

AIMCO PESTICIDES LIMITED

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To,
The Manager
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 November 19, 2020

Reference: Aimco Pesticides Limited (Scrip Code - 524288)

With reference to our letter dated November 17, 2020, intimating you about the Conference Call with Analysts/Investors held on November 19, 2020 and pursuant to the applicable provisions of SEBI (LODR) Regulations, 2015, please find enclosed herewith the Transcript of aforesaid Conference Call

This is for your information and record.

Thanking You.

For Aimco Pesticides Limited

Anuradha Matkar
Company Secretary and Compliance Officer
ACS No. 57570

Encl.: a/a

AIMCO PESTICIDES



AIMCO PESTICIDES LTD.

Aimco Pesticides Limited

Q2FY21 Earnings Conference Call

November 19, 2020

Management Participants

Mr. Samir Dave – Executive Director

Mr. Ashit Dave – Executive Director & CFO

Mr. Hiren Shah – Purchase Officer



Analyst

Mr. Sayam Pokharna – The Investment Lab

AIMCO Pesticides Limited
Q2 FY21 Conference Call
November 19, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Conference Call Performance Discussion of AIMCO Pesticide Limited. As a reminder, all participant lines will be in 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 **The Investment Lab**. Thank you and over to you, sir.

Sayam Pokharna: Thank you, Steven. Good evening everyone, I hope you all are well. Welcome to the Q2 FY21 Earnings Conference Call of AIMCO Pesticide Limited. From the management we have with us Mr. Samir Dave, Executive Director, Mr. Ashit Dave who is the Executive Director and Chief Financial Officer, Mr. Hiren Shah, Purchase Manager of the company. The investor presentation for the Q2 has already been uploaded on the stock exchange and has been emailed to you all in case if anyone does not have a copy of the same. Please do write to us and we will be happy to send it over to you. Before we begin this call, I would like to remind you all that everything said on this call that reflects any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in our annual reports and file with the exchanges. With that said, I would now like to hand over the call to Mr. Ashit Dave for a brief overview post which we can begin the Q&A session. Over to you sir.

Ashit Dave: Good evening everyone. Thank you for attending the presentation for Q2 FY21 performance review of AIMCO Pesticide Limited. The second quarter, as we had expected, we improved on the performance of the company from the first quarter of this year as well as the second quarter of last year. The focus was on improving profitability and readjusting the product basket product mix so that the profitability can be improved and due to overcoming challenges, due to the COVID situation we had to focus on new markets, new business segments to ensure that the performance of the company is not very adversely affected. We have been able to achieve most of the targets which we had set for the second quarter, though we would have even liked it to be even better than this. But hopefully in Q3 and Q4 we'll be able to perform even better. The current year second quarter we have observed some increase in profitability EBITDA margins over the past Q1 quarter of this year also and Q2 of the last year also that is mainly been possible because of certain shift in our focus of

business and rearrangement of products. As far as demand of agrochemicals is concerned, the worldwide demand has been improving consistently over the past few months and Indian demand is concerned India had a very good monsoon this year. So, the local demand was very strong and everyone experienced increase in domestic sales in the first half of this year. And the second season which is Rabi season is also expected to be very good and we expect this growth to continue or the second season as well. And as far as CAPEX is concerned we had very small CAPEX planned this year for some debottlenecking of the production facility as well as investment in enhancement of our effluent treatment plant. Both the projects are on as schedule the debottlenecking of the production facility is almost completed we are about one month behind schedule, we expected the CAPEX to be completed by October but we now targeted to be completed by about second week December and January onwards we will have the additional production available.

And looking at second half of this year, we expect a small growth over the total income as compared to last year. But much better profitability, with much better profitability and apart from this I don't have anything else to add. I can take questions if there are any specific questions with respect to financials of the company.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from line of Navid Virani from Concept Investwell. Please go ahead.

Navid Virani: Sir my first question is on the operating margins. So, we have seen one of the best operating margins in roughly 10, 11 quarters. So, just wanted to understand this we are expected to continue on there is some one-off inward here and which will normalize once situation normalizes?

Ashit Dave: In fact we expect this to continue over the third quarter and fourth quarter as well. I will take you back that how we could achieve, we had decided that we will reduce some of our low contributing business and concentrate on selling of branded product, branded formulation and technical's which are having higher profit margins. And because of our shift in the strategy, we were expecting some reduction in top line but we wanted to ensure that we improve our margins and because of that, we see this improvement in the EBITDA margins and we expect this to continue over at least next two quarters and then even improve upon this.

Navid Virani: Okay. Sir my next question is, so as you mentioned in your opening remarks that our debottlenecking plan is well on track, so just wanted to understand in terms of tonnage output what is the present scenario and what will be the scenario after this debottlenecking finishes?

Ashit Dave: I'll just give you a brief that at the moment our tonnage wise production of technical is about 200 to 225 tonnes per month and after debottlenecking. We will go to 300 tonnes per month.

Navid Virani: Okay. And sir lastly just wanted to understand on the proposed land for agro chemicals which **(Inaudible) 9:25** what is the update there if you can share?

Ashit Dave: Unfortunately there is not more update on the situation it remains standstill once the draft notification was published by the government all the concerned parties, including companies as well as the association of companies has written to the government raising objection and now the process is that the ministry will call each parties who has raised the objection, and do a hearing. So that remains to be done and it's a process, which can normally take six to eight months, once it starts but at the moment, the government has not yet started anything. This is mainly primarily because, the kind of response which came from the industry for against the banning of 27 products, the government is also thinking of relooking at the decision, and it's still at discussion stage. So, there are no dates as yet any further action on the subject.

Moderator: Thank you. The next question is from the line of Shankar Data an Individual Investor. Please go ahead.

Shankar Data: Sir, can you please throw some light on the performance and outlook of your business verticals like technical and brand formulation and bulk formulation?

Ashit Dave: We manufacture technical then we have branded formulation sales also. And both the technical as well as branded formulation sales, we have a local market and export market. Now, if I give you a divide almost 60% of our product, we have export business of technical as well as formulation products, and then we have some trading business, but that trading business has been reduced. And so, right now we are concentrating on increasing our technical sales and branded formulation sales.

Shankar Data: Okay. And sir do you see demand normalization in your export market which was earlier there?

Ashit Dave: In export market we did see a reduction in demand due to the COVID situation lot of customers did not want to take delivery of the orders, which were already placed, but it has slowly started improving and now we are executing new orders. It is not as back to normal as last year, but you can say it's almost 70% of recoveries there in the demand of export business. But fortunately, we had a very good Indian season, agriculture season and so again, some of the drop in sales in export segment has been covered by increase in sales in domestic market.

Shankar Data: That's good sir and as you can see from our half year balance sheet you have made further investment in product registration, of almost 1.4 crore in the H1. So, how much more of this can we expect in the second half?

Ashit Dave: Second half will also be almost same because the registration expenses are already decided at the beginning of the year and as the projects are put for data study, so the payment progress and all these is already decided from beginning. So for this year we will have an equal amount in the second half also.

Shankar Data: And sir for like two, three years what would be the –14:11?

Ashit Dave: Next year we plan to invest even higher amount in product registration because we have three new product registrations which we have planned for next year. So, it will be almost about, say 50% higher than this year's figures.

Shankar Data: Okay, that's good and lastly, I want clarification on your CAPEX. Four to five crore of CAPEX this year in plant towards effluent treatment plant. So does this amount include investment toward product registration or it is separate?

Ashit Dave: No that is separate.

Moderator: Thank you. The next question is from the line of Saurabh Munot from TVAM App. Please go ahead.

Saurabh Munot: I have three questions. The first one is the product approvals, I believe the company is registering in new economies. So, when can we start expecting the approvals?

Ashit Dave: So, as far as approvals are concerned, we are applying for new product registrations in countries like Brazil, US, Australia and these are the main countries where we are applying Philippines and some Southeast Asian countries also. But some of the countries we have already started receiving registrations for the new products, which we have started manufacturing and some products which we want to start manufacturing later on. In countries like Brazil, we expect the first registration to start coming out from 2021 and then there is a queue. So, there are four products supplied. So, one will come out in 21 another when 22, 23. So, that way, there is a queue of products, which we have already applied and at the same time we are in process of applying fresh registrations next year also. So it's a cue which normally works in many countries.

Saurabh Munot: Okay. So, would it be prudent to expect some approvals earlier next year or something?

Ashit Dave: In second half next year yes, earlier could have been possible if this current situation at least for four, five months none of the registration departments in any countries were working. So, only now from last two months, we have started receiving feedback from countries like Brazil asking for some additional data if they require so such kind of feedback. So, I would expect that by second half next year, we can expect some registrations to get clear.

Saurabh Munot: My second question is regarding the interest per tonne which is increasing about three years so, this whatever are companies plans on reducing this interest component with some dent in the profits?

Ashit Dave: In fact, this year we had decided that we will start reducing debt from this year Q3 onwards, but because of this current situation we had decided not to do that and in fact, because of investment, small investment in the CAPEX in the plant, we borrowed a very small amount Rs.2 crore more for CAPEX and so, that has resulted some increased in finance cost, but there is a onetime finance cost which has come in this quarter, second quarter is a closure of some of the advance authorizations which we had taken for export of our products against which we had imported some raw materials without payment of duty. And due to reduction in demand in export market, we were not going to complete those export targets, which were planned against those advance authorization. So, once you close those licenses, we have to pay certain interest component on the duty payment of those raw materials. So it's a onetime payment which we have incurred this quarter, next quarter onwards it will not be this.

Saurabh Munot: All right. Thanks a lot and my last question is regarding the pledge so the revocation of the pledge, when can we?

Ashit Dave: That we are working on right now, we are in discussion with some banks for to take over this facility and not including the promoters shares pledge in this takeover. But that is not yet final we are working on that, so we plan to get the pledge removed as soon as possible. Hopefully by the end of this year, we will be able to switch to the finance and get rid of this pledge.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Sir, in difference to the earlier question of the interest cost if we see the interest cost has increased quite a lot in this quarter and it has increased in June also. So, can you share what was that, how much was the one time charge that you mentioned, because if you look year-on-year half yearly it is from 80 lakh it has increased to 3 crore?

Ashit Dave: Yes, in both quarters in first quarter and second quarter there were certain payments made in June, interest payments and certain interest payments made in September this year. So, both quarters put together if you take out the onetime cost, it is about Rs.2 crore.

Ayush Mittal: Okay. And sir you mentioned about the debottlenecking, in reference to that what kind of, which of your key products do you expect to produce with the additional capacity that you will have and by when should we keep those benefits coming in?

Ashit Dave: This plant debottlenecking our just final some finishing work is going on and we expect it to be finished by middle of December and production will start from January for the additional capacity which we have planned and that will be mainly for product Triclopyr which is a herbicide for export. So, we have already planned and taken commitments for shipment from January to March for Triclopyr keeping in view the additional production availability.

Ayush Mittal: Okay, and this product used to be volatile in terms of the demand?

Ashit Dave: Yes, it was volatile and it is a volatile product, but this year we have been able to tie up for some large quantities to be supplied on a regular basis. To bring some stability and planned in.

Ayush Mittal: And what kind of margins do you expect on it, like the margins can be double digit overall, as you do that?

Ashit Dave: At the moment it is, it is in double digit it's a gross margins are much higher than last year. But, up to March yes, it will be but beyond March, I don't know, it is always a volatile situation, but keeping in view what we have in our hand, I can confirm that up to March we have those orders in hand.

Ayush Mittal: Sir, any new product that you plan to launch in this year with the new capacity coming in?

Ashit Dave: With this capacity, no new production of a new molecule. But next year, we will introduce a new molecule for domestic and export market as well.

Ayush Mittal: And for that you will have to build more capacity, or you'll replace some products?

Ashit Dave: No, next year what we want to introduce is an insecticide for which we don't have to invest in a new facility. We will use the same facility to manufacture that molecule.

Moderator: Thank you. The next question is from the line of Manish Garg from HSBC. Please go ahead.

Manish Garg: Most of my questions have already been answered. So, just wanted to have your view on the percentage wise revenue split from you that the Indian market and that export market and how do you see them shaping up going forward?

Ashit Dave: Export is about 60% of the top line and we expect to maintain the same though we experienced some reduction in demand from export market in the first half of this year. But since last few months, we have seen substantial improvement in demand and we expect that second half we'll be able to make up and maintain the same 60% export revenue.

Manish Garg: And you won't be able to comment on order book outside March as of now?

Ashit Dave: Order book as of March is looking good for export, because since you have to plan in advance customers are also buying material in advance. So, for exports it is looking very good, we almost have more than 50% of our planned export already booked, but local is domestic market we have to wait till December and see how it moves. But we expect it to be very good, since we've had a good monsoon spread all across the country and the water levels in all the reservoirs are at a very healthy level. So we expect the ruby season also to perform very well.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Sir, I just wanted to know that after this debottlenecking our turnover in last quarter will go up right?

Ashit Dave: Yes.

Shanti Patel: How much will be turnover in last quarter and what will be the margin in terms of percentage on their own?

Ashit Dave: With the increased production what we are expecting in the last quarter the turnover will go up by about 20 crore in the last quarter.

Shanti Patel: No, but sir what will be the expected total turnover in last quarter?

Ashit Dave: Last quarter we expect it to be about 60 crore, but it depends on the other local domestic market demand also, but we expect it to be about Rs.60 crore.

Shanti Patel: And what will be our PAT margin their on?

Ashit Dave: PAT margin, we will be able to continue the same margin levels of Q2 over the next two quarters and improve upon these margins that's what we have planned.

Shanti Patel: Expected with improvement, how much?

Ashit Dave: Same as Q2 that is the target and we want to even improve up on the profit margin.

Shanti Patel: So, then what will be the return on capital employed, return on equity sorry, return on equity for the last quarter?

Ashit Dave: I have not worked out that number for the last quarter.

Shanti Patel: But the totality, if you have worked out?

Ashit Dave: In totality we will be able to improve upon the numbers of last quarter of last year and we will be able to at least maintain this profitability of Q2 over the next two quarters. No, it's why I am little not very keen on giving the exact number is because, there are a lot of variables how the local demand happens, what happens to export market, the rest of the quantity so, the target is always to improve?

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, I am very new to your company, I have not researched it in great detail, sir could you please answer two questions. One is, what are your strong strongest points in terms of your capabilities, where do you excel in, which specific....

Ashit Dave: First part of your question I got, what are the strongest points of the company, what was the second?

Agastya Dave: Sir second question is that based on your current capacity so I believe you mentioned 200 to 225 tonnes per month, which would go to 300 tonnes per month post debottlenecking. How much are you utilizing today and once you can you immediately start producing 300 tonnes it seems that is the case, what you said just now, so what is the peak if you're not utilizing the entire capacity, what is the peak revenue that you can generate, given the best possible product mix. Thank you very much sir.

Ashit Dave: Yes, see if right now we are already at 200 tonnes per month capacity, which is right now the optimum full capacity production, we did experience a slowdown in April, May, June where the production numbers had come substantially down. But now we are back at full capacity and January onwards, we plan to go to 300 tonnes your question was that, whether it will take time, no from January itself we will go to 300 tonnes per month, because this is just debottlenecking it's not a new process or a new production. So, it is planned for going to 300 tonnes per month from January and as far as your first question was concerned, what are the strongest point of the company, I would give you two points. Number one, we are very strong in manufacturing capabilities. So, we handle difficult processes and manufacture some of the products with the highest quality standards with which we can compete with most of the Chinese manufacturers who are having three times, four times the capacity of what we have, but we still managed to export 60% of our production and compete with the other manufacturers. So that is our first strong point and the second strong point is that our ability to register new molecules and get into markets, which needs a lot of data, generation and registrations of the product, which are difficult. So we have a very good registration department who continuously works on getting new registrations all over the world, because, like pharma you cannot export your product unless you have the registration of your product in that country.

Agastya Dave: Correct sir. Sir may I ask a follow up?

Ashit Dave: Yes.

Agastya Dave: Sir what's your major raw material, do you do you start with very basic materials like let us Benzene Toluene level materials, or you do only one or two steps before the final technical product?

Ashit Dave: No, we don't start with the basic raw materials, we buy intermediates from India and from China and those intermediates are imported and then we do the further process and four to five steps processes are there, different product needs different process and then manufacture the product we don't start from the basic raw material.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Just I want clarification, I just wanted to know, what is the proportion of Chinese raw material that we are using in order to manufacture our product. How much is the dependence on China?

Ashit Dave: At the moment, our almost 50% of our raw material comes from China and which used to be more than about 70%. We have consistently started to bring it down and we have achieved some target and by the end of the year we still want to bring it down to about 35% to 40%. And we are developing another Indian sources and we have two suppliers from India who are manufacturing these intermediate and supplying to us, but it's a process of two years. So, we have to keep on working on it and eventually bring it down to zero.

Shanti Patel: Again, but suppose by any circumstances the import from China stops, what will be the impact on our price from.....

Ashit Dave: We have looked at this scenario whether in some eventuality where the imports stop from China. So, we have addressed this situation with two solution, one solution is we are carrying higher inventory than normal levels and we always have stock of these key raw materials for three to four months inventory we are carrying exactly for this reason, and number two we have developed the Indian source of the same raw materials which we can procure from India and by using both the strategies we can minimize the impact on our production if in any eventuality something happens from products coming in from China.

Shanti Patel: Nice sir but suppose we have to substitute the local material then what will be the impact on our competitiveness in the market because raw material prices may vary?

Ashit Dave: Cost wise both Chinese supplies and Indian supplies are comparable in cost. It is question on capacity, so the Indian production does not have the enough capacity to cater to the whole demand of Indian requirement but cost wise they are very comparable with China.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir just wanted to check, how have been the prices of technical over the past three to six months, have they come down and how much has been the reduction in prices if you can talk about that?

Ashit Dave: It is very product specific, but in general term if I can tell you is that technical prices were consistently going up for the month of April, May, June. Simply because there was a big demand supply gap, most of the factories were not functioning at full capacity. So the supplies, it was very constrained. But once all the factories started almost at full production capacity, the prices have started softening up and from August, September, October, we have seen some reduction in some of the molecules. Whereas some of the molecules prices have remained constant, some molecules have started softening down and the prices have come down. But it's always a mix, but generally, yes, there is a reduction.

Ankit Gupta: If I have to compare on a year-on-year basis, let's say how are the prices work in September versus the last?

Ashit Dave: Yes, year-on-year the prices are still higher than last year.

Moderator: Thank you. As there are no further questions, I now have the conference over to Mr. Sayam Pokharna for closing comments.

Sayam Pokharna: Thank you everyone for joining in on the call. If there are still any queries you can always write them to me at sayam@theinvestmentlab.in and once again thank you for joining the call.

Moderator: Thank you. Ladies and gentlemen, on behalf of AIMCO Pesticide Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.