management and then we will move to Q&A session. I like to hand over the call to Mr. Rajesh Aggarwal for his opening remarks. Over to you, Sir!

**Rajesh Aggarwal:** Thank you very much Kapadia Ji. Rajesh Aggarwal from Insecticides India. I am the MD with me is the CFO, Mr. Sandeep Agarwal. He will be joining and he will be throwing the light on the company performance. First of all I will talk about the industry overview because the market scenario particularly in the domestic segment has been quite tough actually the Q3 was the cultivation season and we saw a lot of rainfalls so plus and minus plus because we the hope for the Rabi season increase and there was lot of shift in the crops actually we see that different areas are showing interest in different crops like in South of India the people converted from rice to other crops like pulses and soybeans and some other crops actually which created the interest that apart from rice they will be doing other crops and we if we look at the scenario today we see lot of sales of cotton seeds which means that the cotton is also going to grow particularly in the dry areas and in some other areas so there is going to be a good crop shift which is good for the industry and a good opportunity for everyone.

Omicron period, there were challenges and at the same time there were lot of international challenges also because we have seen that the international pricing of all the commodities is disturbed, when I say all the commodities I start with crude, metals, plastics, papers all these are disturbed and at the same time, the chemical supplies are also disturbed and still there is a lot of dependence on China and since China is not moved so, there are lot of challenges which are coming in the raw material supplies.

At one time it is a challenge, at the other time it gives us big opportunities because we see that today world is looking at the alternate source and there is lot of enquiry for the products from India because the world wants to look at the alternate source and they see India as the alternate and lot of companies are making a lot of investment into the business and this scenario I have seen almost two decades when the companies are making big investments in their technical manufacturing facilities and backward integration and lot of I would say investment is being made and I see good growth and I am very, very optimistic that this sector which was somewhat

stagnant in last two decades again, it is a wrong word because in last two decades from Rs.2000 Crores the industry has come up to Rs.30000 Crores actually domestic and Rs.30000 Crores international market, so almost Rs.60000 Crores industry is today but I see that it will grow further at a very high speed particularly the international markets and also I see growth in the domestic segment.

We have recently seen the budget where lot of emphasis was given to farmers and agriculture particularly government is focusing a lot on drones and Kissan drone policy is coming, and lot of improvements are coming. So, we look at the opportunity that our farmer will also get the help or support of the technology and that day is not far when you see drones making the spray in the field actually which will lead to lot of ease in spraying and there are certain opportunities which are less because the crop is dense and people do not want to enter into the crop at those times, so there will be spraying opportunities and of course the opportunity goes out. At the same time today if you look at the political speeches of the political leaders, there is a lot of focus on biological and organics where I would say I agree and disagree.

Agree because yes, biological are interesting solutions and future is not far when biological and organic farming will move together along with the conventional farming, because you cannot work with one extreme, it is not possible if you look at ourselves, we take care of ourselves by doing exercise, by doing yoga, by opting to ayurvedic needs, some people also go for homeopathy, but if there is a disease you have to go to a doctor. Similar is the importance of the agrochemicals if there is an attack on the crop, if there is weed, there is fungus or disease or pest infestation then there is no other alternative you can strengthen your crop, you can strengthen your soil, you can also give the immunity from the other things by using the biological.

But if you try to stick 100% to biological it is little unpractical target in my opinion and I believe that all the technologies are going co-exist and the good thing is like as a company we are focusing on each and every direction, like we are doing a lot of capex and on the backward integration on increasing the capabilities of our technical manufacturing, Insecticides India does the technical manufacturing at two locations in Rajasthan and Gujarat at both the locations company has made big investments and roughly the investment of about Rs.68 Crores or Rs.680 million has gone into this fiscal and we are on the verge of completion of our project at Rajasthan, we target that by March end, we complete our project in Rajasthan in full wherein we will be increasing our capacity by almost 50% and we are also going to manufacture certain new AI's from Rajasthan.

At the same time in Dahej we are doing the backward integration and we will be making the raw materials for two of our major technical and along with this we are also establishing the capacity of certain new technical. So, I see a lot of new introduction coming out of our technical and ultimately turning into the formulations, so lot of opportunity in B2B segment, lot of opportunity in B2C segment and also I see a lot of opportunity coming up in the international segment because of this investments and there is a further expansion lined up in that to complete the

expansion further about Rs.10 Crores will also go into this fiscal so, making a total of about Rs.80 Crores in this fiscal actually.

If I talk about the future outlook; we see a very fine pipeline of new products, this year we have introduced two products with Nissan and we are on the verge of introducing two more products shortly with Nissan. There will be a lot of products coming from our R&D centre, I mean to say backward integration, some new formulation development, so the pipeline this year is going to be very, very strong and I believe 2022-2023 is going to be up the year for the company where we will be doing a big jump in the topline as well as the bottom line because we will be completing both our projects in Dahej and in Chopanki.

Dahej should also be operational by April which will augment our production capacity and of course the new AI are going to support us and the backward integration program again is going to help us in a big way, when I say big way I mean to say that strengthen my technical manufacturing capabilities of the two products and also the new AI's which are going to come they are going to strengthen our brand sales and the institutional sales as well and you will start feeling that impact from the first quarter of 2022-2023 itself.

We see lot of support from the international market, this year our export sales are almost going to double than the previous year, the achievement in the three quarters have been Rs.100 Crores plus, there has been a good demand from different parts of the world and we see the new markets of East and West Europe, Africa, CIS, NASA countries and particularly Canada and South American markets also increasing our market share and the plan that in the long run about 15 to 20% is going to come from the export business to IAN, I mean to say that we will double this year and the target will be to double our export sales in the next year again.

Though it is a challenging target because the numbers are growing but I am quite confident that with the more registrations coming in and with this image the company is getting, we should be able to grow in the international in a big way. This import substitution like the backward integration is going to lead to of import substitution and though the business of the company in totally is going to increase, but I do not see a big increase in the imports for the company because ultimately, we will be reducing some portion of the imports from the international markets.

I can say that the margins are going to grow further in the next fiscal and export targets we have achieved and we are going to double in this fiscal and the capex which the company has made is towards the completion and there is a strong pipeline of products which is coming in and for this pipeline we are focusing on the market so that we have the pipeline of customer ready to accept this product and I am very, very confident that the time which is going to come now, particularly in the Kharif season, the beginning of Kharif season itself will start giving us the results.

Now, I will request CFO to explain the results of the third quarter.

**Sandeep Aggarwal:** Thank you MD sir. Good afternoon, everyone. Let us discuss about the financial results of Q3. The total revenue during the Q3 was Rs.3146 million as compared to the Q3 FY2021 revenue of around Rs.3002 million. EBITDA has increased from Rs.150 million to Rs.186 million showing a growth of around 23% and the EBITDA margin has increased by 88-basis point during this quarter. The PAT margin of the company has improved from Rs.61 million to Rs.82 million showing a growth of around 34% so is increase of around 57-basis point in the PAT margins of the company also.

If you go for the further bifurcation the total in-house consumption versus sales from the Dahej technical plant was around 49% in-house consumption and 51% was the sales. The total jump in the profit was basically due to the improvement in the sales of Maharatna which stands at around 56% of the total B2C sales in the first nine months. The patented product we sold during these nine months was around Rs.57 Crores and the sales of in-licensing product during the first nine month are around Rs.100 Crores. If you see the bifurcation of B2C, B2B and exports, in the first nine months the B2C sales are 66% contributed, B2B is 26% contribution and exports are contributing around 8% in the first nine months of the company and you will see the bifurcation of the insecticide, herbicide, the insecticide is around 52% in first nine months, herbicide 34%, fungicide 10% and biological products are 4%, so these are the basics of the Q3 results. Now, I open the house to question and answer session. Thank you.

**Rajesh Aggarwal:** Thank you Sandeep Ji, please put forward your questions.

**Moderator:** Thank you very much. The first question is from the line of Prashant Bhiyani with Elara Capital. Please go ahead.

**Prashant Bhiyani:** Thanks for the opportunity. Sir, the guidance that we have mentioned in page number 7 for FY2022 revenue, EBITDA, and PAT vis-à-vis if we compare it with the nine-month results which implies that in Q4 we are going to achieve revenue growth and EBITDA growth of around 32 and 64% broadly, is my understanding correct?

**Rajesh Aggarwal:** As far as this revenue growth percentage is concerned you know that the season is going on in the market what is the demand pattern and how the monsoon is panning out, the growth target which we had earlier predicted of 10 to 15% might not be achievable, it may be somewhere between 5 to 10% and we as give a guidance of 100 bps increase in the EBITDA margin and in the first nine months we had already achieved 88 bps but if you see the scenario of the industry there is lot of increase in the raw material prices, freight prices, then power prices despite all the negative synergies we still achieved 88% growth in our EBITDA margins I think that is also commendable but definitely in the fourth quarter also we are trying to work on the Maharatna products which is a good contributor and due to that our first nine month results are showing a increase in the EBITDA margins and net profit margin and hopefully we will try to fulfill our commitment about the EBITDA margin, possibly we will try our best for that.

- Prashant Bhiyani:** Sure, secondly this 50% capacity expansion in Chopanki, this is happening in technical or formulation?
- Sandeep Aggarwal:** This is all for technical.
- Prashant Bhiyani:** Sir, which AI's we are planning to commercialize from there if you can share some names?
- Sandeep Aggarwal:** Actually, we get them as the things progress, but there are certain things which I can share that like we are increasing our capacity of Thiamethoxam Lambda Cyhalothrin, there will be a new molecule like Thiocyclam which will be more and there will be few more actually which are going to come with time. So, Dinotefuran capacity is also we are going to increase here, so there are certain couple of molecules just like now Chopanki we only do insecticides, and we are also going to add one fungicide namely metalaxyl and metalaxyl thyme also will get added into the long run, which is particularly for exports, so we will be working for these two molecules also. So, there are certain molecules actually which will be coming now, we have set up some particular lines and there are some multipurpose lines.
- Prashant Bhiyani:** Sir, when is the expansion going to complete in Chopanki?
- Sandeep Aggarwal:** I have told that by March end we will complete the expansion of Chopanki.
- Prashant Bhiyani:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay with O3 Capital. Please go ahead.
- Himanshu Upadhyay:** Good afternoon. My first question was more on the broader business. If you look at our return on capital employed, there is a lot to catch up and the inventory deals have been pretty high and again receivable deal is okay and again the EBITDA margins are 10% around. Over next four to five years what can lead the margins to improve from here and again working capital we can have at least high teens of ROCE any vision statement you have on how you want to take the or improve the return ratios for the business and what would be the things which you are doing that the company's return ratios improve over like three to five years and what is the target you will have on those terms, because when I see your revenue line we are around Rs. 1400 Crores – Rs.1500 Crores, which is pretty good revenue line in terms of other agrochemical companies which are present in India. But the one place where we need to improve is return ratios, some thoughts of yours on those terms, it will be helpful.
- Rajesh Aggarwal:** Your question quite interesting actually the CFO can talk about the numbers but still I would like to tell you that we are very seriously working on this, these two years have been the COVID years actually very ,very difficult time where we did not want to give too much credit to the market but, still you know the agrochemical business is a credit oriented business wherein you have built the stocks also, because the movement of stocks have been very, very difficult from

the international markets, the time which was previously three weeks now we have to consider more than two months actually and then again there are lot of issues and the supplies are at trouble. So, you have to keep the stock and then run the show, but you will see all the ratios improving and our sales goes up and the things go up. So, you will see further improvement I believe in Q4 and from Q1 you will see a continuous improvement though we are struck around Rs.1500 Crores but our expansion coming in and the new products coming in because I told you that lot of interesting molecules are coming from Nissan, we will be launching two more molecules of Nissan, last year we have launched two, the time which we got to market these product was very, very limited so, technically I can say there will be four new molecules to all over launch in the last season in the fag-end of the season, two further will be coming from Nissan this year. So, there will be four new products from Nissan, apart from Nissan we are also bringing some products by backward integration, so there will be all new chemistries manufactured first time in the country apart from that there will be certain new formulations which will be coming from our own R&D and there will be furthermore technical also which will be coming from our R&D. Some of the registrations are bagged and they are waiting for the plant to start the production at some places we are waiting for the registrations, but everything is in the final stages. So, this year I see that the pipeline is going to be very, very strong, last two-three years the registrations were not coming that is why the performance was slow. If you see at the growth the growth has been single digit in the last two-three years actually which will change in totally whatever we have lost in three years we will make our recovery in 2023 and this year we will be targeting a big leap we will be trying to touch Rs.2000 Crores in the next fiscal. So, I am not going the exact number, but we will be somewhere like we are still under planning, but we will be targeting to meet that number in the next fiscal with the good growth in the bottom line. So, whatever you have observed, the observations are correct to an extent, but we will see a big improvement in the coming year itself so there will be no need to wait for three-four-five years we will be showing our performance this year itself. Thank you. Sandeep Ji, would you like to add something.

**Sandeep Aggarwal:**

Yes, as far as the capital investment return ratios are concerned, we are investing in our both the plants in Chopanki and Dahej for the last two years, but due to COVID everything got delayed and now we are hoping that our plant in Chopanki will start in the month of March and Dahej also we are trying to start in the month of April. So, when both the plants will start then definitely whatever investment we have made in these two plants will start giving us the return and that will show you the improvement on capital investment also. Thank you.

**Himanshu Upadhyay:**

Okay, one more thing we are seeing a significant amount of capex which is happening in India and not just in India but in many other geographies on the chemicals side both pharma and agrochemicals specially on the raw material side. Generally, this business is 15 to 20% ROCE business, the API, or the AI manufacturing but last few years has been pretty good for the backward players. But with increased capacities which will be coming up in next two years or three years do you think the margins can go down and those extremely high margins which was seen in the API's or the AI's will move back to what they were historically, or do you think the

numbers are sustainable and how will it impact your formulations business which is the bigger pi of your business?

**Sandeep Aggarwal:**

It is a very tricky situation actually in the market, there is a lot of pressure in the generics and there is lot of lobbying around banning the generics. We have already seen this banning happening in past four-five years actually a lot of products have gone and two of our star products have also gone actually in previous two years. So, this is a continuous pressure on the generics and new technology products are coming so, now whatever investments being they being around the new generation molecules, and you know that new chemistries have better margins also. So, I do not think that there is going to be impact on the margin side to the industry but there is going to be an opportunity as I was telling previously that there is a lot of opportunity in the international market because at the price which India will be able to manufacture it is difficult for the American world and we can opt as a additional source or as a to China which is number one source for the entire world, now they are looking at the new alternates, so India would establish itself as a new alternate and I see a good opportunity in front of India particularly in the agrochemical sector and also in some other sector where India will be increasing the exports in a big way and a lot of exports will be going to the Western world and when they go to the Western world developed countries the margins are not bad actually.

**Himanshu Upadhyay:**

I have one more question, if you permit me, I will ask or I will join the queue. On the exports side, what we have seen is the prices of chemicals or agrochemicals have increased drastically in Europe. Are you seeing any benefits on the formulation and registration what might be there because the patented companies, the price differential between you and them can be much higher and people moving more towards the generics because the price of the patented molecules have increased drastically what here in Europe and what will be your broader European strategy or the geographies where you want to grow, what we understand Europe is the most profitable part, so that is the reason the question came.

**Sandeep Aggarwal:**

I would tell you that it depends on the products you have, there is profitability worldwide, all around. In Europe we have bagged our first registration actually which will be first registration of AI which will be now marketed in about 17 – 18 countries of Europe, so it is into that zone. We see an opportunity there, people have interest in generics, people have interest in specialty molecules, and of course the margins in specialty are always higher. In case of generics also the prices have increased because on the increase in the input cost everywhere. So, at this moment also the markets are quite disturbed particularly in case of herbicide there is no clarity that the price which are prevailing in the international markets today are the sustainable prices or the prices are going to fall. So, there is a little amount of risk also that is why we have a mixed strategy in certain molecules, we are going fast in other molecules we are very, very slow and cautious, we do not want to invest. So, the strategy is very, very clear that we have to build up our strength in certain molecules and move into the international markets. So, of course whatever development we do that will be sustainable program because when we do the backward integration in my molecule I get the strength, when I manufacture first time product in the country again it gives me an advantage of being the first mover after the inventor. Similarly,



getting those advantages into the international markets also as a strategy we are very, very clear that we continue pushing the novelties to the market and this will get the Insecticide India as in the market and our growth will be sustainable.

- Himanshu Upadhyay:** Thank you. I will join back in the queue for further queries if I have.
- Moderator:** Thank you. The next question is from the line of Dhruv with HDFC AMC. Please go ahead.
- Dhruv:** Thank you so much. The first question is, in the last year same quarter was there any sales of Thimet that we have banned?
- Rajesh Aggarwal:** No. Thimet was banned much, much before actually, 30<sup>th</sup> December was the last date, but we finished it much before that and Thimet had expiry of one and half year only, so it is finished six months before that actually I believe. It is banned in 2020 actually not 2021.
- Sandeep Aggarwal:** 2020 was the final year for Novan December and June was the final month for Thimet actually. Now we are in 2022, so it almost one and half year we are not selling these molecules.
- Dhruv:** Okay, if I look at the B2C sales for this quarter particularly on a year-on-year basis they seem to have fallen by about 8%, now we have seen that there has been a lot of increase in the technical prices, so everyone seems to have taken price increase or your peers also have taken a price increase. I was wondering there should have been a benefit of price increase plus probably some volume growth depending upon market conditions, but our sales have declined. So, I am just wondering was there anything was there anything specific this quarter that should be handed in?
- Rajesh Aggarwal:** The B2C sales are 66% where exports have increased in this quarter.
- Dhruv:** So, growth has come from exports, but B2C particularly has declined on a year-on-year basis?
- Rajesh Aggarwal:** Almost were looking matching. Okay, let us take it as you say. There must be some impact maybe there because the sales were not very, very smooth because the range if you have seen this year are like they have been extraordinary rain at the end of the season, there is some bit of impact basically but we have made up and it will be made up, we are not trying to dump any stocks in the market, Kharif season returns are good looking they got little delayed but we have lifted back everything, so market is very, very clean maybe that would have impacted a little.
- Dhruv:** Am I right to understand that this quarter there should have been some price increases also because your raw material prices also increased?
- Rajesh Aggarwal:** There will be an increase but at increased prices much sales have not happened; reasonable sales have happened actually. So, you will see some more sales happening in Q4 on little price increase, Q3 was just converting means the price increase tend has just started, so that gained in Q4, Q4 you will find that impact coming but not Q3. So, people what interested in B2B in demand there was export demand because there were international shortages, there we could

convert, but in brand sales some returns of Q2 because of the heavy rain falls and low demand in Q3 in totally would impacted our B2C sales.

**Dhruv:** Got it sir, because your exports have grown very strongly but even the B2B business I was wondering even technical prices have increased, even your B2B business should have seen a very strong growth. They have grown but what as strongly probably as one could have expected?

**Rajesh Aggarwal:** The season has come to an end; you will have to appreciate that still this is ending, and multinationals have to do the closing in December and other companies also this the closing period. Now, the second half of the year is never a strong selling period for us. So, it is reasonable selling period and this year it got an impact due to bad rains actually, because when we required rains, rains were not there and at the end of the season there were heavy rains and even now in the winter there are heavy rains in front of you. So, that is impacting the cropping cycle and everything actually the demand is mediocre this is not a very strong season from agrochemicals perspective.

**Dhruv:** Got it Sir. The next one was that in your press release you have mentioned that you have got patent for one of your molecules in your combination product. How should we see that, does it now enable to charge more on the market, I think herbicide?

**Rajesh Aggarwal:** It is a wrong way of putting it, when you make your products patent and you are bringing the innovative technologies of course you are going to give the premium because of the exclusivity. So, it is nothing charging high we are investing a lot on R&D, I am running four R&D centers with definite things, one biological R&D centre, one is the new product discovery R&D centre, and two are technical synthesis and development R&D centre. So, we are continuously investing on R&D though that big amount is not visible because almost all of our R&D centers are investing in our plants apart from one R&D centre which R&D centre run with the Japanese. So, a huge investment is being made and it will be a return on the effort whatever we gain. If we are not making big bottomline, you say you are not making. If we are making you are saying that we, are I do not know?

**Dhruv:** I also wondering from this angle that this patented product now that you have got?

**Rajesh Aggarwal:** When you are giving the new technologies of course the premium is going to come, so this year as I told that my pipeline is going to be very, very strong there will be about seven-eight launches out of which we are expecting four-five will be very good launches. So, all will be announced within the first quarter itself while like April-May-June, so there the announcements are going to start from March-April and May- June these four months there will be big announcements about the molecules and you will see those announcements next time when we will be talking about the final results of this year by that time I believe that there will be about six-seven launches by that time and you will know these stories from the market what is happening and what type of launches are these. So, interesting launches many will be the niche market segments where we will of course get the price advantage also.

- Dhruv:** The other question was on, is it possible to share what would be a total gross block investment in our technical manufacturing and just to understand what are we currently and how much is it going in the next one year or two years because you mentioned your capacity is increasing by about 50%, just wanted to get some sense on what you get?
- Rajesh Aggarwal:** We had already made a budget of about Rs.200 Crores odd for three year investment but due to COVID it delayed to four years and in four years everything is public number, but since you have put a question I will request CFO to explain like we can submit our statement wherein we say that our gross block was this much before this and this much investment we have which is going to capitalize now and the total investment is this much and of course then we will be able to calculate the things.
- Dhruv:** Can you help us to analyze the number better because that way we understand the potential even better, how much the gross block, how is the potential?
- Sandeep Aggarwal:** I will share the figures.
- Dhruv:** Sure Sir, perfect and lastly on exports is it possible to give some quantitative or qualitative sense on how are our registrations moving because I believe you are working a lot on registrations, so how are our registrations moving?
- Rajesh Aggarwal:** We have more than 100 odd partners and we have made various applications across the world. So far, our basic investment which is made of basic exports which are happening are all brand like readymade product exports but now we are bagging the registration in South America and also Europe and we are expecting certain more registrations in other geographies like Malaysia we have bagged, Taiwan we have bagged, so lot of registrations are started clicking now which means lot of my technical will start moving directly along with the formulations. So, I see a good opportunity and then again if you have further queries you can this detailed question in my scope department and give a detailed reply for this actually and Mr. Satwe then be available for all the meetings and conferences, he is the right person to give the reply in detail for this, but we will wait the statement for this also.
- Dhruv:** That will be very helpful. Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Riju Dalvi an Individual Investor. Please go ahead.
- Riju Dalvi:** Thank you for the opportunity. I would like to ask you one number specific question, if possible, could please share Q3 sales in data for domestic B2B and export business?
- Rajesh Aggarwal:** Only Q3 proportion B2C is 58%, B2B is 27% and exports are 15%.
- Riju Dalvi:** Thank you Sir and also one more question that I have is that in our previous question regarding the price hike, so you are saying that you have taken little bit of price hike in Q3 and the more

will come in Q4. So, could you please quantify that in Q4 you will be able to fully pass on the higher raw material cost?

**Rajesh Aggarwal:** It will pass in stages, Q4 is the end of season though we have started increasing the prices and for certain molecules it will be passed on in full for other molecules we will be having old inventories and we maybe charging a little premium on that also and for certain products I may have to just touch the cost or it may be cost minus 1%-2% then you do not sell at a lot, but there may be a special situation molecule wise. So, very difficult to comment at this situation but I would say overall you will see an increase in the EBITDA margins in Q4 that much I can comment, and the exact impact will start coming from Q1 because as the new crops comes in it has the start advent Kharif season only the real impact is going to show.

**Riju Dalvi:** Got it, Sir given this high commodity prices across each and every chemical and the higher power cost that might have impacted the Q3 numbers but if I look at your gross margin that has improved by 330 bps on year-on-year basis. So, it was largely on account of export contribution and higher B2B like us and higher sales of molecular products?

**Rajesh Aggarwal:** Basically, it is the product mix which is making a difference. So, when the new products starts moving in a better position and since the market is already showing the increase in the prices, we are able to realize a little better than the previous year.

**Riju Dalvi:** Got it. Thank you, sir, this was from my side.

**Moderator:** Thank you. The next question is from the line of Himanshu Binani with Prabhudas Lilladher. Please go ahead.

**Himanshu Binani:** Thank you for the opportunity. My first question was on the gross margin side basically despite rise in cost scenario while we have been commenting that we are having taken price hikes to that quantum that is actually evident into the numbers for this quarter. So, I was just wondering what has been the reason behind the gross margin improvement within the quarter.

**Rajesh Aggarwal:** Number one it is generally the product mix which impacts, number two to an extent we are able to take it actually not fully and there may be some old inventories which has moved on a new price. So, I will not say exactly on the new price, but at a little higher price it would have been impacted. You will see that it is not huge number it is a marginal number in terms of percentage it has been but exactly we see it is just Rs.3 Crores, so Rs.3 Crores is miniscule number technically but in terms of percentage it is looking for the best.

**Himanshu Binani:** Rs.3 Crores is the inventory gain number during this quarter?

**Rajesh Aggarwal:** I will not say that exactly the inventory gain number there has been various reasons number one is the product mix, number two may be the better realization there number three may be the inventory gain. So, all the three reasons put together might have impacted actually.

- Himanshu Binani:** What has been the quantum of price hike basically on a portfolio level, what sort of price hike we have taken?
- Rajesh Aggarwal:** It is not in general; the major hike is coming in the generic product and in that segment also there are certain set of insecticide, which is impacted, and herbicides are impacted very badly. So, there are particularly some products like Glaucoicide, Paracort, Atravin which have seen the maximum price hike followed by some other herbicides where Petilachlor and then there certain insecticide which are particularly new Nicotidim insecticide, Imidacloprid, Decetemapred which are showing a big hike, there are other products which are showing the smaller hikes. So, again this is a temporary scenario I cannot say that this is going to be same scenario in the next Kharif, because China is very unpredictable market, and they are commanding the market at this moment, and they are trying to govern the price and lead the world. But I do not think that this is a very stable situation, so its my belief the prices are going to drop from here a little, you said you are disconnected, so we have made product wise strategy where in certain molecules we are going slow, in certain other molecules we believe that we are able make the recovery or we will be able to take the price hike there we are going little faster.
- Himanshu Binani:** I have one more question, on the gross margin side. You have commented on some sales return basically during the quarter and that is from the Kharif season. So, what I mean the quantum basically of the sales return during this quarter?
- Rajesh Aggarwal:** Approximately Rs.30 Crores.
- Himanshu Binani:** Okay, and my next question is basically on the guidance will we continue to maintain our guidance for the whole year. Now, going into the Q4 which happens to be the seasonally weakest quarter on the domestic agrochemical per se. So, just wanted to understand with the nine-month run rate for the Q4 what is actually giving us this confidence that we would be able to achieve the growth rider both on the revenue as well as in driving the sales?
- Rajesh Aggarwal:** From my side I would say that reasonably we should be able sell in all the directions like all the three departments particularly B2B international business and B2C they are quite confident that they will be able to meet their target, so I am confident that is the reason and Sandeep you can speak on this.
- Sandeep Aggarwal:** Practically if you see the first nine months results the growth is only 5% and I feel that the fourth quarter is a lower sales quarter so, the total revenue growth should be somewhere around 5 to 10% and that EBITDA margins which has improved by 88 bps in third quarter I hope that it will improve further in fourth quarter. So, we will be able to maintain our guidelines on EBITDA margin improvement but definitely on revenue part I feel that it should be somewhere between 5 to 10%.

- Himanshu Binani:** Right sir, and just wanted to understand the margin differential on the gross margin side if you can quantify for the Maharatna products and the other molecules and the same we thought that domestic B2B, B2C and exports side. So, has been the margin differential in all these categories?
- Sandeep Aggarwal:** Practically the highest is there in B2C sales because B2B sales is the sales to PSO you convert as compared to the B2C sales and as far as the Maharatna is concerned definitely the margin in Maharatna is better than the generic product margins and if you see the margin improvement the basic reason for the improvement in margin is also that in FY2021 the Maharatna's contribution was only 36% in Q3 where again this Q3 FY2022 the Maharatna contribution is around 46%.
- Rajesh Aggarwal:** Here I would like to add a little as a strategy, we are focusing a lot on Maharatna, this year we have designed a further bifurcation of Maharatna that is focused Maharatna and Maharatna's and we will be targeting that a major portion of our business has to come from focused Maharatna's and Maharatna's where we will be including certain new molecules which are going to be launched into this fiscal and certain molecules which have come into the last fiscal where we got very few window to market those products. So, I believe with these new technologies also and with our focused approach our sales were these focused products which is focused Maharatna's and Maharatna's is going to increase further which is going to give us a good growth both in terms of topline and bottom line in the new fiscal.
- Himanshu Binani:** What would be the gross margins basically in the Maharatna and the approximate numbers which is the molecules?
- Rajesh Aggarwal:** It is difficult to share the numbers because it again varies from product to product and the market scenarios. But to believe these focused Maharatna that a categorization which is we have given is going to have the highest margins followed by Maharatna's and then there will be gold segment and silver segment will be the products under tail cutting which will be tail cut in rupees. So, in next four-five years you will see them declining further and the silver range is under tail cutting. So, it will keep on varying from product to product and time to time.
- Himanshu Binani:** One last question if I may have, one under capex side just wanted to understand the timelines of the project number one?
- Rajesh Aggarwal:** We have two products we have given, one is the expansion at Chopanki, so Chopanki is going to complete by March. One another is expansion at Dahej, Dahej is also going to complete by April and third one was the expansion which we had done in the SEZ for establishing our formulation plants for exports, so that is already completed mostly and capitalized. So, I believe we will be completing all our expansions by April or maybe middle of May wherein Chopanki will be done by March in this fiscal in full and Dahej will be coming later on like April, and we should be able to target April in full.
- Himanshu Binani:** Total capex number done for all these three projects?

- Rajesh Aggarwal:** Mostly it is done, now it is the last leg whatever Rs.10 – Rs.15 Crores will be required to finish this will be there.
- Himanshu Binani:** And what has been the total amount spend on this capex?
- Rajesh Aggarwal:** We had given a target of around Rs.200 Crores for three years actually, so Sandeep Ji can give the exact number, this year the investment which has gone is about Rs.68 Crores roughly so, roughly around these numbers.
- Himanshu Binani:** Sir, what sort of acceptance and margin profile one can expect from this capex?
- Rajesh Aggarwal:** We have not declared it clearly, but we can say that by this capex we will be increasing our capacity by almost 50% in terms of and this will be supporting our company in a big way and once this capacity comes onto production, we see a good growth and next year we will be targeting roughly about Rs.2000 Crores plus and good expansion in the bottomline also. Because this capex is divided into two parts one is for manufacturing of new AI's and another is backward integration which will not increase the sales number, but which will support the margins as well as the sales of the AI's where we are doing the backward integration.
- Himanshu Binani:** You talked about that Rs.2000 Crores revenue number from next year?
- Rajesh Aggarwal:** Yes.
- Himanshu Binani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijeet Bora with Sharekhan. Please go ahead.
- Abhijeet Bora:** Good afternoon, Sir. My question is that when your revenue guidance of Rs.2000 Crores next year, can you break it the incremental revenue which we will be getting from new AI's and the benefit backward integration?
- Rajesh Aggarwal:** Actually, it is little early, because the new AI's also will be coming from the expansion only and backward integration is not going to give you the numbers any direct sales, it will be consumed in the AI's you are going to manufacture. So, there will be hardly an Rs.50 Crores jump from the backward integration because if I am going to sell certain chemicals hardly Rs.50 Crores. But the entire jump is going to come in terms of like we will become a sustainable supplier for these products to the world because people will be able to believe better and they will get regular supply at a price which will be less fluctuating this will give them the confidence for our supply position and also give us the confidence to sign longer agreements with the people, particularly in those two products where we are doing backward integration.
- Abhijeet Bora:** Sir one thing I do not understand is that you mentioned that Rs.68 Crores of capex you will doing, in total Rs.100 Crores if I am not wrong?

- Rajesh Aggarwal:** Rs. 200 Crores spend in place of three year, in last four sales is being invested in which Rs.68 Crores in included and out of which Rs.10 – Rs.15 Crores that will be required by April.
- Abhijeet Bora:** Okay, if Rs.200 Crores is spend then if I look at your FY2021 revenue then it will be Rs.1400 Crores?
- Rajesh Aggarwal:** The Rs.200 Crores capex is done in that not even a single rupee work is done and the production from Chopanki will be in March and the Dahej production will come in April when the production starts coming and when the plant starts commissioning then only the results can be seen and those results will be in the next year only not in this year. Because by when the new plant is brought the new plant under production the capex you have done the money will not give return on its own, when the production is commence then only the returns will be seen.
- Abhijeet Bora:** Yes, my question is only on that Rs.200 Crores you have invested and Rs.600 Crores incremental revenue you are doing then it will be 3X asset turnover of what the capex you have done?
- Rajesh Aggarwal:** If you understand the technical manufacturing and you look at our industry then no one will produce more than 3X and that will be done in the first year only then after that there will be more growth and that is done in only Rs.600 Crores. Rs,600 Crores we are targeting for this year because our industry the registrations, product registrations and then the smooth manufacturing, you will start newer molecules, you will stabilize them, you start continuously moving those products in the market, there are many impacts of the seasonal conditions in this which I am giving 3X in the first year itself. Evaluate the industry and then those who put up the technical plant how much return they apply even I can get some guidance if in the long run you can identify and submit it will be helpful to me. I believe that 3X looks perfect.
- Abhijeet Bora:** How much is the peak revenue potentially on all the existing capacities we have?
- Rajesh Aggarwal:** Again, my goal of 10% growth target which will be per annum that we will grow by 10% and may go up to 15%. Last year registrations were not done, expansion could not be done so that was the target now that we are talking about next year guidance that we will grow with Rs.500 Crores plus and also we will grow in the future also and the growth will be from this only from this further capex plans are big plans and those are not right now still we have taken one more decision that biologicals we are investing some part and in biologicals our company's arm will be formed fully own subsidiary of the company will be developed where our biological R&D centre is functioning but further some expansion in that I will be doing. Other than that, chemicals there is no plans for expansions, so next two three-year growth is expected that expansion is again from this capex only after this project new expansion planning can be done in the next year or next to next year but the results of that may come when that expansion is completed. So, whenever you go for the expansion, we think of three to four years period planning because once the expansion is taken then three to four years period is considered by these expansions.



**Abhijeet Bora:** Lastly, what I want to basically understand is that Rs.500 Crores incremental in FY2023 above this we are expecting 10% annual revenue growth, is that right understanding?

**Rajesh Aggarwal:** I do not speak much about this that is why I keep this as permanent because as this is coming it is achievable. But it should be better than 10% I feel as expansions are happening and the products are coming the growth in the next two three years should be better in double digit.

**Abhijeet Bora:** Okay, because returns are through registration then the margins also will be better this Rs.500 Crores plus incremental whichever is?

**Rajesh Aggarwal:** Yes, gradually there is generics. Already government is having 27 products for which consideration is in process there are further other products which are under pressure. So, for generics there is lot of pressure. Ultimately, I will have to substitute generics with new technology because that is the demand of the day. If I see the international market the scenario is the same there and from here if I look at the domestic market the scenario is the same. The two star molecules which I had which were acquired from the multinational companies and the American company AMVET I had collaborated for marketing Thimet and Novan are banned now which were my No.1 and No.2 products and for this reason I saw that there is no impact on my performance year-on-year we did better in this way even if in future this position arise we would be ready for that, our strategy is such that old technologies gradually as the pressure is on that and that has to be controlled, so new technologies are to be developed and bring some new products in the market. Domestic market and international market both are to be focused and side by side because we are manufacturing B2B also is an opportunity to focus more, so focusing on all the three opportunities we shall go forward and with that in biologicals also we are finding interesting for the last three four years we are investing in biologicals but as my plans in biologicals that was third part owned plant but now with fully owned subsidiary in biologicals I will start direct investments, R&D centre was own, manufacturing facility was not there, now manufacturing facility is also completed shortly which will be run by the subsidiary. As the name is Insecticide India where biological products, I am selling to then people are in doubt that it is Insecticide or biological. So, the name is to be in abbreviations which will be a subsidiary company and use it for manufacturing.

**Abhijeet Bora:** That is very helpful. Thanks a lot. Best of luck for future growth.

**Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay with O3 Capital. Please go ahead.

**Himanshu Upadhyay:** Thanks again. My question was on tail cutting, and we had spoken about tail cutting in generics. What has been the concentration of revenues come in last five years because tail cutting as a strategy has been there for at least five years?

**Rajesh Aggarwal:** It is a continuous process, if I say I am introducing 10 new products in this year then that means my working products will be 150 and SKU's maybe more than 500 but that is unpractical.

Ultimately, if I am bringing the new technology somewhere I have to cut upon the older technology also, so we are working continuously, and they are put in silver range. This year my silver range sales is less than 5%, next year if I propose some more products in silver range, I will not think of 5% but maybe it may increase to 6% - 7% because removing the product is not that easy, the market stocks are to be exhausted, the plant stocks are to be finished and the packaging material also should be liquidated, if I do not sell these things then I have to face heavy losses. So, when we apply tail cutting, we are clearly focused that we have to close down gradually, and it will be brought to miniscule. Many a times the product to be completely close it requires two-three-four years for the product because in some market it is performing, and the team also has the resistance and network resistance also will be there and the company has invested in that product. But as a strategy we are very clear that maximum business we are making from Maharatna's and focused Maharatna followed by gold we have stopped all the other aids and brought straight silver, in silver range there are more than 50 brands and those are going towards tail cutting gradually and that is self-explanatory.

**Himanshu Upadhyay:** Okay, our aim is to have around 100 products in the market on an average, 30-40 will cutting the range but 100 would be the main focus area for us to grow would that be right?

**Rajesh Aggarwal:** Focus is around 50 products because Maharatna and focus Maharatna products will be 50 products but the active products I have next year will be nearly 125, out of 125 nearly 25 30 exact number I do not have, but about 35 more products will be in the gold range which I have to have, and the remaining 40 50 products will be in silver range. This way the number may be big but the 50 products that we are discouraging those products and we are not investing.

**Himanshu Upadhyay:** One last thing on exports side, our strategy is to export the products and manufacture also on our own and there are also many other small manufacturers who are coming up in India for various other agrochemicals. Would we like to registration for many other players and be a complete basket player in some geographies, so some we manufacture and some from third party and be a complete basket seller in Europe, my ask is would that be a strategy, or it would purely manufacturing led strategy?

**Rajesh Aggarwal:** My strategy is always led by manufacturing and some manufacturing led strategy that does not mean I do not support my customer. If I have to support my customer and even if I have import or buy from the market some product and then make the formulation and give them, I give them. But that percentage is minimum percentage, it is silver for me, I do not want. Because ultimately, I have made my export on to support the plant, ultimately, I have to work for the customers, but the strategy is to support plant and increase manufacturing.

**Himanshu Upadhyay:** Okay, thank you from my side. That was it.

**Moderator:** Thank you. The next question is from the line of Riju Dalvi an Individual Investor. Please go ahead.

- Riju Dalvi:** My question is with regards to, if you look at the commodities like cotton and maize, those prices have increased by more than 50% or 60% maybe doubled in last three to six months period. Are you expecting some kind of crop shift towards this commodity or this crop in the next Kharif season?
- Rajesh Aggarwal:** You have really good track of the market, we see a good change product mix because in India rice was the most popular crop wherever you have water, so in South India people were doing Kharif and Rabi both paddy and in North India also wherever they could paddy or East India wherever they can grow paddy they were growing paddy only. But this year we have seen the interest of the people that people are shifting towards other crops, and we see a big increase in cotton coming in, a reasonable increase in mustard crop in this Rabi season, corn maybe yes, in certain area sugarcane is growing, so a variety of crops are growing and also in certain areas soya bean also is showing the growth. In totally I can say a variety of crops are going to increase in the coming Kharif season and this is going to make a big difference in the total market size and I can see there can be a little jump in the market size in the domestic market also because with all these crops coming in and the interest of the farmer to protect these crops and the prices of many of the crops are going up so the market size can grow in the next fiscal this is the expectation.
- Riju Dalvi:** Right, so can you expect like some kind of new market or market size expansion in these crops?
- Rajesh Aggarwal:** It will not be a big leap, the market size at present is Rs.30000 Crores roughly there can be 10% to 15% jump in the market size we can expect that. Again, that will depend on the monsoon, that will depend on lot of factors but there is a definite possibility that the domestic market of the country can go up by I show double digit growth in the next fiscal, there is a possibility.
- Riju Dalvi:** Sure, thank you. Thanks for the clarification.
- 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. I thank all the participants for participating and giving views and asking relevant questions. I hope we have tried to reply everything, but if there is something and we get the mails we will respond to all those queries. Thank you very much.
- Moderator:** Thank you. On behalf of Asian Market Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.