"Insecticides India Ltd. Q4 FY13 Earning Conference Call"

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Moderator

Ladies and gentlemen good day and welcome to the Q4 FY13 Earnings Conferences Call of Insecticides (India) Ltd. As a reminder for the duration of this conference all participants' lines will be in the listen only mode, there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Rajesh Aggarwal. Thank you and over to you, sir.

Rajesh Aggarwal

Good evening ladies and gentlemen, welcome to the Earnings Call post declaration of FY 13 Results. Let me start by sharing a brief background on the company, Insecticides India, operating in the crop protection segment has more than its 110 formation products, 20 technical products and 750 SKUs. The company has four formulation plants and two technical synthesis plants. The company has tied up with Nissan Chemical Industries of Japan for its products like Pulsor, a fungicide and Hakama, an herbicide. Pulsor is patented product which is exclusively marketed in India by us and Hakama also is an herbicide basically where we are the second partners for Nissan. The company also has a technical collaboration with an American company called AMVAC, where we have rights to exclusively manufacture and market two brands called Thimet and Nuvan. Our Tractor Brand range of products contributes 80% of sales.

Coming to the financial highlights of FY 13, we have done well both on the revenue and the profitability front. The growth has been backed by healthy growth in volume and price increase. The response to newly launched products like Pulsor, Nuvan, Hakama has been encouraging further adding to the company's popular brands kitty like Lethal, Victor, Thimet, Monocil. Our revenue increased by 18% to Rs. 617 crores as against Rs. 521 crores in FY12, the EBITDA has improved by 23% year-on-year to Rs. 69.6 crores during FY 13 from Rs. 56.36 crores in FY 12. The EBITDA margin is 11.3% for FY 13 as compared to 10.8% in FY 12. The net profit for the period stands at Rs. 35.32 crores, showing a growth of 7%. The EPS for the period stands at Rs. 27.85 per share. The EBITDA margin has improved due to lower raw material costs and benefits of backward integration with the increasing utilization of Dahej plant and new product introductions. A dividend of Rs. 3 per share has been recommended. Our focus is now on the Navaratna products as more than 50% of the revenue comes from these products, this is the target for this year. These include Lethal, Victor, Thimet, Nuvan, Pulsor, Hakama, Hijack, Xplode and Monocil.

Now I would discuss about our FY 14 guidance. With an initial predictions of a normal monsoon, the Kharif season is expected to be good, we should boost to growth in FY 14. Focus on Navaratna products will enable out performance in the domestic market going forward we expect contributions from the new plants, a new products and new generation molecules to increase, resulting in better growth and profits. Also we are confident of keeping our pace of growth in sales and improving our profitability. The company has entered into R&D joint-venture with Otsuka AgriTechno of Japan. The Japanese partner is providing the technology and research know-how and JV is focusing on inventing new agrochemical molecules and global markets, let me say that this type of activity is going to happen in the country for the first time where the company is focusing on the invention or the discovery of the new molecules in the field of agrochemicals. Thank you friends.

Moderator Ladies and gentlemen we will now begin with the question and answer session. Our first question is from Prateek Chauhan from Crisil Limited, please go ahead.

Prateek Chauhan Just wanted to check the tax rate has been higher during the last quarter, so is it due to lower provisioning in the 1st three quarters?

Sandeep Aggarwal In the last quarter due to additional depreciation we have capitalized Dahej during the year, so we have to make high were provisions for deferred tax liability that is why the PAT margins for the last quarter has gone down, it is just a provision for deferred tax.

Prateek Chauhan And any specific reasons why the interest cost is down during the last quarter?

Sandeep Aggarwal Interest cost is down during the last quarter because we have received some subsidies from Samba and Udhampur.

Moderator The next question is from the line of Runjhun Jain from Nirmal Bang, please go ahead.

Runjhun Jain First business continuing value accretion you said that we have got some subsidies for our Udhampur plant, for how long this subsidy is expected to continue?

Rajesh Aggarwal In Jammu the subsidy is for 10 years, Udhampur we have completed two years of operation, so it is there for eight more years and Samba we are in the 9th year, so till next year it will continue and there will be some subsidies which will be extended because we are going for additional capacity enhancement in Samba and we have received partial approval but the final approvals are expected to come very soon, then some part of the subsidy is going to get extended for 10 years in Samba plant. We have two plants Udhampur and Samba which are in the exemptions zone.

Runjhun Jain But we are supposed to get subsidy for eight more years, then Samba around one or two more years?

Rajesh Aggarwal One year plus we are able to qualify that extension, and then it will be for 10 more years.

Runjhun Jain What kind of interest component or interest we can expect in going forward also, the run rate of interest?

Rajesh Aggarwal Generally they will provide us a subsidy of 3% subsidy on the interest which we incur on the working capital which is used for these factories, so since that is accumulated and for the entire year it has come in one go, so it was calculated.

Runjhun Jain Earlier I remembered that you had with management has given around Rs.800 crores of revenue target for FY 13, first what went wrong and why we could not achieve that? Second, what is the outlook for 14-15 because earlier we were talking about EBITDA margins of around 12% also, currently we recorded around 11%, so what is the outlook for future and why we could not do it, any specific reason for the year?

Rajesh Aggarwal Last year yes, we were talking about Rs. 700 crores maybe at some point of time I do not know where you have recorded this Rs. 800 crores but Rs. 700 crores was there the plan and this was because the monsoons had failed significantly during the last year and it had impacted the complete industry, so we had already started giving the guidance of this loss which is going to, loss means from Rs. 700 crores it will come down that was the indication but ultimately yes, the gross sales came down to Rs. 650 crores giving us a hit of additional Rs. 50 crores. Regarding the EBITDA margins yes, we were confident that with the new plant we will be able to maintain or increase our EBITDA margins and we will see that year-on-year basis we have increased it also substantially, but the problem has come in due to the four major factors because of the expansion mode the interest cost as you can see on year-on-year basis it has gone up, the deprecation cost has gone down and at the same time since Gujarat plant is every big plant, so the manpower cost and also the running expenses like utility costs which are very high that has also gone up and when we have increased our top line just by 18% to 19% this 18%-19% increase is not able to take care of the increased expenses, so the PAT margins did not go up but I believe that during the current year or during the FY 14-15 we should be able to show a growth of roughly about 30%, which should take us to Rs.850 crores this year and in this growth as we are expecting the sales from some new generation products also where the profitability is going to be little higher, so I believe that in terms of both the percentage of EBITDA margin we should grow and also in terms of PAT margins we should be able to grow in this year.

Runjhun Jain Can you just throw more light on the new plant Dahej, which you have started this year, right?

Rajesh Aggarwal Dahej was started this year, in the last year we have done some formulation for 2-3 months and it was functional only during this year, so a lot of teething issues were there because the capacity that we are trying to setup and which we came out ultimately there was a little gap, so in total we can say that in the last year we have utilized the capacity by roughly about 35%.

Runjhun Jain In FY13?

Rajesh Aggarwal FY13 and this year we are expecting about 60% to 65% utilization.

Runjhun Jain What was the total CAPEX for this plant?

Rajesh Aggarwal Total CAPEX which we incurred for this plant is about Rs. 100 crores plus. For Dahej

Runjhun Jain And that was funded how?

Rajesh Aggarwal Funded by internal accruals and there were some loans also which we had taken about Rs. 50 crores.

Runjhun Jain How much the total CAPEX we have done in FY 13? And what is the plan for FY 14, how much CAPEX you're expecting for FY 14?

Rajesh Aggarwal The total CAPEX which we have incurred is coming to Rs. 185 crores but I'd need to subtract a figure which we were having as the opening CAPEX, I have not calculated the total.

Runjhun Jain And what is the budget for FY14?

Rajesh Aggarwal Fy14 the budget is Rs. 25 crores roughly.

Runjhun Jain And that would be mainly maintenance CAPEX?

Rajesh Aggarwal Maintenance and also some small expansions across the plants because there is some expansion which is still on in Samba, some small expansion is on in Rajasthan also because we had set up a new plant here also in Rajasthan or rather I should say we are setting up a new plant in Rajasthan also and there will be some small expansion which will be coming in Dahej also, so it will include the maintenance as well as the expansion part.

Moderator The next question is from the line of Ritesh Badjatya from SPA Securities, please go ahead.

Rithsh Badjatya My question is regarding the new joint-venture in R&D with Otsuka AgriTechno, with this R&D are you focusing on any particular crop for which you are going to invent the new molecule or it is how you take basically the invention process?

Rajesh Aggarwal We have identified, there are about 10-12 gaps in the Indian agrochemical sector, we have identified the crops, we have identified the pest infestation, the diseases, weeds we will be working on all directions, so we will be focusing around these gaps there are already shared with Otsuka and OAT team are coming up with certain proposal for these products and they will come with certain leads also, so which will be used to develop the product share in India. Here I would like to tell you that already a three-member team from Otsuka has come in and they have joined the JV and already the appointment of a roughly 15 people has happened here in the JV and they have started working last week from a temporary laboratory which we have set up, I say it is temporary because it is a small laboratory which we have setup especially for them to start their job and now the construction of the new R&D centre has already begun and we are targeting that by Diwali we should be able to inaugurate this bigger R&D centre for them.

Ritesh Badjatya And this Otsuka AgriTechno is having any expertise on particular crop to develop this molecule?

Rajesh Aggarwal No, it will be very general it cannot be specific to crop because many are working with the chemicals and discovering the products you do not know what will be discovered but yes, since we have already identified that these are the major problems for which we will be working, so that they will keep at the back of their mind while doing these products.

Moderator The next question is from the line of Garishma Shah from Envision Capital, please go ahead.

Garishma Shah If you could highlight the reason for a 40% growth during the quarter, is it primarily due to low base or one-off kind of stuff because this is supposed to be the lean quarter for us**.**

Rajesh Aggarwal Yes, it is a lean quarter but if we look at the international conditions and also domestic conditions will see that economically the Rupee is not doing good and there are issues about certain commodities, so there is a stress on the availability of agrochemicals which the market is feeling and which I have already announced in the last quarter also whenever I met people that there is a lot of demand, so it is nothing that we have pushed some material into the market because my brand sales as well as the HT differences both have gone up and I believe in the last quarter the institutional sales would have also contributed a lot though I do not have the figures handy for the last quarter. But there was a lot of demand in the last quarter and I see that pressure even now in this quarter, it is a fixed demand.

Garishma Shah Is the 4th quarter more export or the institutional sales driven particularly for us?

Rajesh Aggarwal For us we are a domestic player so yes, it is more driven by the institutional sales and yes, there was some leftover of the brand sales which happened, generally my contribution from the institutional sales is 20% but I believe that in this quarter it would be roughly about 35%.

Garishma Shah Is the additional capacity which is come up for Dahej, FY13 also partly responsible for 40% kind of jump?

Rajesh Aggarwal You can say definitely that since the capacities are there, so we are able to push more material into the market that is also supported, yes.

Garishma Shah Give us a sense of how the full year volume and value growth would have paned down?

Rajesh Aggarwal Roughly there is an increase of 18%, so we attribute about 13% to volume and about 5% to value.

Garishma Shah And which segments would have done well for you, would it be herbicide, insecticide, how would that be?

Rajesh Aggarwal For us insecticides is the largest segment followed by herbicide, because more than 65% of our business comes from insecticides and 25% comes from herbicides, so we have grown in both since Pulsor is a fungicide, so see that a good growth will come in the fungicide segment also this year in FY14, we have been growing across sectors actually and it is in line with what

India does, India is largely insecticide market but 60 to 65% business happens from insecticides and herbicides contribute roughly about 25%. In the past it was 20 % but now it has gone to 25 to 30% followed by fungicides.

Garishma Shah And what would your tax rate be going ahead including the deferred tax would it be the same as what it will would be?

Rajesh Aggarwal It is MAT at the moment, next year also are expecting MAT after that I am not sure it depends upon what are the exemptions which I will get out of Samba unit because in Samba I may not get the extension of income tax, the other benefits may continue but income tax may not be there and secondly since Dahej is a very large expansion and major of our business would be coming out of Dahej, so that will also impact, so at least in FY14 we will be MAT after that we may come out of MAT but yes, there will be benefits which will be available from the exempted zone available to us, so we will not be paying the full tax but it will not be the MAT also.

Garishma Shah And this year we have seen the change in the revenue breakup in terms of formulations contributing more compared to technical?

Rajesh Aggarwal It is always like this, so far also we have been around 20% in the institutional business only, so we are not to break this figure, this year however I will be targeting that it may come up to 25% or a little more than that in FY14.

Garishma Shah In FY14 you are saying technicals will contribute 25%?

Rajesh Aggarwal Yes.

Garishma Shah And this year was lower because of ?

Rajesh Aggarwal Lower means it is never lower. It is always almost in this similar proportion or maybe the absolute number has been growing year-on-year because this year our institutional sales was of roughly Rs. 130 crores, this year we were at Rs. 105 crores or Rs. 110 crores before that we were at Rs. 85 crores levels, so in number wise we are growing year-on-year, so this year we are targeting that we will have more than I wish to grow by 30% but in institutional sales I wish to grow by 35 to 40%, so in total like the contribution from the institutional sales is going to increase in terms of percentage in FY14 because of the new plant.

Garishma Shah And Dahej you would manufacture only technicals or both formulations?

Rajesh Aggarwal No, we are doing formulations also because whatever technical's manufacturing there I am trying to put up the maximum formulations in the same place, to save the logistics costs , so I am doing the formulations as well as some technical's there.

Moderator We have the follow-up question from the line of Runjhun Jain from Nirmal Bang, please go ahead.

Runjhun Jain Can you just throw the light on Pulsor and Hakama these are for which crops?

Rajesh Aggarwal Pulsor is a fungicide which is used against a fungus called Rhizoctonia Solani, so basically at the moment the registration is on rice but we are trying to extend it on certain crops, the major crops where we are working are tomato and also potato and banana and we're also seeing good results on various other crops so we are doing the label extension of this product. When it comes to Hakama, Hakama is a very wild usage herbicide which is used in all major crops particularly soya bean, cotton and some pulses, groundnut, so in many crops it has been used to clean up thin leaf weeds particularly the grasses and sedges.

Runjhun Jain In this JV, how much you have invested?

Rajesh Aggarwal We have invested about Rs. 8 crores in the JV. The total budget for this JV is Rs. 40 crores, where 80% is coming from Japan and we have invested 20%.

Runjhun Jain And in this basically you would be working on new products?

Rajesh Aggarwal Yes, it will be the work on new product discoveries.

Runjhun Jain Then this would have a long gestation period, so that at least we cannot see anything in at least two or three years?

Rajesh Aggarwal The two or three years would be for the product coming out because if we are able to invent something in the next year or say in one and a half years then equal time will be required for registration, for approval purposes yes but we can start to the trials once we receive the chemical and we start the registration so we can start conducting the market trials.

Runjhun Jain But commercialization happens up to 3 to 4 years after registration, is it right?

Rajesh Aggarwal It depends, says the product is going to get invented here, so some part of that job would be starting immediately on the discovery because you need minimum data immediately when you discover the molecule and since the product will be made and available here, so that things will get easier because when you have to import, then you have to do the import registration, sanctions and sign contracts coming in, it takes more time, there will be saving but yes you are to your correct that it is relatively long-term story, it is not very short-term.

Moderator We have a question from the line of Lee Sebastian. Please go ahead.

Lee Sebastian I would like you to add some color to this 5% price increase your expecting next quarter or further, is it going to be across the board and a follow-up question, the steep price once we have seen in some of the cash crops especially cardamom, will it have any bearing on your pricing power?

Rajesh Aggarwal This 5% of all price increase will be not across the board because there may be certain products where this price increase can go up to 10 to 15% and there may be other products where it will be very marginal actually say 1% or 2% even there may be certain other products where is the is no price increase, so it is the average which I have told. The major price increase has come in the herbicides followed by some specialty insecticides which belongs to Neo-Nicotide group because their availability is tight in India and their international prices have gone up. To answer your second question I would say that a lot of reverse engineering has happened in India due to which the new generation products which have entered into the country and which has domesticated the prices are very aggressive in the country and they are available to the farmer at a cheap price, cheap price means they are available at the affordable price to the farmer due to the work of the domestic industry, so even if the price goes up by 10 to 15% it is affordable to the farmer there is no problem. Cardamom as you mentioned, cardamom is not a big crop from prospective of usage of agrochemicals, so it has no impact over the selling or the prices of agrochemicals because when we talk about India the major crops which consumed the maximum agrochemicals they are cotton, rice, wheat, sugar cane, pulses, ground nuts and some fruits and vegetable crops.

Moderator Our next question is from the line of Veena Patel from Iwealth Management. Please go ahead.

Veena Patel I just wanted to know what was the amount of the FOREX loss in this particular quarter?

Rajesh Aggarwal The total FOREX loss which we have done in this year is about Rs. 4 crores. This quarter is actually showing a gain of 19 lacs.

Veena Patel Because other expenditure has gone up drastically in this particular quarter, so does it have any component related to FOREX loss?

Rajesh Aggarwal The FOREX loss is covered by the finance cost. It is not covered by the other cost, so other costs I will have to check.

Veena Patel Whatever you mentioned like about like Rs. 4 crores of loss relating to FOREX, so that is reflected in the interest cost for the entire year?

Sandeep Aggarwal This FOREX loss we have included in the finance cost because it is on buyers' credit or on the LCs part that is why we have included in the finance cost.

Veena Patel What was the reason for the other expenditure to be so high in this particular quarter?

Sandeep Aggarwal Practically other expenditure includes our rebates and discounts as you know the season was very tough this year, so a lot of extra discounts we need to give to release our inventory and to reduce our debtors, so that is why in this quarter the expenses have gone up.

Veena Patel And what are you expecting our working capital cycle to be next year?

Sandeep Aggarwal Next year we are trying it should reduce minimum by 10 to 15 days.

Veena Patel Out of the Rs. 200 crores of gross debt for this FY13, what was the proportion of the Rupee debt?

Sandeep Aggarwal Rs. 32 crores is long-term debt and Rs. 170 crores is around working capital debts.

Veena Patel So out of that what was the FOREX debt and the Rupee debt?

Sandeep Aggarwal Rs. 32 crores is all FORX debt, out of that first 3 million is fully hedged at Rs. 44 and last 2 million is hedged at Rs. 54.

Veena Patel So what would be our average cost of borrowing then?

Sandeep Aggarwal It is around 10% after taking the benefits from subsidies.

Veena Patel I asked for the next year FY14, we are expecting CAPEX of only Rs. 25 crores so that would be majorly funded through internal accruals only or we need to borrow?

Sandeep Aggarwal No, we would be funded through internal accruals only.

Veena Patel So then what would be our net debt level for FY14?

Sandeep Aggarwal We are trying something if we will add we will only add for this working capital, additional capital requirement will be funded through banks otherwise hardly Rs. 10 crores to Rs. 15 crores more will be added nothing extraordinary will be taken.

Moderator At this moment we do not have any further questions would you like to add any final remarks.

Rajesh Aggarwal I would say thanks to all for participating and I would say here that yes we will be seeing a lot of improvement in our performance since this quarter onwards because the new plant is in the making and in the settings, so there were some teething issues which we have struggled in the last year, I believe that with the passage of time and during this year of FY14 we will see the improvement quarter-on-quarter basis and we are quite confident that the growth targets which we have shared we should be able to achieve it this year. And with this I would like to thank everybody.

Moderator Thank you very much sir. Thank you members of the management. On behalf of Insecticides India Ltd. that concludes this conference call. Thank you for joining us.