"Insecticides (India) Limited
Q1 FY2021 Earnings Conference Call"

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

MODERATORS: **MR. PRATIK THOLIYA – ELARA SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Insecticides (India) Q1 FY21 Earnings Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Pratik Tholiya from Elara Securities. Thank you and over to you, sir.

Pratik Tholiya: Good afternoon everyone. On behalf of Elara Securities, I would like to welcome all the participants to the conference call of Insecticides (India) to discuss the first quarter result. We have from the management team, Mr. Rajesh Aggarwal – Managing Director of the company and Mr. Sandeep Aggarwal, CFO of the company.

Thank you sir for giving us the opportunity to host the call. I would like to request Rajeshji to first take us through the quarterly performance of the company post that we can open the call for Q&A. Thank you and over to you, sir.

Rajesh Aggarwal: Thank you very much. This is Rajesh Aggarwal. I have divided my presentation into three parts. First of all I would like to discuss about the industry scenario, followed by the company performance and then I will give the future outlook for the industry as well as the company. I, once again, welcome all the participants to Q1FY21 results conference call.

As you are aware, due to this COVID-19 and subsequent extended lockdowns, the effect has been on the entire economy as well as the business throughout the country. The agriculture sector as such is less effective, because we continue to see a reasonable level of demand and this is a business which engages more than 60% of the population and the sector is going to sail through these economic ramifications and pandemics.

The lockdown imposed by the government to check the spread of the virus have severely affected the economic activities in the country. Agrochemical sector also faced the initial issues particularly in manufacturing, the labor and logistics and almosteverything has been impacted.

I would like to move to the company performance. Despite of all the challenges, we have recorded the revenue of Rs. 410 crores in Q1 representing more than 14% growth year-on-year. So I can say that the growth in this quarter has been on the expected lines and particularly the herbicide segment has supported growth a lot in this quarter. It has been a good rains during the quarter and the season; the future also is looking good because the rains across the country are quite good actually this time.

If we look at the contribution, the brand sales have increased almost 16% contributing a total of 73%. The exports in this year though there total contribution is just 3%, but it has grown by

53% plus and if you look at the institutional sales that has also grown by more than 5% contributing 24% to the total sales.

Coming down to our EBITDA, the EBITDA delivered by the company in Q1 is Rs. 49 crores. with EBITDA margin of 12% and the net profit has come to Rs. 24 crores with a margin of just Rs. 5.9 %. So the profitability of this quarter is little muted for various reasons. First of all, I would like to talk about the pandemic because that has led to the high fluctuation in the prices of the raw material and the packing material and also there has been availability constraints not only for the raw material and packing materials, but also the transportation issues and manpower issues and then in the overall market there is a liquidity crunch that is impacting the market of agrochemicals also.

Furthermore, there is one more provision, which we have to made of a write off Rs. 10 crores, so as you are aware that there was an issue in Chhattisgarh. Total amount stuck is about Rs. 20 crores, so we have filed an FIR and various cases against these few people, some have already been arrested. We hope that we will be able to recover about 50%, so we have made a provision of Rs. 10 crores, so which we have to pass in this quarter.

Talking about our CAPEX, we have been investing in all the sites of Rajasthan and Gujarat. In Rajasthan we are trying to expand our manufacturing capabilities, both for formulations as well as technical with the major focus around the technical expansion and this activity is on and is in full swing, I can say. We have recently bagged the approval from the Central Government for this from the environment clearance.

Coming next to Dahej, we have bagged all the approvals and we are setting up a new facility. The construction is in full swing and during this year we are also setting up a plant in SEZ, which we had already started partially, but we are completing its first phase of expansion, which we expect to clear in the second quarter. The first phase will be completed in the second quarter and there has been a small investment in the CAPEX on this.

For the major growth drivers for the company, the focus is we wish to work on the products, which are launched in last three to four years and parallelly we also target the new products, which will be introduced during the year, so this year already two introductions have taken place Milstim Max and Hakama Super. Milstim Max is a biofertilizer and Hakama Super is a herbicide from Nissan Japan, so both these products have gone to the market. A small contribution has also come of about Rs. 4 crores from these products.

But this year the target is to launch at least 10 new products and these products should contribute to about Rs. 40 crores to Rs. 50 crores to our total revenue and we are very, very confident with the registrations coming in because Dinotefuran is something which has hit in the last quarter, and I am expecting to launch at least four products in this quarter**.** So these four new products should enter into the market and our target of launching total 10 products is still on, but as you know that the registration process is sometimes slow, so we will get these registrations, we will launch these products and we carry these products to the farmer and wherever we get the opportunity we will be pushing these products.

We are expecting that this year should see a reasonable growth, and the growth will be from all directions - The new products we are going to launch. The Maharatna range should also grow because for selling the Maharatna products, the major season begins in the second quarter and if we look at this quarter, the beginning is looking very good due to better than expected monsoon and the continued rains and our sales of Maharatna is going to increase significantly over generic products.

The export sales should grow, and the institutional sales is also expected to grow, so I believe that we should be able to cross Rs. 1,500 crores of revenues in this fiscal year. So now coming to the industry, industry is showing the robust growth because the monsoons are above normal and there is good water availability in the reservoir. The government still targets lot of reforms in the agriculture sector particularly the PM Kisan Credit Guarantee Scheme, schemes for the MSMEs and the MGNREGA and all these such schemes are helping in a big way the farmer and the raw material availability.

The international position has improved a little, though it varies from product to product, but the prices in China have muted a little and at some other places they are more, but overall I would say it is favorable for the industry and then there is government's focus on Atam-nirbhar Bharat initiative for self-reliance.

So there is a special focus on the sector and I would say that this improves our prospect of getting the new registrations faster and we are quite hopeful that the registrations for which we are waiting for last two to three years should get cleared in this year and we should have a good range of product available for this year and for the next years to come. The number of registrations which we should be able to bag should be more than 10 in this fiscal that is my assumption and this will support us in all our expansion programs and for our expansion programs we have two point agenda, at one place – focusing on backward integration to do the import substitution and at other place we will be preparing for manufacturing the new technicals that we are going to register. So I believe that we are working very hard on both these sides and we would be ready to take the company to the new heights for future.

So I can assure you that management team remains fully committed to drive growth through new innovative products, improving product mix, increasing brand business and enhancing profitability. So with this, we would like to address all your queries through your questions. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.

Prashant Biyani: Sir, over the last three quarters we have seen our performance being slightly opposite of the overall industry performance and first in Q3FY20 it was the impact of Pakistan related exports and Q4FY20 and Q1FY21 also we have seen a drastic decline in our gross margins. So precisely what has been happening if you can clarify something on that which we will give a clear picture on the operations front?

Rajesh Aggarwal: Okay I will go step by step. Firstly to answer your question of Q3 where we were hit by Pakistan. Actually for us the export business was new business and we had started just three years back in a little better way. Our 50% of the sale at that time was coming from Pakistan and Pakistan suddenly closed the doors for India that created a little trouble for us, but we are making a recovery on this front.

If you look at the total export sale in the last fiscal year, it has not dropped, though the growth did not come, but we could close around Rs. 68 crores to Rs. 69 crores roughly of the total export which we got last year and this year our a target is of Rs. 100 crores and we are working on that.

Coming down to muted margins, actually we had formed a strategy whereby we were planning to bring the business on ‘cash and carry’ basis and we wish to finish all the debts that we had in our system. We wanted to be debt free and we worked very hard on being debt free and in that zeal we discovered later that during the fourth quarter most of the sales we could do was generic products and though that was not at a loss, but it was on a lesser margin, which could not cover the entire year’s expenses, and that led to little disaster in Q4.

When this year began, it began with the COVID-19, so the COVID-19 lockdown were announced from around 21st or 22nd of March itself, so the factories were not able to produce, and whatever material you had at your depots you have to start the sale with that and then logistics and manpower everything was also a constraint. So under this constrained circumstances we began Q1 and in Q1 last year if I compare, I had shown a very good growth, which was not there for the industry, so industry had given very muted sales last year in Q1, whereas Insecticide (India) had given a very good sale.

So growing with that number with no availability of raw materials and no availability from products was difficult. Despite of that we have grown by almost 15% in Q1. I believe that is reasonable because I cannot expect the major sales coming out of Q1 itself. So the top line number is reasonable, and yes we have got a hit in bottom line because the Maharatna sales could not happen due to availability of raw materials and other issues, but I believe that we will show that recovery in Q2 and you will see growths in both the top line as well as bottom line.

Prashant Biyani: So sir, it would be safe to assume that the gross margin contraction is now done with, more or less?

Rajesh Aggarwal: You can say broadly, but though we are sitting on one position where our margins are contractive, but here I would like to point out again that we have collected lot of cash. We are sitting on huge cash balances today. We have reduced the credit which we are supplying to market and that does not mean that I am going to trying to give you a figure that our profitability through contracted will not contract further. We will try to be normal in Q2 itself and Q3, Q4 should help us to further improve this situation.

Prashant Biyani: And sir, we also seem to be much more impacted by the labor and packing material unavailability vis-à-vis industry, so sir any comments on that?

Rajesh Aggarwal: I do not think that it is very specific, maybe we were not carrying huge inventories because we sold a lot in Q3 and Q4 also, generally which we do not do. There was sale spike in Q4, so might be due to that we were not carrying huge inventories, generally what other people may be carrying. So if you see the sales of Q4 and Q1 both together, I believe the answer is there because Q4 had sales growth and Q1 also had sales growth, so some companies who have shown the growth in Q1, they might not have shown the similar growth in Q4, may be.

So it is very much on an average to what industry is, but yes, the Jammu plants were closed for a longer period. It took a little while to start the Jammu plant. There were also restrictions in Rajasthan, though we got the permission, but they were not allowing the buses, so there were lot of manpower issues, which we had to face particularly in the months of April and May.

Prashant Biyani: Sir, just last question, so we have ample raw material for our Maharatna products to sail through in Q2?

Rajesh Aggarwal: Yes, that is available, and the manpower situation has also improved, though we are still struggling, but it has improved. I can say that we have achieved more than 90% of our manpower now.

Prashant Biyani: Okay**.** Thanks and I will just end with one last question. Sir, any impact do you see on the industry of the nine molecules getting banned for paddy crop in Punjab?

Rajesh Aggarwal: Like everything, which gets restricted has an impact. It is very unethical I would say, so we are going to contest as an association, not as Insecticides (India), So very shortly we feel that we should be able to get justice in this.

Moderator: Thank you. The next question is from the line of Deepak Agrawal from Impetus Advisors. Please go ahead.

Deepak Agrawal: Just wanted to know the receivable's position?

Rajesh Aggarwal: The receivables position is good. The collection has been all time high in the last three-four months continuously and we are getting a lot of cash in our books, so we are getting it good. Market is tough, so you have to be little aggressive on collection, and at this moment we have reduced the credit limits. We have reduced the credit period to the market, and we are pushing for more collections.

Deepak Agrawal: What are the details at the end of June?

Rajesh Aggarwal: At the end of June, the exact number is not available, but there would be some Rs. 30 crores to Rs. 40 crores cash in the balance sheet at that time.

Deepak Agrawal: What were the debtors?

Rajesh Aggarwal: About Rs. 350 crores.

Moderator; Thank you. The next question is from the line of Rajat Setiya from Vrddhi Capital. Please go ahead.

Rajat Setiya: Sir, just wanted to check whether inventory of Nuvan used fully or is there still balance left?

Rajesh Aggarwal: Thimet inventory was reduced to zero in last year. Nuvan is left with me. There was a target for Nuvan in this quarter but because of COVID there was some impact. So maybe we will use one more quarter. So by Diwali, we will be able to finish the inventory.

Rajat Setiya: Is there some losses due to clearing of inventory in the last two quarters?

Rajesh Aggarwal: As such I will not say there were losses. Loss is a different term basically. But the expectation, which was there that we will get premium, but that premium we are not getting actually.

Rajat Setiya: Okay so basically margins are not that much?

Rajesh Aggarwal: Yes, margins are not that much, margins were little less.

Rajat Setiya: What is the situation of raw material right now? Is it alright or not?

Rajesh Aggarwal: Product to product, there is some variation. But as such if I am talking about China, then prices have become little less, right now which is a routine. In mid-August the prices will become less because the season will end. So there will be some reduction in price. In India, also in some items because of some extraordinary price increase it started getting subdued.

Rajat Setiya: And sir, one final question. The two products of us which will get phased out, Thimet has already expired and Nuvan is going to happen. So to make up the lost sales if you could tell, how many products we have already launched or when we will reach that sales level once again?

Rajesh Aggarwal: In the last three years we are working on that continuously and launching new products. In the previous years we used to launch 2, 3 or 4 products per annum but now we are talking about launching 10 products per annum. So all these efforts are there to ensure that we do not make any losses. We have made continuous top line growth. Due to some circumstances, bottom line is not good because of that growth in topline also you are not able to appreciate. But under these difficult situation we have grown. So where Thimet has already finished, Nuvan is going to finish.

So I believe that we are making such a setup and infrastructure where there would not be any impact on sales and also bottom line will also improve because as new products are coming, they will support growth. And the new products which we have introduced in last 3, 4 years, there will be growth in sales of those products which will also support the bottom line. So both topline and bottom line will be supported I am sure about that and basically there is no risk on sales or profitability of the company.

Moderator: Thank you. The next question is from the line of Sanket Vyani, individual investor. Please go ahead.

Sanket Vyani: Sir, I wanted to ask you, in Q4FY20 conference call you said you will try to reduce the dependency on China. So in Q1FY21 how much we reduced the dependency on China?

Rajesh Aggarwal: It is a good question. The problem is that, whenever you are planning for backward integration, it is a long-term project which takes 2 to 3 years of time. Overnight we cannot do anything. If you ask me whether you have taken any steps, yes, I have an answer. I am trying to backward integrate certain products, which we used to bring as raw materials from China, now we will make that raw materials in India for which we are working on both in Rajasthan plant and Gujarat plant. The production will start from end of this year.

So the impact will start from next year. In the current scenario, we all want to reduce the import but because of COVID-19 situation which impacted India so much, India is not yet able to come out of that. China came out of COVID-19 in two months' time, but India even after four months also not came out of COVID-19 problem. So this year import will be much more, it does not mean the import have become double, but I think all companies have 10%, 20% plus more and ours also may be around 25% plus because whichever items we usually do not import earlier, for those also we were forced to import because in India the availability of basic raw material, solvents and other small, small other items was not there.

So if we were in the same line then the result of quarter 2 will be same as quarter 1, we would not able to give to the market. So for that reason we were forced to import. So in this year, there would not be any reduction in imports, but imports will be more. But yes, we are preparing for import substitution and some products which are our leading products, the raw materials for those products we will make in India itself so that we do not have to import those raw materials.

Sanket Vyani: Sir, one more question. How are you planning to use the cash balance which is available there as of June 30th?

Rajesh Aggarwal: See, now expansion is going on continuously. So in expansion we will put money and also for working capital we need money. So now we are debt free, the utilization of debt is also to be planned in best way. We are working on that.

Moderator: Thank you. The next question is from the line of Amit Deep, individual investor. Please go ahead.

Amit Deep: So we have guided for the company to be debt free by the end of first quarter, so just wanted to know the status on that?

Rajesh Aggarwal: The cash balance we had at the end of first quarter was about Rs. 17 crores, so the debts are gone and Rs. 17 crores were the balance we were carrying in the 30th June.

Amit Deep: So we are currently net debt free?

Rajesh Aggarwal: Yes.

Amit Deep: Okay. Congratulations on that and for the CAPEX we are planning, when do these operations become commercialized like contributing to the numbers?

Rajesh Aggarwal: Actually this will start at the end of this fiscal year, I would say. The exact numbers will come in the next fiscal only. So some production might start from December or January, but technically it would be next year. SEZ should start functioning in the second half of this year around Diwali and will be fully functional. The first phase of expansion we are targeting to complete by September end, so from October or November we should see the result.

Amit Deep: So if we finish it by September, October, we can see improved margins from Q3-Q4 because this is primarily backward integration?

Rajesh Aggarwal: SEZ is just for the formulations and packaging. The backward integration will show results from Q4 only, and Q4 is generally muted, so the technically results in the bottom line should start from Q1 of FY22, but in Q4 also we are keeping the finger crossed, how fast we can do it and how fast the things can show the results, so let us wait.

Amit Deep: So what is the incremental top line you are expecting from the overall CAPEX? Any ballpark figure?

Rajesh Aggarwal: Like the overall CAPEX is a three years program and we have already given our FY2021, FY 2022 and FY 2023 guidelines. We have not issued the separate guideline, but I will try to make a separate guideline from this backward integration and the new plant expansions. So we will try to show it separately for next year, actually next fiscal, because this year we are not expecting much out of that.

Amit Deep: Okay so for this year you are expecting Rs. 1,500 crores of top line?

Rajesh Aggarwal: This year, yes, Rs. 1,500 crores, so it is a small increase of about Rs. 120 crores to Rs. 130 crores actually. So that we have divided from five different areas I will be getting it - it will be coming from the new products. It will come from Maharatna products. It will be coming from generic products, also from export and institutional business. So all these five areas would be contributing Rs. 30 crores to Rs. 40 crores each.

Some might contribute Rs. 50 crores, so at consolidated level from all five, we are planning a growth of about Rs. 150 crores coming out of our total business in this year. So I am just discounting this looking at the COVID-19 scenario, so there can be some impact, so Rs. 1,500 crores should be easy for us to achieve in this fiscal.

Amit Deep: Okay and just one last question. So on the full year basis for the Rs. 1,500 crores, what is the EBITDA margin, average EBITDA margin we are targeting?

Rajesh Aggarwal: EBITDA margin we should be able to show the improvement. It has declined in Q1, so it should show a major improvement in Q2. That is the expectation. Like in the previous year, FY19 it has been very, very good, so vision is to touch that figure. So I am not sure that I will be able to touch the similar figure in this fiscal, but I will be trying to reach near to that figure I would say.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, almost one-and-a-half months for the quarter has gone by, so what is the trend that we are seeing in the market?

Rajesh Aggarwal: Again if we talk about July-August, July was not a very strong month from the perspective of agriculture because we were seeing very muted rains and there were long gaps, but in August we have seen good rains, so the expectation has gone up. The month of July was almost at par with the previous year, but August and September should show a jump, so overall the expectation is very high because the demand is good.

There is demand from all parts of the country I would say. Some parts like Bihar have some floods. UP, eastern side has some floods in some areas, and it covers some of my staff actually, so rest of India is doing good and these areas should also pickup after a month I believe.

Rohit Nagraj: Okay and sir on backward integration so currently what is our dependency from China and may be after two years once the backward integration is over, how much will it reduce?

Rajesh Aggarwal: Frankly speaking, if we look at our target for future, we wish to add the new products and for most of the technical products we will be making the technical by ourselves, so this dependence on the international market is always going to be high. Today if I look at my total purchases then about 30% of the raw material is directly imported by us. I believe that I would not be able to reduce this percentage very drastically.

But still I believe that I should be able to come down by about 15% to 20%, not more than this because some products I will be manufacturing by myself where I will be doing import substitution, but at the same time when I am introducing new products and these products are coming from the last steps then the raw material has to be imported.

If they are coming from the initial steps only then there will be lesser imports, so overall my import might remain about 28% to 30%. But the China import will definitely see a downward trend as some of the major raw material I will be making, but still I cannot say more than 20% drop in China imports.

Rohit Nagraj: In terms of our branded products and generic products, so what is the kind of gross margin difference that we have in both these products? If I say 30% of normalized gross margin, so what it would be in the branded ones and in the generic ones?

Rajesh Aggarwal: Actually it varies, so I can say that if they are Maharatna products and also new launches, so new launches sometimes may carry 40% to 50% gross margins. But generally, the gross margin is to the tune of 30% plus/minus, some products have 40%, some have 20%, sometimes in case of generic products you are forced to go as low as 15% also.

Rohit Nagraj: Okay and just one last clarification. On last concall we had said that our FY20 debt is Rs. 118 crores and we will be debt free by June and just now you said we are currently cash surplus Rs. 17 crores, so Rs. 118 crores debt is repaid and above that we have Rs. 17 crores?

Rajesh Aggarwal: Yes. There is zero debt actually including the working capital debt, so Rs. 17 crores are above that. Rs. 17 crores were the figure of 30th June and that is continuously increasing.

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

Manish Dhariwal: My question is basically related to risk management. In fact I was observing that unfortunately for one reason or the other, last couple of quarters they have not been up to the mark especially in terms of the profitability and one of the other one reason, then another reason, then reason has come up. So I would like to get an understanding of what are we doing to basically mitigate such kind of risk?

How are we kind of looking at the next couple of quarters? What kind of possible negative surprises can we expect and what steps are we kind of taking to mitigate them so that we can protect and actually use this particular environment which has been very favorable for the industry to enhance our value add?

Rajesh Aggarwal: The biggest contributor to the margins is the new generation molecules. So if we can bag the registrations and bring the products in time then you can make money out of it. Ours is a cyclic business with first quarter giving about 25% of contribution and second quarter it will come about 35% to 40%, it varies from seasonal situation. So about 70% business comes from the two quarters and the third and fourth quarter are relatively subdued. This is the industry average.

In Insecticides India, we are able to achieve these mostly, so 25% and 35% we are able to do it easily, so second quarter is the biggest quarter where you sell all type of products because this includes the monsoon months, so you will find that the things are showing a good improvement.

In the third quarter again, there is a second season where wheat and paddy and different vegetable crops are sown, so that also is generally a reasonable quarter where you can expect a reasonable profit. Q4 is largely subdued because the sales in Q4 is largely dependent on lot of factors like Rabi crop, how the Rabi crop behaving at that time, is there a pest infestation, what type of sales are happening, what type of inventory trade is spreading so lot of factors, So Q4 was yes subdued. Q3 also maybe you can say it did not match your expectations.

In Q1 of course though we have made a recovery, but it is still subdued because the EBITDA margins itself have declined if we compare year-on-year and it is not matching our best performance. So there are two-three things, which we can do. Number one is to create the product portfolio, which we are creating and we are working very hard to get the registrations. Secondly to create the manufacturing facilities for this, we are working in that direction also.

We are enhancing our manufacturing capabilities and because once you bag the registration, then you have to supply the product to the market. If you are manufacturing technical by yourself, you have to have manufacturing facility for the technical and if you are formulating then again you have to develop the formulation facility especially for these products. So we are working in that direction also and at the same time focusing on market development activities, they are also in full swing, though this is a different type of year, lot of things, launches and other things are happening virtually.

The staff, particularly sales and development staff, are not moving so freely in the market, but yes, we are using technology, we are using I would say all the social media and other things and advertising our products vigorously. So we are following the multifaceted approach and to sum up we are bringing new products, enhancing our manufacturing capabilities, developing our marketing capabilities and of course looking at after the farmer by using the media, so the training and other things we are doing by this, so we are working in all directions.

Manish Dhariwal: My additional point was that I think you know, we in the quarter 1 really went after reducing our debt and in fact it is a nice development that today as we speak as of June, the company has become debt free, zero debt from close to Rs. 190 odd crores which was appearing on the balance sheet as of March 2020 and on top of it the cash has also been collected to the tune of about Rs. 70 odd crores as you just mentioned. Is it Rs? 70 crores or because I think somewhere in column there is Rs. 30 crores to Rs. 40 crores, so how much cash if you can just clarify?

Rajesh Aggarwal: It seems Little confusion is there, let me clear it, Rs. 70 (seventy) crores is something which we have now, and on 30th June it was Rs. 17 (seventeen) crores only.

Manish Dhariwal: No problem, so cash as of 30th June was Rs. 17 crores, right?

Rajesh Aggarwal: Rs. 17 crores and today it is Rs. 70 crores as of 15th August.

Manish Dhariwal: Right, and the debt is zero right now, right?

Rajesh Aggarwal: Yes, debt is zero, all debts are zero actually. Now we are working to do the cash purchases and also to fund our capital requirements, so that is happening from the internal whatever money has come in.

Manish Dhariwal: So basically are we saying that going forward we are going to be not taking any debt, means we can say that we are going to be a debt free company?

Rajesh Aggarwal: We can say that. The plan for at least next three years would be to go debt free. I am going to fund all the capital requirement from the internal accruals only and also the working capital requirements will be funded by the internal accruals that is the vision for next three years.

Manish Dhariwal: I think that is a very powerful target and I think this will lead the company value added and also we will get lot of other liquidity and other kind of this, but sir one question is that you know our inventories and our trade receivables, now between these two, one goes up and other goes down, when other goes up and other comes down, as a result of which what is happening is that cash is actually not really kind of coming out. So to back my comment, I would say that in FY17 our debtors were just about Rs. 212 crores, obviously our turnovers have also increased, but in March 20, we were at Rs. 320 crores from Rs. 244 crores in March 2019.

And as of June, we are even higher at Rs. 350 crores and this is when we are trying to do cash savings. So how is it that this control over debtors is not emerging because we can do all the hard work and we can create a sale, but if the money does not come in then there is a problem and we have also seen as to what happened in Chhattisgarh so that is a straight shoot at the bottom line?

Rajesh Aggarwal: Actually, Chhattisgarh problem has come out of fidelity issue some of the trusted employees they created a problem. Ultimately, they tied up with the distributor and it happened, so we are going very cautions now and it is a one off actually. I could not expect that happening from a 20-year-old employee, but what has happened has happened.

Regarding the credit control, we are following very strict credit control measures, but as the turnover goes up, the risk also goes up actually, so we have to work on this side. We are trying to frame a policy wherein we are pushing lot of cash sales for the products and would try to control the total credit into the market and we are working for that and as you pointed out regarding inventories, we need to work a lot on this side, but since the business is cyclic, sometimes when you are backward integrating and you are making more of technical. At that time you have to build up the inventory as the prices and everything is also very, very cyclic, so that is something which I can say a very strategic decision which you have to take looking at the coming seasons and the market trends. So right now, we are not able to comment too much on the inventory, but we are trying that we do not have any inventories which are not saleable, so everything generally what we keep is saleable and the inventories of the branded products what we have in the market, we try to bring it to the minimum at the end of the season and we build up the new inventories for the new season actually.

So if I look at this year in particular then there was lot of demand for a smaller pack and some special products, which I was not able to fulfill in last four months, so that has been a challenge. So that means that I will have to be more prepared and to keep more inventories of this small packs and some specialty products for the coming season. So inventories may be in totality in number, I may not be able to control much because the raw materials also I will have to arrange and I will have to keep ready because when the new facilities are also coming I will have to buy the raw materials for these also. But all other aspects I should be able to control, so overall you will see the cash position will not be stretched. It will be continuously generating cash and of course we will be focusing on debtors.

Moderator: Thank you. The next question is from the line of Jatin from Axis Capital. Please go ahead.

Jatin: Our sales have grown very well in last 2, 3 quarters. But there is pressure in margin as you have explained the reason also. So in this quarter what is the expectation of margin?

Rajesh Aggarwal: See in this quarter both and margin and sales will improve.

Jatin: So if I see the margin in last September was 14%. So are we expecting better than that?

Rajesh Aggarwal: EBITDA can be 14%. 14% is not difficult, only 2% gap is there andthat is achievable. In first quarter also it was 12%, so 14% is achievable.

Jatin: What is our policy on inventory and receivables, for how many days we are planning to keep the inventory and receivables?

Rajesh Aggarwal: See we have many types of inventories with us because ours is a fully integrated company. So to make a technical we have to keep the raw material. After that to make the formulation we need to keep the technical inventory and also we have the inventory of finished goods. So our inventory position will improve because our cost of total raw material will be less. If the raw material become less, when we make the new generation molecule there our investment will be less so automatically that impact will be visible.

So day wise improvement you can see in all. So when the half year's result will come out with detailed balance sheet , it will be visible in that. But assuming that there will be a big impact in that, it will not be there, but we will try to control both debtors and creditors. There is lot of changes in Government policy, because of that we have to pay to MSME sector the whole payment timely, so ultimately our creditor's position will improve continuously and also debtors. As I explained in earlier question, I do not carry un-saleable inventory, all are saleable seasonal inventory. We do not have any stuck-up inventory.

But yes, because we have to make the inventory to sell, so inventory in some points may be stuck up. But we are working on that also. We will not keep heavy inventory. So overall you will see cash generation and we will be debt free in our balance sheet.

Moderator: Thank you. The next question is from the line of Sagar Kapadia from Asian Market Securities. Please go ahead.

Sagar Kapadia: Sir, first question on the Q2, so for the past 45 days how much has been the mix of generics at the Maharatna products?

Rajesh Aggarwal: See the selling period of Maharatna is generally this time only because monsoon generally hits India in June end and at that time only the sales of insecticides and fungicides starts. In general the time of sowing is in June beginning till end of May, but even in some areas sowing will go on till July-August because of which is initial sales will be only of herbicides.

In Maharashtra they are widely spread through insecticides, herbicides, fungicides, all three so far in 45 days had reasonable sale and now we expect more sales in future in next 45 days because all the Maharatnas will be able to sell themselves. So for some products the season of those are already over, we have done sales to meet the target.

Products in which the sales is going on now, they are also seeing good demand and I think our supply position also has improved because manpower crisis was major apart from raw material and we have meet out almost both of them and we will be able to supply to market. That is why I feel in Q2FY20 our Maharatna sales will be good, you will see a good improvement.

Sagar Kapadia: Sir, do you think that the tight credit policy could be one of the reasons why the demand for high margin products has impacted in Q1?

Rajesh Aggarwal: See I cannot loose it to a great extent but whatever the market requirement is there, I feel that our sales is getting impacted so we are trying to categorize our distributors from A to E segment where in A, B, C we are trying to increase their credit limit and give them the products. In D and E we are trying to be strict. So we are trying to do that segregation and with that segregation whoever are the good parties we are increasing their credit. So as per market need, we are taking the call.

It does not mean if we see the sales and we will ignore the sales. We will keep a reasonable balance. I cannot be an extremist like we will open fully somewhere, and we will close somewhere. I will have to follow a middle path which we are doing.

Sagar Kapadia: And sir, second question. For the second half H2 last year was good for overall industry. Now definitely from the high base and also our two products will not be there Nuvan and Thimet. So like what is your sense in terms of H2 position for the company in terms of the topline growth?

Rajesh Aggarwal: You see we are planning to have a 10% growth in topline almost which we are targeting. This year also we will beat the target means we will be able to do it easily. In bottom line we will be able to recover basically which will means we will continue on our growth path.. Demand is good, demand is good because monsoons are good and water availability is good because of which I do not feel any fear in this. So we should be able to achieve that's what we feel. We feel this year easily we have 2-digit growth in the topline or bottom line also we will have very good growth because last year base was little weak because of which we will see improvement.

Sagar Kapadia: And sir, just last thing. Overall if you see the monsoon, so like two or three states like MP, Rajasthan, Orissa where it has been deficient so have you seen any slower off take in these three states specifically?

Rajesh Aggarwal: See small impact are manageable. In July there was more impact. In July we felt the gap has increased but in monsoon season the gaps and access rain are usual. Every week the situation changes. In today's situation the deficiency is very less. If we see the entire country, we can say it is a normal monsoon. In Orissa the monsoon season starts late and also the base in Orissa is also less.

If I look for my company, my sales in Orissa is just Rs. 30 crores. If I come to Gujarat is about Rs. 50 crores odd. If I come to MP it is about Rs. 55 crores to Rs. 60 crores sales actually for me. In MP the market starts with movement of herbicides, so herbicide movement has been quite good, more than expectation actually. So in MP we do not have any loss.

We have not analyzed Orissa and Gujarat yet, in Q1 or even now what is the impact. But we do not see any notable impact in my opinion which we ought to mention. Overall the targets which we kept for the states, we will be able to achieve it easily. We do not see much difficult in that including these MP, Gujarat and Orissa in particular you asked me, that is why I am saying.

Sagar Kapadia: Just last thing. How much is still you are holding the inventories of Nuvan?

Rajesh Aggarwal: I do not have the exact number with me of the inventory, but I should be able to dilute it by around Diwali.

Moderator: Thank you. Well ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Pratik Tholiya for closing comments. Over to you, sir.

Pratik Tholiya: I would like to thank all the participants who logged in to the call. Also thanks to the management for giving a detailed answer to all the questions. Sir, would you like to make any closing comments?

Rajesh Aggarwal: I would like to say that people have always trusted Insecticides India and we have been moving forward actually with the vision in mind, vision to support the farmer and to bring the new technology in the reach of the farmer. We will continue with that and will be vision of our Prime Minister to support the domestic manufacturing and his slogans are always very, very helpful to influence the market and also to influence the ministry to an extent and the way ministries are supporting the industry.

I believe that the agriculture ministry is also going to support the Indian industry in a big way to launch the new molecules which were delayed in the past because of the non-grant of registration. So we are expecting many good registrations during this fiscal also and with our expansions coming in, my expectation from next year are even higher and this year we should be able to make the recovery both in topline as well as the bottom line. Thank you very much.

Moderator: Thank you. On behalf of Elara Securities Private Limited, this concludes this conference. Thank you all for joining. You may now disconnect your lines.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2.