AIMCO PESTICIDES LIMITED

(AN ISO 9001 : 2015, 14001 : 2015, 45001 : 2018 CERTIFIED)
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CIN NO. L 24210MH1987PLC044362

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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 28th June, 2021

Reference: Aimco Pesticides Limited (Scrip Code - 524288)

Further to our letter dated June 25, 2021 and June 27, 2021, we enclose herewith a copy of the Transcripts of Conference Call held with Analysts / Investors on Monday, June 28, 2021, pertaining to the Financial Results of the Company for the quarter and year ended on March 31, 2021, 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

Anumatkar

Anuradha Matkar
Company Secretary and Compliance Officer
ACS No. 57570

AIMCO PESTICIDES LTD.

AIMCO Pesticides Limited
Q4FY21 Earnings Call
28th June, 2021

Management Participants
Mr. Sameer Dave – Executive Director
Mr. Ashit Dave – Executive Directors and Chief Financial Officer
Mr. Hiren Shah – Purchase Manager

The Investment Lab

Analyst – Mr. Sayam Pokharna

Aimco Pesticides Limited
Q4 FY21 Earnings Conference Call
28th June 2021

Moderator: Ladies and gentlemen, Good day, and welcome to the Q4 FY21 Earnings Conference Call of Aimco Pesticides 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 opening remarks concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference has been recorded. I now hand the conference over to Mr. Sayam Pokharna from The Investment Lab. Thank you and over to you, Mr. Pokharna.

Sayam Pokharna: Good evening everyone. I hope you all are well. Welcome to the Q4 and FY21 earnings conference call of Aimco Pesticides Limited. From the management team we have with us Mr. Samir Dave - Executive Director, Mr. Ashit Dave - Executive Director and Chief Financial Officer, Mr. Hiren Shah - Purchase Manager. The investor presentation for Q4 has already been uploaded on stock exchange and has been emailed to you all. In case anyone does not have a copy, please do write to us.

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 risk that we face. These uncertainties and risks are mentioned, but not limited to what has been mentioned in our annual reports.

With that said I would now like to hand over the call to Mr. Ashit Dave for a brief overview of the quarter and full financial year post which we can begin the Q&A session. Over to you, sir.

Ashit Dave: Good afternoon, ladies and gentlemen. And welcome to the conference call. I would quickly take you through the Q4 and FY21 financial performance and recent developments post that we can take your questions.

As you must have seen in our exchange filings and subsequent presentation, Q4 was a challenging quarter for Aimco. Although we did decent in terms of Revenue from Operations, which stood at Rs. 46.07 crores in Q4 FY21 as compared to Rs. 32.95 crores in Q4 FY20. We reported loss on both operating profitability and net profitability side. Usually we keep three to four months of orders in hand, the price for which are fixed at the time of booking the orders. However, many base raw materials are procured on spot prices. And in times of escalated raw material prices such as Q4 and Q2, the company witnessed compression in margins.

These escalated prices are passed on immediately in new orders that we book. However, we have executed the existing orders at the old pricing. And to add to this Q4 profitability was also impacted due to escalated freight cost. As you all are aware container shortages and disruptions worldwide have led to abnormally high freight costs. For most of our business freight is included in our costs, so we have to absorb the cost. For full year FY21 we witnessed a drop in sales from about Rs. 185 crores in FY20 to about Rs. 176 crores in FY21. One of the reasons for this drop is changing sales-mix.

If we look beyond the absolute numbers, the company has shifted the sales contribution from B2B formulations and Trading business to Technical and Branded Formulations. As a result on a full year basis technical did sales of about Rs. 102 crores compared to Rs. 56 crores in the previous year, and about 81% growth; and branded formulation did sales of Rs. 35 crores compared to Rs. 22 crores in the last year, a 60% increase. In all fairness, this shift in sales mix could not deliver the higher profitability margin in FY21 which was the whole purpose of this exercise, but we feel that FY21 was one of the bad years for us.

We should be able to correct this anomaly as we move forward. Moving ahead, we will continue to focus on increasing our technical sales while the brand formulations will grow at pace of 15% to 20% year-on-year basis. On operation front, we have been focusing on executing the recently announced contract manufacturing deal. We have already begun trial production and we have done 40% of the desired levels in April, 80% in May, and we will take this to 100% in going forward.

The same will start to reflect in our financial performance in the current year and going forward. We have also planned for a Rs. 10 crores capital expenditure this year, and we are currently undergoing a debottlenecking exercise in the manufacturing facility along with the construction of addition effluent treatment plant capacity. This project is running a little delayed and is expected to be commissioned post monsoon. With that said, I am now open for to answer your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shankar Dutt from Kanav Capital. Please go ahead.

Shankar Dutt: Sir, my first question is on the profitability aspect. Our EBITDA margins are negative in Q4 and lowest in past 12 quarters. And you also mentioned that raw material costs increased, and freight also increased, but sir, I wanted to check how this could have such drastic impact on our profitability?

Ashit Dave: See, as I explained that 60% of our business is export business and in export business, we operate with orders which we receive from our customers well in advance, which at times are three to four months in advance. Now, once the orders are in place, we have to execute these orders. The main raw materials are already lined up in advance, they are not bought after the order is received. So, the costing of the order is also depending on the current raw material prices.

So, this year, what we witnessed was that some of the raw material, base raw material prices increased not in percentages, they increased in multi folds. For example, one of these materials which we use is MCA which was Rs. 36 – Rs. 40 per kg has gone to a price level of Rs. 150 – Rs. 160 a kg. So, such kind of raw material increase could not be passed on to most of our customers. But, once we finished these orders, we could then pass on the new pricing for the new orders.

This reduction in profit margin was not only because of rise in raw material prices, similarly, rise in export freight also affected the profitability and export freight in various regions of the world has also increased multifold, it is not in percentage. So, that also impacted the profitability and another one more reason, which was a one-off expense which we had to incur last year on pre-closure of advance authorization licenses which we had obtained, and we had to close these licenses because of lack of export orders due to COVID.

And for that we had to pay very heavy interest costs on the raw material which we had already imported but that was a one-off cost. But that also added to the reduction in profitability. So all these things put together affected the profitability.

Shankar Dutt: Up to September result you mentioned that we are looking for a good margin in Q3 and Q4. So, wanted to check what changed in terms of the external environment that we could not achieve this short-term goal?

Ashit Dave: Q3 was not that much affected, but Q4 was severely affected due to raw material pricing and export freight going up. Also, a small impact in Q4 was for some of the production shutdowns which we had to take for our capacity enhancement for the new contractual manufacturing tie-up which we have started. So, because of that, some of the sales were delayed and they were rolled over to April this year so, that also affected the quarter 4.

Shankar Dutt: And now we can expect that pricing are well aligned with our material cost?

Ashit Dave: Yes now, for the current year for current quarter and for the year all the increase in pricing due to raw material increase freight cost increase everything has been, we have been able to pass on to the customer and the margins are back at normal levels.

Shankar Dutt: And sir, my next question is more targeted toward understanding our strategies. So, would be your immediate focus area for FY22 is it **(Inaudible 11:31)**?

Ashit Dave: I did not get the first part of your question?

Shankar Dutt: What would be your focus area for FY22?

Ashit Dave: Focus area for this year would be increasing our technical manufacturing capacity. The contractual manufacturing agreement which we have done for which we have achieved almost 80% of the agreed capacity and now we are looking at achieving 100% plus, we are looking at increasing the volume further because we want to increase the size of the contractual manufacturing business. So, this year our focus will be on manufacturing of technical grade pesticides mainly.

Shankar Dutt: And sir, on the product registration plan, I remember exactly you mentioned that you are expecting one registration in FY22. So, what is the potential of this registration and is it for existing product?

Ashit Dave: As of now, still one registration is expected by December. We just received last month, we received the status update and the update still mentions December 21 as target date for one registration and then beyond that 22 to 23. So, so far, we expect the date within this year.

Shankar Dutt: And sir, about gestation period for commercialization?

Ashit Dave: Commercialization will take another six to eight months.

Moderator: Thank you. The next question is from the line of Parth Agarwal, an individual investor. Please go ahead.

Parth Agarwal: So I had a couple of questions. One is on the contract manufacturing. So, can you just give me a color on the margin aspect? Is it in line with 5-7% EBITDA margin that we have currently or will it pull up our blended margin in contract manufacturing?

Ashit Dave: It is a little better than our current margins. But going forward we still have not achieved the 100% capacity utilization of the increased capacity. Once we achieve our 100% utilization of the increased capacity we will be improving the margin.

Parth Agarwal: And secondly, you did not mention the customer's name, which is understandable, but just wanted to check is the end product is to be used in India or is it for the export customers?

Ashit Dave: It is for export.

Parth Agarwal: And secondly on so your technical and B2C formulation business which is high margin business and grown tremendously from 40% to 78%. And so, but that is not translated into increase in the gross or EBITDA margin. So, what's your thought on that?

Ashit Dave: I think in the total size of the business, it is still small, and we are expecting to grow in that segment 15% to 20% in current year also and we will keep on growing in that segment. So, over a period of a few more quarters, there will be a significant impact.

Parth Agarwal: No, but currently anyways it contributes 78% of our business, which is high margin. But despite that, it is not flowing into our EBITDA?

Ashit Dave: Now you are talking about the branded formulation sales or?

Parth Agarwal: Technical and B2C.

Ashit Dave: Technical and B2C okay. So, technical and B2C in the current year, as I explained in my earlier answer also, our margins were severely affected due to this raw material increase prices increase and freight costs increase. And in the whole year, then the interest cost also added to the reduced profitability, one-time interest expense. So, but going forward, yes, the whole idea of increasing our focus in sales of technical grade and reducing the trading business was to improve on profitability, and that will happen since we have been able to pass on the increased cost.

Parth Agarwal: So, in FY22, we can expect the margins will normalize?

Ashit Dave: Yes.

Parth Agarwal: Okay, any guidance that you can give around margin if possible?

Ashit Dave: I think by Q2, we would be better placed because the raw material prices have just started stabilizing, we still are not very sure how they are going to behave. But at the moment, all I would like to commit is that we are doing better than last few years as far as margins are concerned. But I would want some, at least one more quarter to go and then make a judgment call. But so far, we are doing well, with margins.

Parth Agarwal: So, since our trading in this B2B formulation business you are anyway scaling down that business. So, are you intending to bring it down to zero or what does the future hold for this segment?

Ashit Dave: No, we do not like consciously intend to bring it down to zero, if there are opportunities in trading also beyond the current activities of business in one which we are focusing on we do not refuse to do trading business also. If there are opportunities, we will definitely take up that, but our concentration is more on manufacturing now.

Parth Agarwal: Okay. Just a last question on branded formulation. Given that you have conservative about branded formulation growth, despite that, you have achieved 60% growth in the same as last year. So, is it one off or what kind of growth can we expect in FY22?

Ashit Dave: See last year branded formulation sales, did well across the board for all agrochemical companies, because Indian season, agrochemical season was very good. This year also, the monsoon has started very well the prediction is also very good. So, everybody, all companies are expecting to have similar increase in sales this year as well.

So, I would also expect us also to do well, but when I say we are conservative, we are conservative in expanding the business in geographical area wise, we continue to operate in the same geography same as last year, we have not added new markets in India to sell our branded formulation because of the COVID situation, we would have liked to add few more areas this year, but we have not. So, keeping that in mind, I would still consider us as conservative on that business.

Parth Agarwal: Just final question on contract manufacturing. So, you mentioned that at 100% capacity utilization, your margins will be much better for contract manufacturing or much better than the existing 5% to 7% margins. So, do you expect contract manufacturing business to continuously run at 100% capacity or how does because if you know, the capacity is going to be at 60%, 70% throughout the year, then the margins will be around 5%, 7% only. It would not be?

Ashit Dave: See our initial target was July to reach 100% capacity utilization, but it seems that it will be about a month delay. From August onwards, we will be on 100% capacity utilization for the initial understanding what we have done but now we are already talking of increasing the quantity of the production going beyond. So, we will also again have to take a CAPEX this year and invest in additional capacity for which again, there will be some disruptions in production this year.

So, in the whole year looking forward to increase the capacity beyond what we have now, I expect that we may not in the whole year on 12 months basis, we may not have the 100% capacity utilization.

Parth Agarwal: From next year you will have it?

Ashit Dave: Yes. That we will have to take some shutdowns if we want to still further increase our capacity. The current contract is for three years and that will continue.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, three questions. The first one is – I am looking at our product basket and consist of mainly three products. So, how do you guys think about expanding the product basket and reducing that product concentration risk and in next three to four years, any kind of a thought process around where does this number will be increasing from three?

Ashit Dave: Yes, we have new products, which are under development for which we will set up new manufacturing capacities going forward and from the current product basket also, we are aware that one of the products which is Chlorpyrifos is going to be phased out over a period of few years, five to seven years. So, we will have to have a replacement product ready.

We already have a product ready as a replacement and normally we had planned to start larger production of the new product this year, but keeping in view our commitment for the new contractual manufacturing agreement we have this year we are concentrating on increasing our current products' capacity and we will take up the new product expansion next year onwards, but we do have products under development.

Dhwanil Desai: And then any update on the commercial scale up of the Bifenthrin from our side, I mean, have you started….

Ashit Dave: Commercial scale production of Bifenthrin has already started, but it has started at a very small scale. We have not scaled up the production as yet because we are still awaiting for registration of this product in key export markets. Once we have these registrations coming through, we will start investing in manufacturing facility with increased capacity of Bifenthrin production. But at the moment we are manufacturing Bifenthrin, but which is not a very large quantity.

Dhwanil Desai: So, is it fair to assume that actual scale up on Bifenthrin side will probably come in at FY23 because we get the registration and then we put up right manufacturing capacity etcetera will take at least 12 months?

Ashit Dave: Correct it will take that much time.

Dhwanil Desai: Second thing sir, I wanted to understand in terms of all the products that we currently manufacture and in future that we are going to manufacture, how do we think about the backward integration I mean, how much backward integrated we are, how many steps we do inside the company and how many at what stage we kind of take the materials from outside? Can you throw some light on that part?

Ashit Dave: I will say there are a few key raw materials which we are still buying from outside not manufacturing on our own. One of the reasons is, purely a commercial reason why because there are very large capacity manufacturing plants for these raw materials set up in China and in India. So, we have option of buying these raw materials instead of manufacturing them. So, so far we do not see a problem in availability of any of these raw materials either from China or India, and because of which we have not gone backward in manufacturing these raw materials. We are more concentrating on manufacturing new products, new molecules, and as far as intermediates are concerned, we prefer to source them instead of manufacturing them.

But one of the raw material which we are using right now, the size of our purchase has become quite large. And we will think of manufacturing that intermediate going forward, but not at the moment.

Dhwanil Desai: Sir, last two questions. So, is it safe to assume that, I mean, after we procure whatever raw material from outside, typically there are two or three steps involved to arrive at a final technical product or like the number of steps are more?

Ashit Dave: Yes, it depends on product. Some products, there are three steps, some products, there are nine steps, some products, there are seven steps. So, it depends on the product.

Dhwanil Desai: And last question sir, this latest manufacturing contract manufacturing opportunity that we have obtained. Now, in your presentation, you talk about the new products that you are targeting, one of the filter or the criteria that you are using is that should have at least mid 30s kind of gross margin profile. So, is this new contract manufacturing that you have taken up also falls into that range or it will be much lower?

Ashit Dave: No, it is a separate arrangement. The current contract manufacturing agreement we have is one of the existing products it is for the existing product, which we were already manufacturing.

Dhwanil Desai: So the gross margin profile of that contract would be significantly lower right?

Ashit Dave: Yes.

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

Ayush Mittal: My question has been answered. I will come back in the queue if needed.

Moderator: Thank you. The next question is from the line of Vinit Biyani from BLFL. Please go ahead.

Vinit Biyani: My question is, again, little to do with the margin profile, but it has not been asked as yet. So I wanted to understand when I see our financials, I see that we have relatively lower gross margins of about 20% to 25%. We have hit about 29% in the last five years, but I have seen that we have payables of this year, about 180 days, when I compare with our like other similar companies, for example, in India pesticides, right, they would have 50 day payables, but a 50% gross profit margins. So my question is that, is it because we take a longer payable cycle that we procure raw materials more expensive? Is there any correlation with that, which is causing our margins to be lower?

Ashit Dave: I would, it is yes and no also. I will tell you why. Because we do buy raw material on longer credit, but most of the time, when we buy raw materials on longer credits, the additional incremental cost we pay is much less than the normal working capital costs anybody incurs in India. So they are not very significant cost for longer credits coming from China or coming from Europe. And why we do that is to because a lot of our export also finished product, what we supply, we also extend long credits to our customers. So that helps our working capital cycle and because of which we have these long payables and receivables.

Moderator: Thank you. The next question is from the line of Saurabh Monat, an individual investor. Please go ahead.

Saurabh Monat: My question is more at macro levels, like what are the company's goals or vision for the next two or five years, given that the revenues have been really inconsistent in the last decade? So I understand there are multiple external factors like product registrations, raw material prices, etcetera but what exactly is the company planning in next five years? What is the revenue goal that we are looking at?

Ashit Dave: Next five years, we are looking at growing at least 20% year-on-year, till next five years, because we have a few more products, which we are going to bring in. And that would also add to our top line and the bottom line, but at the same time, we want to first stabilize our gross margin net margin. Because, from last four to five years, we have seen a lot of ups and downs in our margins also.

So, our first target was to have some activity, which will stabilize the margins of at least a major part of our product at a fixed level, so that we can have some stability on our results, quarter-on-quarter. And going beyond, we are looking at adding more products in our basket, adding our capacity, manufacturing capacity, and incurring some CAPEX in the existing plant plus the current, the infrastructure facility we have, so that we can consistently grow at 20% and beyond over the next five years.

Saurabh Monat: And would that be safe to assume that we are slowly moving towards double digit margins in the next two to five years?

Ashit Dave: That is the target. But this last year was a year full of challenges for us. Though we started the year with that target in mind, knowing very well that we have a COVID situation, we will have a lot of challenges. But we are keeping all that in mind, we do always have the target of achieving double digit.

Saurabh Monat: My last question, sir, is has there been any progress on the pledge revocation?

Ashit Dave: Now, it is mainly because of the very small working capital borrowing we have done. We had planned to start repaying the borrowing this year. But looking at the additional CAPEX and we were discussing for further enhancement of our capacity. I am not yet comfortable taking that call now. We will see how the first two quarters go. And if the cash flow permits, we will start repaying the debt. Once we do that the pledge will go away.

Moderator: Thank you. The next question is from the line of Manish Kela, an individual investor. Please go ahead.

Manish Kela: So this is with respect to the Rs. 250 crores order that we received. So I just wanted as to how does this order change the dynamics of our business because I understand that this is possibly the biggest order that our company has received till date? So will we be eligible for bidding for many more such contracts, given the huge contract that we received? And again, how is the revenue split going to be considering the fact that it is a three-year order so? In one or two years….

Ashit Dave: One of the biggest advantages what we see in this is that the products for which we have made this contract was our existing product it is our existing products. And we have always seen last five years ups and downs in volumes and in margins in the product. Some year, we will have these are very highly seasonal products, some year we will have very large volume production and sales some years then suddenly we see 50% reduction in the quantities and then again next year we have higher volumes.

So because of these ups and downs, we were not really able to capitalize. Now, what this contract does is that it brings stability to production, it brings stability to the volumes of this product and brings stability to the margins of this product. So on the whole our performance improves substantially and this contract also has an opportunity of increasing the volumes going beyond which we are already discussing now.

So, it will definitely help the company going forward. As far as other products are concerned, we have not yet discussed anything on those fronts, we will take it as it goes. Right now, our focus is on completely achieving whatever we have committed for this current contract.

Manish Kela: So, how is the revenue split? I mean, because it is a three year order so, how much revenue are we going to realize across all the verticals?

Ashit Dave: This year the incremental revenue because of this is going to be about Rs. 70 crores. Going forward next year, revenues, the will, I will be better off telling you in our next con call, when we have a decision of how much quantity we want to increase or not increase, so, but if nothing changes, it is about Rs. 70 crores addition this year to the top line.

Manish Kela: Okay, and one last question, which I had, if it was not for this order, would we have seen flattish kind of revenues for this year or because you guided earlier that 20%?

Ashit Dave: Yes, difficult to say because we would have looked at something else in the sense that the new product, which we already have developed and ready, we would have scaled up and worked hard on getting that product scaled up earlier than what we are expecting now. So very difficult to make a judgment call on that so if this contract was not there, then what would have happened?

Manish Kela: So, just one final request. If we can have these con calls on a quarterly basis instead of half yearly basis?

Ashit Dave: Okay, yes I will take that as a good suggestion and we will work on that. Yes.

Moderator: Thank you. As there are no further questions from the participants, we would now like to hand the conference to Sayam Pokharna for closing comments.

Sayam Pokharna: Thank you everyone for joining in the call. We look forward to interacting you in the future as well. If there are any further queries which have not been answered, you can please write us to on the emails mentioned at the back of the investor presentation. Thanks a lot.

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