AIMCO PESTICIDES LIMITED
(AN ISO 9001 : 2015, 14001 : 2015, 45001 : 2018 CERTIFIED)
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AIMCO PESTICIDES
AIMCO

Ref.: APL/CO/BSE/11/2022-23 June 06, 2022

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 Tuesday, May 31, 2022

Reference: Aimco Pesticides Limited (Scrip Code - 524288)

Further to our letter dated May 28, 2022, May 30, 2022 and June 01, 2022, we enclose herewith a copy of the Transcripts of Conference Call held with Analysts / Investors on Tuesday, May 31, 2022, pertaining to the Audited Financial Results of the Company for the quarter and year ended on March 31, 2022, 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

Encl.: a/a

AIMCO PESTICIDES LTD.

AIMCO Pesticides Limited

Q4FY22 Earnings Call

31st May, 2022

Management Participants

Mr. Sameer Dave – Executive Director

Mr. Ashit Dave – Executive Director and Chief Financial Officer

Mr. Sayam Pokharna – TIL Advisors Private Limited

Moderator: Ladies and gentlemen, good day and welcome to the Aimco Pesticides Limited Q4 and FY22 Earnings Conference Call 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 the 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, Mr. Pokharna.

Sayam Pokharna: Thank you Mike. Good afternoon, everyone. I hope you all are well. Welcome to the Q4 and FY22 Earnings Call of Aimco Pesticides Limited. From the management team, we have with us today, Mr. Sameer Dave - Executive Director; Mr. Ashit Dave - Executive Director and Chief Financial Officer. The presentation for the quarter and full quarter has already been uploaded on the stock exchange and on our website and the same has been emailed to you as well. In case, anyone does not have a copy, please feel free to reach out to us.

Before we begin this call, I would like to remind you all that everything and anything 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 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. Ashit Dave for opening remarks post which we can open the floor for questions and answers. Over to you, sir.

Ashit Dave: Good afternoon everyone and thank you for joining our earnings call for Q4 FY22. It is my absolute pleasure to be talking to all of you in this afternoon. I will start with the brief overview of the quarter and full financial year and after that we can open the floor for questions. Q4, I am pleased to present that we have reported another robust quarter. Our Q4 FY22 revenue from operations stood at Rs. 76.88 crores, growth of 67% year-on-year. As we have communicated in the presentation as well, on a quarterly basis, our revenue is down by 24% due to higher base of Q3 FY22 on account of some additional trading sales which we had in Q3 and certain production shutdowns which we had to take in the month of March’22 for maintenance and debottlenecking. As a result, profitability for the quarter reduced marginally with EBITDA margin at 6.2% in Q4 FY22 compared to 6.9% in Q3 FY22.

For the financial year, on a yearly basis, this year we had reported the highest ever topline of Rs. 311.99 crores which is a significant growth of 78% over the previous year. This was possible on account of higher production levels which we have achieved during the year, better capacity utilization and better product realizations. We have also successfully completed the first financial year of our multi-year contract manufacturing deal, and on the profitability front, yearly EBITDA margin were at 6% compared to 5.6% in the previous year. The demand outlook for the coming year is also very good.

For the coming financial year, we have the higher CAPEX outlay plan. We will be looking at an increased production capacity of 6000 metric tons from 4000 metric tons currently. This expansion will take care of our growth for the coming 2 years. Furthermore, the company also plans to spend higher amount on project such as material storage facility and utilities. Company is trying to keep production disturbances to the minimum despite all the ongoing expansion works that we planned and on the logistics front, the challenges are again emerging for the entire industry, currently we are utilizing congestions in Chinese ports, other global ports leading to higher lead time and higher freight cost. However, we have mentioned in the past there is a better acceptance and appreciation of these challenges with the customer also and we have been able to pass on most of the increased cost during this quarter and previous quarters also and we are at a much better position to deal with such circumstances. We continue to carry higher inventories as a risk mitigation strategy to avoid any production disturbances. Also, since we are looking at increased production in the future, we have decided to carry some of the raw materials at a higher level of percentage of stocks and with this, I conclude my opening remarks and we will all welcome participants for the questions. Thank you.

Moderator: Thank you sir. We will now begin the question-and-answer session. The first question is from the line of Devang Bhateja who is an Individual Investor. Please go ahead.

Devang Bhateja: Congrats on a very good FY22, my first question is, if you could share the breakup between value growth and volume growth for the full financial year and Q4?

Ashit Dave: I don't have the exact breakup of the value growth and volume growth, but volume growth, yes, I can give you some indication on volume growth that we were having capacity of 3000 metric tons which we increased into 4000 metric tons during this year for current financial year FY22 and we have achieved almost 90% production capacity as of now and we have added about almost 900 metric tons additional production as compared to the previous year. Value wise, I don't have the figures in hand, so it will be difficult to tell you.

Devang Bhateja: Sir, any rough estimate, it would be in double digits at least more than 10% the value growth?

Ashit Dave: The value growth is above 10%.

Devang Bhateja: And sir, we were expecting one approval from Brazil, I think one registration that we had done earlier, so any update on that?

Ashit Dave: Yes, there is an update on that. We recently received an update on the registration. The registration was under evaluation from last couple of months and last month we received the information that it has gone for phase 2 evaluation. So, what that means is that we need to carry out some more data on the product and submit those data's in the span of 3 months. We have initiated generation of additional data and we plan to submit the data in next 3 months and we expect that the whole process should not take beyond more than 6 months for the registration to be issued.

Devang Bhateja: And sir, any idea about the market size of this product or any kind of market share we can look forward to whenever the approval comes in?

Ashit Dave: Whenever the approval comes in, we plan to have about Rs. 80 to 100 crores revenue of this product in export business.

Devang Bhateja: And sir, this additional capacity that we are adding will cater to this or we will need to do another round of CAPEX for this?

Ashit Dave: We increased our production capacity from 4500 to 6000 metric tons, it will cover the additional demand.

Devang Bhateja: And sir, last time we had mentioned that due to the volatility in RM prices, we have shifted to a monthly pricing, so does that continue and how are the clients reacting to it, are we getting the price hikes on time or anything you can share on that front?

Ashit Dave: It is continuing on a monthly basis. The prices are reviewed every month. So far, we have not experienced any major problems with this new pricing policy, but what we have observed is that from last at least 2 months the prices have stabilized. There are no wide swings on the front of raw material pricing or the freight charges also. Freight charges are going up, but they are still manageable.

Devang Bhateja: In that case, can you expect our EBITDA margins to improve a bit, any guidance you would like to give on that front for the full financial year?

Ashit Dave: That is the target we want to continuously improve our EBITDA margins and as we increase our production size, we also expect to improve on the EBITDA margin, so we can share some of the fixed cost. So, quarter on quarter, that is the target of improving EBITDA margin.

Devang Bhateja: Are we doing a double digit or are we looking at 9% EBITDA or anything on the gross margin and also if you are targeting that you could share?

Ashit Dave: On a yearly basis, I think right now, last quarter, we were at 6.2%, we plan to at least be in the range of 7 to 8% or going up to 9% in few months. So that is the target, but we still have to wait and see, but the target is to improve upon this number every quarter. Where we reach, we have to see.

Devang Bhateja: And sir, anything on the gross margins, what are we targeting on that front?

Ashit Dave: Gross margins, also I think I don't have the numbers, but similarly EBITDA margins we plan to continuously improve upon our margins for the coming quarters also and we don't see any reason why we should not be able to improve upon these margins.

Devang Bhateja: And sir, for the full financial year, you have maintained a very strong working capital cycle and we have had very strong cash flows also, so was it a conscious strategy and do you feel sustaining?

Ashit Dave: Yes, I don't see any change in our strategy of purchase or sale during this year also as compared to last year and we will be continuing the same policy.

Moderator: Thank you. We have the next question from the line of Karan Jain, an Individual Investor. Please go ahead.

Karan Jain: My first question was on the product realization part, what sort of average increase have we witnessed in FY22 over FY21 for all the key products like Bifenthrin, Chlorpyrifos and Triclopyr if you could just state the average increase over the year?

Ashit Dave: Average increase on product realizations would be about say around 10%, but products like Chlorpyrifos prices are very volatile because it is subject to very high competition from China and subject to raw material prices going up and down, so you can't put a fix number on Chlorpyrifos, but on an average the whole year if you see what is the price of Chlorpyrifos, what was the price of Chlorpyrifos earlier year and now, it is about 10% higher.

Karan Jain: And is this increase mainly because of cost driven or will be?

Ashit Dave: Mainly cost driven.

Karan Jain: And could you throw some light on the new product commercialization part?

Ashit Dave: New product commercialization, we are planning to commercialize at least one new product this year. As you may be aware that we have to initiate registration processes in many countries simultaneously before we start manufacturing new products, so registration work is going on and we expect those registrations to come up very soon and this year, we expect at least one product we will be able to commercialize which is an insecticide, new insecticide.

Karan Jain: Another question is like, if we look at the average export data, your manufacturing business seems to have come back in FY22, so if you could throw some light on that, I mean what is the reason for…..

Ashit Dave: Bifenthrin, as I had explained earlier, we still don't have all the registrations in place, by which we can start a large production of Bifenthrin. We have few export-based customers, and we have few registrations with which we have started manufacturing Bifenthrin, but last two years, we had some set back because of one of the customer who was the large customer for Bifenthrin for us, they were having some financial issues, but now they have been bought by a private equity and then the business has started again. So last year, we could see revival of Bifenthrin business from that customer and this year also the outlook is very strong, we will be able to double the volume what we did last year on Bifenthrin.

Karan Jain: One last question on the CAPEX front, so you have mentioned that you will be incurring a high amount of CAPEX this year, if you could give us a range the amount of CAPEX?

Ashit Dave: CAPEX, as of now, what we have planned is about Rs. 10 crores for this year.

Karan Jain: And for FY23?

Ashit Dave: FY23 will be higher, but we will still wait for the finalization of numbers and in next 2 or 3 months, we will be able to finalize all the numbers of CAPEX.

Moderator: Thank you. We have the next question from the line of Aashav Patel from Molecule Ventures. Please go ahead.

Aashav Patel: So, within the technical segment, our sales have improved from Rs. 102 crores last year to Rs. 218 crores, now we have given announcement in April 21 regarding multi-year tie-up with some of the company, so what quantum of this increase is coming from that particularly?

Ashit Dave: About Rs. 80 crores came from that contractual manufacturing agreement and this year also, we are looking at additional higher numbers in the contractual manufacturing agreement.

Aashav Patel: And sir, if I broadly see the financials, the gross margins have remained around 20% compared to last year also it was 20%, even this year it is 20% blended level, whereas our sales in technical segment has improved from 58% of the topline to 70% of the topline which is relatively the highest margin product profile, so this doesn't end up, can you please explain on this, sir?

Ashit Dave: I think this year, our Q1 we were not able to achieve the numbers and because of lower production levels in Q1, these numbers, I don't think, these numbers will not match, but Q3 onwards, we are able to considerably perform on higher numbers and going forward, you will see an improvement in margins.

Aashav Patel: Sir, what kind of gross or EBITDA margins are we aiming, suppose once we are able to achieve the steady state rate of Rs. 80 to 100 crores within the technical tie-up, which contributes to our topline, what kind of margins can we expect?

Ashit Dave: EBITDA margins we want to be in the range of minimum 7 going up to 9 and that is the target, and we are very hopeful that we will achieve that this year.

Aashav Patel: But going forward, as the technical contribution increases, the 7% to 9% margins would be very much sustainable unlike past, right because in the past something or the other comes up and our margins are very volatile, but this time as technical contribution increases, this 7% to 9% margins would be very much sustainable, is that understanding correct?

Ashit Dave: Correct, and it is helped by this contract manufacturing business, so it brings the stability of volumes every quarter because of which we are very confident that we will be able to achieve these numbers.

Aashav Patel: But maximum annual run rate from the contract is around Rs. 100 crores, right?

Ashit Dave: Yes, which is expected to increase this year.

Moderator: Thank you. We have the next question from the line of **Samarth Singh**. Please go ahead.

Samarth Singh: For the year, could you please give the breakdown percentage for exports versus domestic?

Ashit Dave: Exports versus domestic, for the year we had Rs. 180 crores of exports and Rs. 132 crores domestic business.

Samarth Singh: And what was the freight cost as a percentage of sales this year versus last year?

Ashit Dave: I will find the freight cost and I will come back on that.

Samarth Singh: And I am guessing Triclopyr be our main growth driver for the current year?

Ashit Dave: Yes.

Samarth Singh: So could you just talk about the competitive dynamics, I think you had mentioned that in India there is only one other player but I think Bhagiradha is also into Triclopyr so if you could just talk about that whether the intensity is going up and about players and the demand outlook?

Ashit Dave: Yes, Bhagiradha also manufacture Triclopyr, but as far as my understanding is concerned, they are not regularly in production of Triclopyr. Their focus is on different products, so for us the focused product is Triclopyr, so as far as we are concerned, our biggest competition would be Gharda Chemicals. So right now, we are two large manufacturing companies of Triclopyr in India, and we basically compete with Gharda in most of the markets.

Samarth Singh: And we are having 20,000 metric tons demand per year globally for Triclopyr, is that number all right?

Ashit Dave: It is increasing, it used to be about 20,000 metric tons per year, but it is increasing more than 20-25% every year.

Samarth Singh: And the demand is coming from, what is the reason for this growth?

Ashit Dave: One of the main reason for this growth is the other herbicides which is Paraquat is getting banned in most of the countries and the alternative to Paraquat is, say Glyphosate and Glyphosate prices are at the moment from last at least 1-1/2 years are hovering around $10 a kg, so per hectare consumption of Triclopyr is cheaper than Glyphosate at the moment and because of which Triclopyr demand is increasing very fast and it is also now used in lot of combinations with other herbicides, so the demand is very strong.

Samarth Singh: And lastly on the CRAM, when are we going to, which quarter do we expect the increased capacity and we were in conversation with our client regarding an increase as you mentioned, so what is the expected increase in the contract?

Ashit Dave: In the Q2, we plan to start the increased capacity production which should stabilize by Q3 and Q3 onwards we plan to have the full increased capacity production available.

Samarth Singh: And that would go all to the CRAMS business?

Ashit Dave: Yes.

Samarth Singh: I think having 1500 tons per annum of increased capacity, all of that would be contracted to our one client?

Ashit Dave: Yes.

Samarth Singh: So that will contribute to the revenues the moment the plant is up and running?

Ashit Dave: Yes.

Moderator: Thank you. We have the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I just firstly wanted to understand on the product registration side, now you mentioned about one product this year, so some pipeline you can share for FY24-25 as well so how many products we are looking for registration?

Ashit Dave: For 24-25, we have three more products in pipeline which are under registration in various countries, and we expect these registrations to come through in normal time, say 5 to 6 years and not from now, but we have already started the process of registration earlier. So we have three more products in pipeline, one product which is the insecticide, we plan to commercialize this year and after that 3 more products which we have in pipeline.

Deepak Poddar: Three more in pipeline apart from the one we are talking about in FY23, the insecticide product, right?

Ashit Dave: Yes.

Deepak Poddar: So that three products we expect to come in FY24, next 2 years like FY24 and FY25?

Ashit Dave: All of them will not come in 2 years, I presume only one would come in next two years, one more and the rest of the two will take at least another 3 to 4 years.

Deepak Poddar: And what can be the revenue potential of this new product?

Ashit Dave: I would like to comment on those products when we are having the registration in site. Right now, I feel that we should adjust revenues because they are quite large numbers, so four years down the line how the market condition is there, how many competitors are there, it is very difficult to make a judgment on that.

Deepak Poddar: And in terms of your, you mentioned from third quarter onwards, maybe you will be fully utilizing our expanded capacity of 6000 tons, right so at 6000, what would be our maximum revenue potential if you utilize about 90-95% the expected?

Ashit Dave: The capacity utilization in the topline should be about Rs. 550 crores.

Deepak Poddar: And so this is the kind of revenue we might be targeting next year, maybe FY24?

Ashit Dave: Yes.

Deepak Poddar: And this expanded capacity may be half year benefit will get this year, right?

Ashit Dave: Yes, the benefit to come this year.

Deepak Poddar: So basically, incrementally if I assume that we will get Rs. 200 to Rs. 250 crores revenue from this new capacity, so 50% of that may be Rs. 100 to Rs. 125 crores may accrue this year, so about Rs. 450 crores?

Ashit Dave: That is the target, yes.

Deepak Poddar: In terms of revenue.

Ashit Dave: Yes.

Deepak Poddar: And in terms of, my final query is that in terms of your contract manufacturing, what is the run rate in terms of tons per month we are doing right now?

Ashit Dave: Right now, we are at about 125 tons per month, the contract is at 100 tons per month, but we are at 125 tons per month right now.

Deepak Poddar: And we were targeting somewhere around 300 tons per month, right maybe near future, is that something that is still on the cards?

Ashit Dave: Yes, that is the target we want to achieve by Q3.

Deepak Poddar: By Q3?

Ashit Dave: Yes.

Moderator: Thank you. We have the next question from the line of Jatin Kumar from Alpha Capital. Please go ahead.

Jatin Kumar: Congrats for a good set of numbers, sir, my first question would be you said this revenue from our big contract manufacturing customer for the last year was Rs. 80 crores and in our press release which we did in April of 2021, you said it is a 3-year contract and we expect around Rs. 250 crores so is there any more increase in revenue from that Rs. 250 crores number or are we.....

Ashit Dave: It will definitely cross the Rs. 250 crore what was declared during the initial phase when we signed the contract because the contractual quantity for month is still right now at 100 metric ton per month and we are supplying beyond 100 metric tons per month, and we plan to increase further this year going up to 300 metric tons.

Jatin Kumar: So, from Rs. 80 crores of last year, how much are we expecting for this current year?

Ashit Dave: Current year, we expect to reach at least Rs. 120-Rs. 125 crores.

Jatin Kumar: That is nice to know, sir and sir, on the other side, domestic and export side, we are seeing really good monsoon, high agri prices, lot of government companies are quite bullish on both India as well as export side, so how do we expect growth to be for this coming year?

Ashit Dave: We expect our Indian operation will continue to grow at the pace of 15% to 20%, the branded formulation sales business what we have in India. Looking at very good monsoon this year, also which is predicted, we expect growth of 15% to 20% in that business segment as well. Export business, also we expect that our bulk formulation sales, technical exports to further products to our customers also will grow at 15% to 20%.

Jatin Kumar: Sir, on the **(Inaudible) 31.25** product side, what kind of EBITDA do we expect, it will be similar to company level, or will it be higher?

Ashit Dave: At the moment, it is looking much higher than what we have right now, but that will happen only once we have the registration, our own registration and that looks like another 6 months wait.

Jatin Kumar: And you said revenue potential after full capacity will be Rs. 550 crores, that will be done in FY24, we expect that to be fully utilized for FY24?

Ashit Dave: FY24, yes, we expect full utilization by FY24.

Moderator: Thank you. We have the next question from the line of Ramit Bhardwaj from Zebi Bytes. Please go ahead.

Ramit Bhardwaj: Sir, my question is regarding the maintenance downtime that you had in this quarter, so approximately how much did that impact our revenue along with the maintenance downtime and ex of your that you have mentioned that you had paying revenue, ex of that what was the degrowth? And secondly and probably more importantly are there any other prospects for the contract manufacturing?

Ashit Dave: As far as I understood both your questions, I will address question one is that what was the reason for lower sales in Q4 as compared to Q3, there were two main reasons, one reason was that the Q3 base was higher than normal because of some trading business we had in Q3 and in Q4, we had to take certain shutdown of manufacturing facility due to change of equipment's we were changing some of the utilities like boiler and other utilities for the higher capacity products and which we plan in future. So, because of all these activities there was certain loss in production during the month of March. That was one of the reasons also why we could not achieve high numbers in March.

Ramit Bhardwaj: Sir, what was the downtime in number of days, if you can just quantify that?

Ashit Dave: Total, it would be about 7 to 8 days, downtime.

Ramit Bhardwaj: And what was the trading sales in the last quarter Q3?

Ashit Dave: It was about Rs. 20 crores. So now your second question was on the contract manufacturing business, right. So, contract manufacturing business, we do expect increase in volume during this year from Q2 and Q3 onwards, so Q2 onwards we will have some additional volumes coming out of production and Q3 onwards we plan to have at least full capacity utilization of the increased capacity and so we expect the number to increase this year.

Ramit Bhardwaj: Yes, so basically, I was trying to understand if there was any new prospect in terms of client, any new client that we are talking to....?

Ashit Dave: At the moment, no additional contract manufacturing business is being discussed, but we do pursue all opportunities we come across, so in future yes, going forward, we will have the additional contracts also.

Ramit Bhardwaj: Last question sir, you have raw material cost pass through on the contracts, is it all the contracts by the way or is it percentage of the contracts that has this clause?

Ashit Dave: In the contract manufacturing, this contractual manufacturing agreement what we have, 99% of the raw material that tied up with the cost escalation clause so there is nothing left.

Moderator: Thank you. We have the next question from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Sir, just wanted to confirm, if I heard correctly, you are saying would be doing around Rs. 400 crores plus revenues in FY23 with an EBITDA margin of 7% to 9%, is it correct?

Ashit Dave: Yes, you are correct, that is the target.

Moderator: Thank you. We have the next question from the line of Devang Bhateja, an Individual Investor. Please go ahead.

Devang Bhateja: Sir, I wanted to know from a strategic point of view, like say over a 5-year period what would be the revenue mainly for our growth, would it be more of contract manufacturing, or would it be more registration in countries like Brazil, would it be domestic market?

Ashit Dave: We have decided to be present in all three segments where we continue to grow our domestic branded sale business every year and we had been able to achieve consistent growth of 10% to 15% over the past few years and going forward also, we will do that. As far as export market is concerned, we continue to invest in new registrations of new products in different markets all over the world. So, we want to grow in that segment as well and what was missing was having a contract manufacturing deal which brings stability to the numbers which we have been able to achieve last year and we have now increased production beyond the agreed capacity and going forward, we will continue to increase new products also and increase on the numbers on the current product also. So, all three segments we would like to grow going forward.

Devang Bhateja: Sir, so in that case, since we are doing so many things, does it put too much pressure on the top management, or do we have separate verticals in the company I mean in terms of management bandwidth how is it handled inside the company if you could share anything?

Ashit Dave: As far as management of all these growth is concerned, obviously we have lot of senior people working, looking after different segments of the business and as and when we feel the need to add personnel, we are continuously adding.

Moderator: Thank you. As we have no further questions, I would now like to hand the conference over to the Mr. Dave for closing comments.

Ashit Dave: Thank you everyone for participating in our conference call and we have discussed various aspects of our business and we will continue sharing whatever information we can to communicate with our investors and looking forward to having very fruitful discussion with you in future. Thank you very much.

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