AIMCO PESTICIDES LIMITED
(AN ISO 9001 : 2015, 14001 : 2015, 45001 : 2018 CERTIFIED)
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To,
The Department of Corporate Services
BSE Limited
P. J. Towers, First Floor,
Dalal Street, Mumbai – 400 001

Dear Sir / Madam,

Subject: Transcript of Conference Call held on Thursday, June 01, 2023

Reference: Aimco Pesticides Limited (Scrip Code - 524288)

Further to our previous communication dated June 01, 2023 in regards to the communication of web link of the Investor/ Analyst call for the Audited Financial Results for the quarter and financial year ended March 31, 2023 held on Thursday, June 01, 2023 at 2:30 P.M. IST, we enclose herewith the copy of the transcript of the said call pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

This is for your information and record.

Thanking You.

For Aimco Pesticides Limited

Samir Pradip Dave
Digitally signed by Samir Pradip Dave
Date: 2023.06.08 13:08:55 +05'30'

Samir Dave
Director
DIN: 00184680

Encl.: a/a

AIMCO PESTICIDES LTD.

AIMCO Pesticides Limited

Q4FY23 Earnings Call

June 01, 2023

Management Participants

Mr. Sameer Dave – Executive Director

Mr. Ashit Dave – Executive Director and CFO

Analyst – Mr. Sayam Pokharna

Aimco Pesticides Limited
Q4 FY23 Earnings Conference Call
June 01, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY23 Earnings Conference Call of Aimco Pesticides Limited hosted by TIL Advisors. 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. Sayam Pokharna from TIL Advisors. Thank you and over to you, sir.

Sayam Pokharna: Thank you, Ryan. Good afternoon, everyone. I hope all of you are well. Welcome to the Q4 and FY23 earnings conference call of the company. We have with us today from the management team Mr. Samir Dave – Executive Director and Mr. Ashit Dave – Executive director and Chief Financial Officer. The presentation for the quarter has already been uploaded on the Stock Exchange. In case someone wants to be added to the mailing list, please feel free to reach out to us.

Before we begin this call, I would like to remind you all that anything and everything said on this call, it reflects any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties have been mentioned in our annual reports. With that said, I would now like to hand over the call to Mr. Dave for opening remarks. Post which, we can start with the Q and A session. Over to you, Ashit sir.

Ashit Dave: Good evening, ladies and gentlemen. Welcome to our Q4 and FY23 earnings conference call. As it is evident from our financial performance for the quarter and the year, Q4 and financial year 23 has been a challenging period for the company. Throughout the year, we have encountered several obstacles that impacted our performance. These include destocking at customer level, high inventory levels with trade channels, declining prices of agrochemicals and raw materials as well as subdued demand in various market. These dynamics weighed heavily on our results affecting both volumes and sales across the board. Although, we experienced some relief in Q4 compared to the previous quarter in terms of volumes and sales, profitability continued to decline. This was primarily due to the liquidation of high-cost inventories from previous quarters leading to reduced gross profit margins and ultimately impacting both bottom line. This decision although painful in the short term proved beneficial as we observed further erosion in material prices in subsequent months. Current pricing environment for both finished product and raw material in the industry remains very dynamic and we are maintaining extreme caution in limiting our exposure to such volatility. Furthermore, it is important to note that financial costs in Q4 were notably higher due to interest incurred on raw material purchase, while other expenses increased due to foreign exchange losses. This further impacted our bottom line for the quarter. We expect the gross margin to have stabilized in the coming quarters along with the one-off expense, thus adding to the profitability in the coming period.

Looking ahead to Q1 FY24, we anticipate an outperformance compared to the previous 2 quarters on the sales front. We have already witnessed the resumption of dispatches to contract manufacturing, which began in April. However, it's essential to acknowledge that the industry landscape is still not as favorable as we initially anticipated at this stage. Price erosion persists due to inventory in trade channels and some spillover demands of Q1 to Q2 may happen. These challenges require us to remain vigilant and agile in our decision-making process. In light of the current circumstances, we are placing an increased emphasis on brand formulation sales for the upcoming year. Branded formulation demonstrated resilience in financial year 23 considering the overall industry situation. Therefore, our strategy for the coming year revolves around expanding into the regions within our existing domestic market and additionally we aim to explore opportunities in newer markets like Northeast India, as well as appointing additional dealers, distributors, as we have successfully done in previous years.

As we move ahead, we will remain agile and continue to adapt to the situation at hand, leveraging our strengths to emerge stronger from these testing times and I will not take much of your time, but I will leave the floor open for questions so we can have further discussion. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. Our first question comes from the line of Dhiren, an investor. Please go ahead.

Dhiren: So I have a few questions. My first question is giving the current industry environment that we're operating in and the uncertainty that even currently prevails**,** where are we, how does it affect our long-term strategy. So, we have been working on a few molecules on the technical side and we were also evaluating CAPEX to go beyond our existing capacity. So given the current scenario, do you see anything materializing on that front in the coming 1 or 2 years, or have those plans being put on hold?

Ashit Dave: Due to the current scenario, there have been delays in implementation of CAPEX project. We were expecting start of capital expenditure on one of our new manufacturing plant within the same site which has been delayed and now we are looking at starting the CAPEX from September or October this year after the monsoon season is over, but the plans remain same, but there has been delays due to this current situation, we did not want to burden the current cash flow with the additional CAPEX this year.

Dhiren: So, sir, would you be able to help us out, you know, in terms of some numbers with estimated amount of CAPEX and if we started by September, by when do you think we could begin the commercial production? And what would be the sort of capacity addition that we would be looking at?

Ashit Dave: We are planning for a CAPEX for a new manufacturing facility within the same premises for additional 2 new products and the expected CAPEX is about Rs. 10 crores from cash flow and Rs. 10 crores from borrowed funds and we expect the plant construction to be over in the period of almost about 8 to 9 months. Since we have already done the ground work, we were about to start the construction work, the groundwork, everything is ready. We just have to take the decision and start the work. So, we will see production starting somewhere around July, August next year.

Dhiren: And what would be the incremental capacity from this CAPEX?

Ashit Dave: This is a new capacity for new molecules. And so, for the incremental capacity for the current product, CAPEX already has been done, we have increased the capacity, but unfortunately due to the current situation, we could not use the existing capacity for the products, which we are already manufacturing.

Dhiren: So, sir, if my understanding is correct for the existing products, the capacity that we have increased our cumulative capacity as that date stands at 6,000 tonnes per annum. Is that understanding correct?

Ashit Dave: Correct.

Dhiren: So with this new CAPEX like in terms of percentage if you could help me understand will it go up by 20%, 30% odd or any ballpark figure that would be helpful?

Ashit Dave: The capacity will go up at least by about 20%.

Dhiren: And you did mention that these are going to be two new products. So in terms of the product profile, again if you are open sharing the names that would be really helpful. But in case you're not, can you just help us understand whether these are molecules that would be higher in the value chain than the existing product portfolio and in terms of margin profile, would this mean better margins than the current portfolio?

Ashit Dave: The new products, one is an insecticide, another one is an herbicide. Both are generic products. We have been working on development of both these molecules from last few years and the pilot trials have been going on and now we are ready to launch these two new molecules. Margins are better than the current products which we are manufacturing. And value chain wise also, yes both molecules are expensive products upwards of $15 a kg. So yeah, that's details I can share as of now, yes.

Dhiren: So, my second question is if you could just give us the update on the registration status of Triclopyr licensing that we were looking forward in the international markets?

Ashit Dave: Both are still pending. We have submitted the additional data and everything what was required and we are awaiting response from registration authorities. We expect, at least in this coming financial year we should have at least these two registrations.

Dhiren: So the next question is a bookkeeping question. Now in your results that you've submitted for the year, there's a line item intangible assets under development, which to my understanding is the costs that you incur for the registration of your products. So this cost has broadly remained range bound for the last 2 years from roughly about 2.5 to 3 odd crores. So anything you would like to say on that like these expenses are expected to go up in the coming years as and when we look forward to launching new molecules or given the current environment, we would hold back on that expense for now?

Ashit Dave: No, we have a budgeted expense for generating data for new products which we are already working for future. So this expense will go up. We have a budget which we will spend this year and so it depends how much data gets completed during the financial year and how much money we pay. So it will get added.

Dhiren: Any ballpark figure that you would be comfortable sharing in terms of if we could model this expense, it could be in the range of 4 to 5 crores, probably higher or lower?

Ashit Dave: The budget for the year is Rs. 2 crores. But how much of that gets completed, we need to wait and see.

Dhiren: And so the last question from my end is from your opening remarks, you did mention something on the lines of interest cost for the purchase of raw materials. So did this happen because of some delayed payments or there's some other angle to it?

Ashit Dave: So beginning of the year we had not planned for the long credits, which we will need to hold the raw material and the finished products in stock. So during the year we had to convert many of our purchases on credit. And we had to then incur these additional interest costs for the purchase of our raw materials, which we had already purchased earlier. And that's why. We booked the interest cost for the whole year in last quarter. That's what counted in the last quarter.

Moderator: Thank you. Our next question comes from Aashav Patel with Molecule Ventures. Please go ahead.

Aashav Patel: Sir, my first question is on the gross profit margin compression. So as you have already mentioned in the PPT, that was on account of liquidation of high cost inventory. So have we cleared the entire high cost inventory which had impact on our gross margins?

Ashit Dave: No, in March we liquidated a large part of it, but not the whole inventory what we had. But subsequently in April and May, we have also liquidated the old inventory, so there will be some spillover sales in Q1 also this year.

Aashav Patel: And that's about it. So the Q1 should continue seeing the impact on the gross margin level, but nothing beyond…..

Ashit Dave: Margin wise yes, Q1 is still a challenge. We are trying our best to improve the same and we have been able to generate some additional business in different markets for new molecules and to some extent we have achieved what we want to, but we still have a month to go. So we are trying our best to revive the Q1.

Aashav Patel: Sure. And how are you seeing on the demand side Q1 compared to Q4?

Ashit Dave: Indian demand is very strong. The Indian agriculture season looks to be normal and we are going to focus more on our branded sale business in India. As far as overseas demand is concerned, demand has started coming in. There is some revival in demand, but it is not going to reflect immediately on performances since there is a lot of pipeline stock with the manufacturers, with the traders, with consumer, everyone and the prices are consistently still falling, it has not stopped as yet. So difficult to make judgments on margins.

Aashav Patel: So can you please guide me with average product prices for our top three key products say in Q3 versus Q4 versus where are we right now?

Ashit Dave: Q3 versus Q4, we saw about 10% to 15% price drop. Q4, till now there has been about 5% to 7% further price drop. And we don't know where it will end.

Aashav Patel: Yeah, but sir, usually as we know, this is not the first time the industry is facing challenge. We have seen agrochemical downturn cycles in past as well, but somehow this time around….

Ashit Dave: Such a long cycle. Yeah, everybody has seen this cycle, but such a long cycle is is I think the first time this has happened that this consistently falling prices have lasted beyond four to five months.

Aashav Patel: What do you think sir would be the key reason for the same?

Ashit Dave: I think there are several reasons, but one of the key reasons is that due to COVID, everybody overbought whatever they needed in 20 and 21. Everybody overbought because there were consistently lockdowns happening in China in several other countries and keeping that in mind, nobody wanted to be out of stock and it's just because of this last 2 years everybody, you know, because of that there is lot of stock available everywhere. And manufacturers also did the same thinking that the demand is strong and it will continue to be strong.

Aashav Patel: Sure. And sir coming on the CAPEX front, we have recently expanded, as you mentioned in the opening remark as well that we have expanded our capacity from 4500 to 6000. So considering the current environment scenario, how do you see the capacity utilization going forward in the coming years say for example specifically in FY24?

Ashit Dave: So far the forecast from various markets in which we are planning, we are selling our products, forecasts still remain robust. We are still looking at substantially higher number than last year. But due to the past couple of quarters, I really don't want to make any large claims that we are going to utilize the full capacity as yet.

Aashav Patel: But what would you aspire further on a consolidated capacity utilization level for FY24?

Ashit Dave: If I go by the forecast, we will utilize almost 80% capacity.

Aashav Patel: In FY24 itself, considering the even the incremental capacity, so the 6000.

Ashit Dave: Yes. And to just explain you even if next month forecast if you see from my customers, it is very high, very robust but due to this price is falling consistently, I'm not very sure that forecast gets converted into orders. We are remaining bullish, but at the same time, we need to have that caution also.

Aashav Patel: But, sir, if we take two quarter back pricing which was the steady run rate. On those pricing level for our key products, what kind of revenue can we generate on 80% utilization considering the incremental capacity as well?

Ashit Dave: Then we would be at least 20% higher than our FY22 sales.

Aashav Patel: So FY22, we did close to 312?

Ashit Dave: Yeah, so 350, something like that. But I really doubt that in this financial year, the prices would go back to mean level since there is huge amount of stock available with everyone.

Aashav Patel: So even now you feel that destocking is not completely...

Ashit Dave: Not yet over. There is still lot of inventory. Just last to last week, we had a conference in China and we met most of the industries from China and India. Seems everybody has stocks, huge.

Aashav Patel: So I understand that on the margin front, we might very well sort of bottom-out in one quarter, but how long do we expect the industry to?

Ashit Dave: Two more quarters for things to really improve on price front. Demand wise, yes it will come back. Demand is showing strength and it will come back. But prices I am not too sure **22:51** ____ quarters.

Moderator: Thank you. Our next question comes from Parth Garg with Mittal Analytics. Please go ahead.

Parth Garg: Actually, I wanted to ask, most of the questions were answered. So my question was on what are the updates on Brazil registration for our product?

Ashit Dave: So as I said earlier, we are awaiting response from the registration authorities. We have submitted all the documents which we were to submit and we expect both the registrations at least in this financial year, coming financial year.

Parth Garg: And what are the based on registration of new molecule you mentioned in the previous concall that it can be completed by around March 23?

Ashit Dave: So we have applied. Yeah, we have applied new registrations also that is on time. But now when we will get those new registrations, we have to wait and see.

Parth Garg: And these are the registrations for the product which we are going to manufacture in the new facility or?

Ashit Dave: Yes.

Moderator: Thank you. Our next question comes from the line of Samarth Singh with TPF Capital. Please go ahead.

Samarth Singh: For financial year 23, what were sales under the **contract manufacturing 24:31?**

Ashit Dave: Contract manufacturing, our sales, I don't have the exact number, but it was little less than last year.

Samarth Singh: Last year we had done close to 80 crores, right.

Ashit Dave: Yeah, little less than last year it was.

Samarth Singh: So say 70-75 crores.

Ashit Dave: About 70. And I don't have the exact number, but it was less than last year.

Samarth Singh: It is a 3-year contract, right. So for 250 crores, that is the total value of the contract over 3 years? So the balance 100 crores that is left on the contract they would be making that purchase this year?

Ashit Dave: Correct. We've already supplied quite a lot of quantity in April and May. June, July also is planned. So that is going on. It will come back to almost normal levels this year.

Samarth Singh: So irrespective of the demand, your client will be purchasing this 100 crores worth of product this year?

Ashit Dave: Yes, they will be there. Only problem happens is that at times we have to hold stocks.

Samarth Singh: No, it was a 3-year contract and this was a guaranteed purchase, right or not?

Ashit Dave: Yes.

Samarth Singh: And the contract was a volume contract or a revenue contract?

Ashit Dave: Volume contract.

Samarth Singh: So the balance, whatever volume that they have to purchase it, they will purchase it, right? It's not about you are holding stock.

Ashit Dave: Yeah. So this year suppose if they are to purchase 1,200 tonnes, that will happen.

Samarth Singh: That will happen regardless, right?

Ashit Dave: Yeah, but we are looking at much higher number than that. That's the forecast. But at least 1200 we will achieve.

Samarth Singh: Because we were looking at a much higher, if I remember our Q2 call, we were looking at much higher we were stocking inventory based on that. And we have to take a huge write off on this inventory in this quarter, so I think you…..

Ashit Dave: Along with this contract manufacturing, our existing customers of the same products also in different various markets also did not buy the expected quantities. So that also affected the performance.

Samarth Singh: What is the plan as far as contact is concerned? Will we be renewing it or what is the status?

Ashit Dave: We will be renewing the contract.

Samarth Singh: And would it be for a similar volume amount or higher volume?

Ashit Dave: I think the contractual quantity will remain same, but we have increased the capacity and supply forecast is much higher than the contracted value, but looking into the current scenario, I don't think we can expect contractual obligation higher than the one we have now.

Moderator: Our next question comes from the line of Rishikesh Oza with RoboCapital. Please go ahead.

Rishikesh Oza: My question was regarding the EBIT for FY24. Can you share a broad guidance for what exact EBITDA margins are you looking for?

Ashit Dave: Very difficult to give guidance at the moment. I think in the next quarter meeting concall, we will have a better idea of where the prices are going, how the market is behaving. Beginning of the year and then especially in this situation, very difficult to put a number to that.

Moderator: Thank you. Our next question comes from the line of Sushil Bhojwani with Greenedge Capital. Please go ahead.

Sushil Bhojwani: So I just want to understand, so last year we were pretty much optimistic on things and you know slowly the pricing has kind of not moved against us, but minus the external factors which probably have affected, what do you think has gone wrong probably as a business, if you think if there is anything which has one wrong with us?

Ashit Dave: I think specifically if company wise, when we analyze this situation, we have realized that we are very thin spread as far as product portfolio is concerned. We need to increase our exposure and manufacturing of more molecules and that's how we will be able to prevent such kind of situation, current situation in future again. And at the same time, we also need to concentrate more on the branded sale formulation business in India and we have already started working on both these and we will try to achieve good volume and good business of branded sale formulation in India. And we are also adding 2 new molecules in manufacturing and both put together, we prevent us from getting into this situation. And yeah, that's it.

Sushil Bhojwani: Because if I understand correctly, previously our focus was to actually grow technicals to a certain extent, right where we are saying that we'll probably have the business grow to an extent where it probably contributes more because also kind of giving us margins. But then do you think that this is what is kind of changing now and you want to probably…

Ashit Dave: No, I think it's just that time that we spent on the CAPEX of increasing production capacity of the existing molecule. And due to the current situation, we could never achieve those higher production levels and get those numbers. Our new product introduction project is on track but delayed a little bit because we have not invested in the CAPEX this year for the new manufacturing plant for new products. But as far as the current situation is concerned, it's because both the products which our main large two products are not doing well in the international market, the volume wise and there is lot of stock available with many manufacturers.

Sushil Bhojwani: And sir in terms of the cost, when I see there is a rise in the employee cost, what exactly is attributed to that because there is some rise in employee cost and then there's rise in other cost**.**

Ashit Dave: I need to check. I don't have those detailed numbers on that.

Sushil Bhojwani: Because essentially, if I look at the FY23 numbers. So I mean, I would say that most of the material cost has probably remain more or less similar, but there is a sudden rise in this employee cost which is moved from 3% to 7%. So I'm not sure why it has moved so high and obviously I understand the other cost would be probably because we are probably in the holding inventory as well. So that would be a cost which is kind of hitting us. So if you can just look into this and let me know what exactly has kind of...

Ashit Dave: I will check on the numbers and I'll get back to you.

Sushil Bhojwani: And so one more thing, sir, since we have not made any kind of profits, sir, why are we paying our dividend this year, sir?

Ashit Dave: See, we are maintaining our dividend payout policy and we are looking at current year with revival and we have experienced quite a large turnaround in sales wise for the quarter first quarter and the forecast also is very robust. So plans remain same and that is why we don't want to deviate.

Sushil Bhojwani: But sir, given the circumstance, obviously since we need to conserve cash because our borrowings have also moved. So why should we actually pay out? I mean that doesn't make sense at all.

Ashit Dave: That's the board decision. I cannot answer you more than that.

Sushil Bhojwani: Right. So, I'll wait for the cost part. Probably you know to be kind of.

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

Ashit Dave: Thank you everyone for attending the conference call and looking forward for your support and looking forward to communicate progress in our business in the next conference call again. Thank you very much.

Moderator: On behalf of Aimco Pesticides Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.