



INDIA PESTICIDES LIMITED

Earnings Conference Call Transcript

Q2 FY2022

Management:

Mr. Anand Swarup Agarwal – Chairman

Mr. D. K. Jain – Chief Executive Officer

Mr. S.P. Gupta – Chief Financial Officer





Moderator: Ladies and gentlemen, good day and welcome to the India Pesticides Limited Q2 FY2022 Earnings Conference Call hosted by Dolat Capital. 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 will now hand the conference over to Mr. Archit Joshi of Dolat Capital. Thank you, and over to you Sir!

Archit Joshi: Thanks Vivian. Good evening and Season’s Greetings to one and all who are participating in the call. On behalf of Dolat Capital, I would like to welcome all participants on India Pesticides Limited Q2 FY2022 Earning’s conference call. We would like to thank the management for giving us the opportunity to host this call. We have with us today the Chairman of India Pesticides Mr. Anand Swarup Agarwal, the CEO, Mr. D. K. Jain, and CFO, Mr. S.P. Gupta.

I am going to read out disclaimer of safe harbour statement before starting the call on behalf of the management. During the call we can make forward looking statements considering the environment we are in of today and obviously carry a risk in terms of uncertainty of this actual results could be different. We do not undertake to update the statements periodically.

Without any further ado, I would like to hand over the floor to Mr. Anand Swarup Agarwal, Ji the Chairman of IPL for his opening remarks, post which we will also have a round of opening remarks from the CEO and the CFO and then we can have the floor open for a Q&A round. Over to you Sir. Thanks a lot.

Anand S. Agarwal: Thank you Archit. Good afternoon, ladies and gentlemen. I hope you and your family are staying safe and healthy. I take the pleasure of welcoming you all for the Q2 FY2022 earning conference call of India Pesticides. I hope you all had the chance to look at the financial statements and earnings presentation uploaded on the exchange and our website.

During the quarter our margins continued to remain strong on back of our distinct product offerings. We acquired new customers across the globe supported by our strategy of continuously working for expanding products portfolio on ongoing basis that it will show significant business growth.

We are constantly developing and searching new chemicals and developing manufacturing processes in line with those chemicals to deliver products efficiently with maximum safety of our workers environment. During the first half of fiscal we introduced two new technical

grade products, responses to our new launches have been encouraging and expect it to gain further momentum going forward. Six new products are on track to be launched across categories which is expected to contribute meaningfully from next fiscal year.

We are constantly working towards expanding production capabilities, the progress of ongoing expansion project is in line with our expectation. Enhanced capacity coupled with new product launches will drive profitable growth for us in the coming future. Along this process, we are committed to ensure constant efforts to maintain excellent employee welfare and high level of business ethics in quality and services to customers and associates.

Thank you very much and I will now hand over the further presentation to Mr. Jain, our CEO.

D. K. Jain:

Thank you Sir. Good afternoon, ladies and gentlemen. I thank you for taking your time to join this earning call for Q2 FY2022. Greetings for the festive season. During the quarter our operations were in line with our expectations; however, the business witnessed strong headwinds, because of the global container shortage which has led to substantial increase in freight cost. Most of our exports sales are in FOB basis, the impact of this freight is being felt by our customers which in turn led to delayed shipments from them during the quarter.

We have already started getting fresh delivery schedules from them, as we speak the dispatches are taking place. We expect this situation to ease going forward. Our capacity expansion at our Sandila unit is very much in line with our expectations and are progressing well. As Anil ji said, we are very optimistic on the remaining six molecules which are about to launch soon. We are receiving strong traction from the customers for these molecules. We remain committed and place strong reliance on our R&D team.

During the quarter, we have increased the team size by hiring some more senior members. We are happy to state that the registration of the land for our wholly owned subsidiary at Hamirpur near Kanpur has been completed recently and we are going to apply for the environmental clearance very soon.

With this I would like to pass on to Mr. S.P. Gupta to walk us through our Q2 financial highlights. Thank you very much.

S.P. Gupta:

Thank you. Good afternoon, ladies and gentlemen. Thank you for dialing India Pesticide's conference call to discuss the Q2 financial year 2022 results. India Pesticides margins and return ratio continue to remain strong with our efficient asset , utilization and higher yield, ratio due to efforts on our R&D.



Taking you through the financial highlights the total revenue stood at Rs. 356 Crores as against Rs. 337 Crores in H1 FY2021. That is YoY growth of 5.7 % and Rs. 182 Crores in Q2 financial year 2022 as compared to Rs. 220 Crores in Q2 financial year 2021. There is a decline of 17 %. Decline in quarterly sales was due to deferment of shipments from some of our customers and containers shortage that led to decline in technical sales and our export revenue was also impacted.

EBITDA in half-year H1 financial year 2022 stands at Rs. 118 Crores as compared to Rs. 103 Crores in H1 financial year 2021 which grew by 14.7% on YoY basis and Rs. 59 Crores in Q2 financial year 2022. EBITDA margins have increased to 33% in H1 FY2022, as compared to 30.5% in H1 financial year 2021. The PAT stood at Rs. **84 crore in H1 FY22 as compared to Rs. 73 Crores in H1 FY21, growth of 16.1% year on year and about** and Rs. 48 Crores in Q2 financial year 2021. PAT margin has also increased to 23.6% in H1 Financial year 2022 as compared to 21.5% in H1 financial year 2021.

The revenue from exports stood at Rs. 139 Crores as compared to Rs. 219 Crores in H1 financial year 2021. Domestic revenue has increased to Rs. 205 Crores as compared to Rs. 110 Crores in H1 financial year 2021.

Revenue from technicals and formulations stood at Rs. 236 Crores and Rs. 108 Crores respectively during H1 financial year 2022. Our diversified products offering and ability to develop client requesting molecules quickly and efficiently benefits us in targeting and servicing diverse and niche range of demand internationally as well as domestically.

During H1 we invested Rs. 28 Crores in capex for expansion of our Sandila plant further we will invest Rs. 42 Crores in capex in Sandila plant in second half of the current financial year.

We remain confident of continuing our growth trajectory while extending full support to our customers, suppliers and other value stakeholders. I would now like Mr. Archit Joshi to open the lines for Q&A session. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Senthil Kumar from Joindre Capital Services Limited. Kindly proceed.

Senthil Kumar: Good evening. Thanks for the opportunity. My first query is significant increase on the net working capital cycle in the first half of FY2022 against full year FY2021? So could you please explain the reason behind that? My second question on the recently launched product, what is the growth prospects and what is the market size of the products? How

many products are we planning to launch in the second half of FY2022? My first query on net working capital cycle actually. Sir, it has significantly increased in first half of FY2022 as against a full year of FY2021. Could you please give the reasons for the increase for that? What could be the trend of inventory receivables and networking capital cycle for the full year? What can we expect for the full year? This is my first question. My second question on the new product launches. Two products which the management launched in Q2 FY2022 what is the market size for the products and what kind of revenue we can expect from that two products?

S.P. Gupta: The net working capital was 140 days in financial year 2020, it has declined to 132 days in financial year 2021, and the net working capital in H1 FY2022 has declined to 130 days from 132 days in financial year 2021. There is a slightly decline on of two days. No other inventory level has slightly gone up, but in March the inventory levels are slightly low because of excellent sales in March. So, it has been normalized now. As regards your second question, we have launched two molecules, one molecule has a very good market size in India and we are expecting sales for at least Rs. 50 Crores to Rs. 100 Crores in next financial year. Second molecule it is not so big, but we are expecting a sales of around Rs. 30 Crores to Rs. 35 Crores in the next year. In working capital we also want to highlight that significant portion of our receivables, they are backed by LCs of prime banks. But since we do not need funds we are not discounting them. If we discount the receivables, then the receivables can further be reduced by at least 20 to 25 days. It will come down to around 100 days.

Senthil Kumar: Sir, what can we expect for the full Year Sir, FY2022? I got the answer for my second question but still I am not clear with the first question. You said like for the full year of FY2021 working capital cycle is 170 days which has reduced to 130 days in first half of FY2022? Am I right Sir?

S.P. Gupta: It was 132 days in financial year 2021 it has reduced to 130 days in first half of current year, because of it the receivables days has also gone up.

Senthil Kumar: Sir, what is the working capital, for the full year Sir, FY2022 what can we expect for the full year Sir?

S.P. Gupta: It will reduce further, net working capital days will decline, it will reduce by 15 to 20 days.

Senthil Kumar: In that case it will be on 110 days, am I right Sir, for the full year of FY2022?

S.P. Gupta: Right.

- Senthil Kumar:** My last question is what is the number of new molecules, the management plans to launch in the second half of FY2022? What will be the market size for the same?
- S.P. Gupta:** In second half we are planning to launch four new molecules. They will also include some intermediates and in the next financial year we will be launching two more molecules. Market size it is quite big but very difficult to quantify at this moment.
- Senthil Kumar:** Understand Sir. Thanks. That is it from my side. Thank you Sir.
- Moderator:** Thank you. We have the next question is from the line of Mr. Rohan Gupta from Edelweiss. Kindly proceed.
- Rohan Gupta:** Good evening. Sir, first question is on our dependency on imports of raw material from China. We see that there is a deflection from China going on and in that scenario are we facing any raw material changes and how much dependency we have as far as raw material coming out from China?
- S.P. Gupta:** Our dependency on China is not very large. It is say around 20% of our entire purchase. So, most of the other products they are backward integrated, so majority of the raw materials we are sourcing from India only.
- Rohan Gupta:** Sir, I understand that there has been significant increase in chemical prices, even though we are sourcing it India, prices have gone up across and we are in the weak season in India so far, in the first half there has been lower acceptability from the formulation companies towards their end product so there should have been some margin pressure. Are you also seeing margin pressure because it is not getting reflected in our number?
- S.P. Gupta:** There has definitely been some increase in raw material prices, but the increase has been between the range of 8% to 10% only and if you look at against selling price it will be around 5% only. You can group the price increase in two groups the customer with whom the company has long time agreements and others. For customers other than long-term agreement, passing off price has been very smooth since very customer understands this is a global phenomenon. What was supplied under the agreement, generally we have a clause that there is a change in the raw material prices, we can renegotiate and normally we do it every quarter or every half year depending upon the clause. Generally, we workout the new price and it will be implemented with a time lag of one quarter only.
- Rohan Gupta:** That would be the long-term customers, we maintain, it will take some time to pass it on?
- S.P. Gupta:** Generally one quarter.

- Rohan Gupta:** With our long-term customers, you mentioned that you have six monthly cycle arrangement or how frequently it will stabilize?
- S.P. Gupta:** For some customers it is quarterly and for some customers it is half-yearly, but since it is unprecedented situation, we have written to our customers and they are very favorably looking to our concern.
- Rohan Gupta:** We have seen that the domestic market in formulations and whatever the agrochemical companies have placed their results so far, there has been a degrowth for them and we see that the fall in revenues for the current quarter which we had is also because of the world demand in the domestic market because we mentioned that decline in revenues in the current quarter is mainly because of the export market and challenges in logistics. We mentioned as in terms of domestic market, while our 60% revenues come from domestic market, so how has been the demand from the domestic market in the current scenario Sir?
- S.P. Gupta:** Out of the domestic market sales, our formulations business is only around 30% of our sales. No doubt we have projected very strong growth but as per our projection, there is a decline of 6% to 7% of less sales during the first half of this financial year 2022. Our B2B sales in the country it has been increasing. We are not seeing any problems. Actually, one of our large customers who were earlier buying for its European facility that customer is now buying it from India facility and demand has been very robust for our B2B business. For our formulations business because of some erratic rain and less pest infestations there was 6% to 7% degrowth from what we have projected.
- Rohan Gupta:** You are saying that the degrowth in the revenues, will surpass the 17%, because of the formulations business while our B2B business sale has grown up, right?
- S.P. Gupta:** Right.
- Rohan Gupta:** Sir, if you can just recommunicate in exports market, what is the share of our formulations or technical. I believe in exports everything is technical, right?
- S.P. Gupta:** Around 2% to 3% turnover of formulations business is being exported. Formulations business mainly in domestic driven.
- Rohan Gupta:** Sir I take this opportunity to ask further question. Sir, we are commissioning our new capacity by almost 9,000 tons over the next one and a half years to two years, in next two years, and nearly Rs. 70 Crores is the capex. Sir, if you can share some base about this that in at this plant what are the products we are planning to make and at what stage it is

right now in terms of commissioning of the capacities and are we getting new customers enquiry for these products and all. So when we are going to sell?

D.K. Jain: For this order we have planned eight molecules to be implemented during this year and the next year and two of them have already been launched as stated by Anand Ji and Mr. S.P. Gupta and six more molecules will comprise of few herbicides and intermediates they are under various stages of implementation and we hope to complete four of them by this year end that is financial year end and two more will be commissioned by June, July. There is very good demand for these products. We are getting continuous feedback from our customers that when we can give them at the earliest and there is very good traction and all of these products are in demand and we already have tied up for the supplies to the customers, so there is no problem at all in the supplies of these products.

Rohan Gupta: You mentioned that in the B2B business you have one of your large customers who have buying the products from Europe, have now started buying from you and has started procuring it from you domestically. Sir, we see most of the incidences or most of the development happening where companies or customers are facing local sourcing and reducing the dependency on Europe or China supply?

D.K. Jain: Actually what they are doing is they have a formulation facility in Europe but their demand is more since they were buying in India, formulating in India and, so actually it is for us, more or less like an export only, but instead they are buying locally, so it is going in their account as exports. Overall volume is increasing.

Rohan Gupta: Thank you.

Moderator: Thank you. We have the next question from the line of Mr. Deepak Poddar from Sapphire Capital. Kindly proceed.

Deepak Poddar: Thank you very much for the opportunity. Sir, firstly I just wanted to understand on the margins front, this 32% is what we have been telling about the sustainable margins, so has there been any change on account of the recent issues or the availability of raw material?

S.P. Gupta: We are making technical products from the basic stages, and our molecules are niche, so we have earnings superior margin than the industry profits. In future also, the molecules, which we are making they have good earning visibility. So we are quite hopeful that we will continue to enjoy around 30% EBITDA margin in the future also.

Deepak Poddar: Understood. In terms of revenue growth CAGR, like next two to three years, we have been talking about 25%, 30%, even as high as 35% we have done in the last two three years. So, how do we see that over the next three years, the CAGR?



- S.P. Gupta:** During the last three years, good expansion. In future we will be growing at the rate of around 20% CAGR only.
- Deepak Poddar:** 20% CAGR?
- S.P. Gupta:** 20% in the next two years.
- Deepak Poddar:** I think that is it. Thank you.
- Moderator:** Thank you. As there are no further questions, I hand the conference over to the management for closing comments.
- Anand S. Agarwal:** Thank you very much for the time. It was nice.
- Archit Joshi:** Thank you Sir. Thanks a lot. We are happy to host the call. Thank you. Have a good day and Happy Diwali.
- Anand S. Agarwal:** Happy Diwali to you all.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference. Thank you everyone for joining us and you may now disconnect your lines.

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For further information, please contact:

S. P. Gupta Chief Financial Officer <i>India Pesticides Limited</i>	Investor@indiapesticideslimited.com +91 522 265 3602
Ashok Negi / Bijay Sharma <i>Churchgate Partners</i>	ipl@churchgatepartners.com +91 22 6169 5988

Note: This transcript has been edited to improve readability

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The company's results may be affected by factors including, but not limited to, the risks and uncertainties in research and development; competitive developments; regulatory actions; the extent and duration of the effects of the COVID-19 pandemic; litigation and investigations; business development transactions; economic conditions; and changes in laws and regulations.

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