"Emmbi Industries Limited Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2018 Earnings Conference Call of Emmbi Industries Limited hosted by KR Choksey. As a reminder all participant lines will be in the listen-only mode. 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 "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah, Research Analyst from K. R. Choksey. Thank you and over to you Sir!

Kunal Shah: Thank you. Good afternoon everyone. On behalf of K. R. Choksey Shares and Securities Private Limited we welcome you all to the Q3 FY2018 earnings conference call of Emmbi Industries Limited. I take this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar, Chairman & Managing Director and Mrs. Rinku Appalwar, the Chief Financial Officer of the company. We will now begin the call with a brief overview of the company by the management followed by the Q&A session. I now hand over the call to Mr. Makrand Appalwar for his opening remarks. Over to you Sir!

Makrand Appalwar: Good afternoon and good day to everybody across the world. Thank you very much for joining in Q3 Earnings Conference Call for Emmbi Industries Limited. I will just briefly tell you about the revenue and the financials what happened in this one quarter, so the revenues are up by almost 17% and year-on-year EBITDA is up by almost 112 BPS and PAT or EPS is up by almost 30%.

Now I would focus largely on how did we achieve this and how do we plan to move on the very similar pace in the coming couple of years or like three years plan what we did, so I am sure many of you might have had a chance to run through our presentation, which has been this, so let me explain about the new concept of manufacturing 4.0, which is basically a productivity management by machine learning. So as you are aware, completely there is a change what is happening all over the world and there is a better augmentation is available with lots and lots of electronic gadgets and tools and things, which are getting more and more improvement abilities or ability to increase our productivity and that is what we are trying to do with our manufacturing 4.0 program, so what we are doing is as you are aware that we are basically export. A substantial part of our earnings comes from export or substantial part of our manufacturing connected to exports, so most of the exports are in the badge process, so all these badge processes I am sure all of us have heard in sometime or other word or a discount sale going on, which is called export surplus, so we have devised a new productivity management system, which helps us to stop the production right at the time where we have already decided, so that is the basically concept, so that there are no surpluses or excesses getting created or at the same time there is no reduction or less of production getting created, which is then ultimately we have to restart the machines on whole, the operation becomes more inefficient, so in order to make our assets pay us better I will need to get a better asset turn ratio. What we are doing is we are creating a grid of communication between the machines using the IoT technology, which many of us are already now familiar with where machines can actually interact with each other and tell each other that what is the amount of things which, so we already in last two months we have commissioned four machines and successfully conducted a trials and okayed them for the commercials and in next two quarters that is in next six months the entire fleet of machines at Emmbi would be connected with this kind of sophisticated electronics, which would help us to take us to the level of manufacturing 4.0 because every time you are aware that we are going in the situation where everything is very dynamic and today or tomorrow we will be talking about the universal factories or the factories, which can produce all sorts of things or all sorts of productions using the same machineries, so Emmbi is also preparing itself with the whole concept of newness, whole concept of newer technology adoption and this is our new step, so this quarter's innovation is connected to the machine learning part and manufacturing 4.0 is our this quarter's innovation, so it is more of a system based innovation than a product and this is going to help us to reduce our surpluses and wastages and that is why the things – as the promise we keep on saying that we have to consistently keep on improving our EBIT levels by 25 BPS on a quarterly basis. So that is not only going to come from the increased value of the sales or increased contribution of the items, which are used in the sense, so that is going to be a combination of multiple things, so this is one of the side.

We will be spending around Rs.1.2 Crores in the span of next six months and upgrading our entire base. The expected return of investment of 1.2 Crores is to the tune of maximum two quarters, so I think that is going to be one of the most exciting and challenging thing, which is happening at Emmbi at this time. I am sure apart from our regular products and the financial performance you must have had a chance to go through the water opportunity as a part of our presentation, so let me tell you briefly about what are we talking about it. So if you have noted the first picture, which we have given in the water opportunity slide, it is a man-made reservoir, which we have created in the desert of Jaisalmer just 800 meters away from the India-Pakistan border. We have created actually two ponds just there about nine months to a year back and I visited those ponds last month and this is the picture I have taken from my own camera and the live picture, so you could see that in the pinch desert of Jaisalmer we able to create a patch of greenery and there are 140 trees of palm dates, which has been planted and there is also groundnut, on the other side you can see the groundnut tree, so my point is if you have ability to create artificial oasis in the desert then your probably opportunities remain limitless, so that is what we are trying to explain it through that picture. So let me also tell you about possible opportunities in the fleet of water conservation in India.

So India by and large is if you see the water stress in India 50% plus, almost 54% of the India is in high or extremely high water stress area, so those are the areas where you would only have a water, which is sufficient barely to drink and even at many times people have to walk more than a couple of miles to fetch the water and that creates a very poor scene for the productivity of the country, so we have taken that as a part and as one of our flagship product in the water conservation, which is a pond liner, let me explain how the pond liner is going to play a role here. So whenever there is a shortage of water most of the people will go for a micro irrigation. We will go for saving the water to create better productivity, better utilization of water, so pond becomes the first building block of the micro irrigation thing. Ponds are the one, which stores the water, which ultimately gets them subsequently into the micro irrigation activity and then by using either sprinklers or drips or likes of that, they can go ahead and then irrigate it, so why this need has suddenly arisen because you have been aware that changing rain patterns are actually depleting the underground water level because the sudden downpours are causing substantial drain of water through the rivers back to the sea and there is no enough water, which is getting absorbed by the earth, so the underground water tables are consistently depleting that is causing there is no availability of enough water, so the ponds basically function as an axillary storage devices whenever there is a surplus water you can store it in the ponds through your canals, through your rainwater, through your river water or whatever source of water is available in and around you and that can be used across the year for taking care of your agricultural activities.

One of the slides we have also given you the details of the backwardness of this country on the intensive irrigation side, so we are still not able to even reach 20% of the target on the micro irrigation side and like countries, which are agriculturally very developed like Israel, Spain they have also crossed upward to the 70% and slowly India is catching up, so our point is whenever there is a requirement of intensive or a micro irrigation the requirement of Emmbi product will always be there and I am sure you are aware Government of India has recently announced a very specific program to double the farmers income by year 2020, so there are a lot of schemes, which has been used apart from the marketing schemes, the production or productivity improvement for farms where they have to store the water, so we are one of the players where we help farmers to store their basically water and let it used across the year. Apart from this the company has been very stably growing. You must have seen that the results and the growth is consistent, we are believer that we do not want to have an erratic or a spiky pattern of growth, it is a consistent growth, consistent rise, consistent operation is the key word, so we have been consistently maintaining our pace and we intend to continue our growth rates somewhere between 15% to 20% depending on the quarters that would happen and the whole organization is geared up to take care of this, so when it comes to infrastructure we have already setup as most of us are being here for a while and they have been repeating the con calls, so you all are aware that we have already setup a facility, which is 24000 metric tonne per annum and that is going to take care of a topline up to around 400 Crores, so no special capex till 2020 is required apart from the debottlenecking or you can say R&D capex, that is also expected to remain within Rs.3 Crores to Rs.5 Crores on the annualized basis. So by using the funds now the new or you can say the new drawn focus would be instead of spending extra money and building new capacities, make these capacities more efficient by using technologies and the modern ways of building the things and let these assets let to the best of their abilities and let these assets create the best asset turn ratio that would be our focus. Apart from that the continued R&D spend and R&D activity would remain as a forefront of the company because we believe that change is the only thing, which is constant, we keep on saying that always and we sincerely believe in the same theory or same philosophy, so we will again continue our efforts on R&D, there are lots and lots of other products being discovered, research being tried tested, so on the quarterly basis you can expect that we would be presenting certain things, which are new at Emmbi, which would be coming to you. So I hope I was able to give you a brief overview about the company and what happened in this quarter and now I would like to open this floor for the questions and answers.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We will take the first question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: If you can throw some colour on the polypropylene prices, given the recent surge in crude price, so how is the pricing behaving in or will it would be pass on to customers?

Makrand Appalwar: This has been a very classical and people has been asking this question to me and I was been always answering this in a very good way that like contribution of raw material in our total product cost is around 50% of it and the contribution of crude oil or anything else in the cost of propane or polypropylene is another hardly 20%, so entire product cost and the crude linkage is not a hard-wired thing, it is related, but it is not hard-wired and as a policy we have been always telling this thing that we have a passthrough mechanism, whenever there is a reduction in the polymer prices we do not get a windfall profits or at the same time whenever there is an increase in the prices we do not get the shock of the polymer prices and apart from that whatever is the order book, which we maintained we maintain that much of inventory, so whatever change in the polypropylene prices are actually borne by our customer and that is what is the agreement between us and the company, so our markup over the polypropylene prices remain constant and the change in the prices it passed on the customer on first day of every calendar month.

Shashank Kanodia: But is there any sudden surge that you are witnessing because of some capacity shutdown in China or anything else?

Makrand Appalwar: Frankly there was increase in the prices this month end, but I think that was not because of the capacity shutdown that was I think duty rate structure I changed. There was some increase in 0.5% of the duty on polypropylene after the budget, so that has taken a little bit of polypropylene up in India and right now country is polymer surplus. If you are aware just recently about nine months back ONGC has started its plant in Dahej, which is also a very large facility and again Reliance has started one of their polyethylene plant three or four months back in I think Jamnagar and Hazira combined at both the places they had something, so country is having actually a surplus polymer, so I do not think there is going to be a big surge, but prices would be little bit on the bullish range and somewhere around $1200 to $1300 polypropylene may stabilize. Right now it is in the range of around $1280, $1270.

Shashank Kanodia: Secondly on the working capital front, so last time you mentioned because of GST there was some export refunds, incentives front, so how the situation now and where do we stand today?

Makrand Appalwar: We have started getting the refunds, we have not got all the months back yet, but I think we got three months refund that is July, August, October has come back and 90% of the three months export taxes has come back and the rest is expected in the due course of time, so the process has now at least started and I am happy that of course it is taking some time because of they are building up their own systems and the electronics and the bandwidth issues and other thing, but the process has started and it is going on.

Shashank Kanodia: What is the percentage of sales that we get as export incentives and any change in the recent project?

Makrand Appalwar: No, there was no change in the recent budget for the export incentives, the percentage of sale is almost I think 46%, 47%.

Shashank Kanodia: The export incentives that we get on the sales is it 5% of sales?

Makrand Appalwar: It is 4%.

Shashank Kanodia: On the tax rate front if you share some clarity because of the new tax rate being announced in recent budge on MSME space, so which bracket will be fit in?

Makrand Appalwar: We would actually as per the present situation what they have announced we would fit in that bracket, which is below Rs.250 Crores in the year 2017, so our peak tax rate can be Rs.25 Crores, but due to the spending on R&D our tax rate would be in the MAT still.

Shashank Kanodia: For FY2019 and 2020 what is the tax rate that we guide now?

Makrand Appalwar: If I correctly understand from what I read the budget and the tax rate likely to be 25% as a cap rate, but considering our expenditure and R&D status I think we would still remain in MAT.

Shashank Kanodia: Effective tax rate for us would be?

Makrand Appalwar: 20% basics plus those surpluses and surcharges and other thing, so roughly it boils down to around 21.8 or somewhere around 22% I would say.

Shashank Kanodia: Because last time we had get it for 26%, 27% kind of tax rate that will come down to 22% right?

Makrand Appalwar: Yes.

Shashank Kanodia: On the micro irrigation front they never talk about farm ponds we integrating with it, so is there any government policy or anything that is indicating that integrate the farm ponds with micro irrigation systems?

Makrand Appalwar: There are multiple policies by the multiple state governments as well as central government. In Maharashtra there are two policies right now operating, one is called Jalyukt Shivar Yojana that is basically creating water field courtyard or I do not know how do you define Shivar in English, but it is basically a place just outside your home, so water field place near your home and second is called Magel Tyala Shettale that is the one who demands pond he will get the pond, so earlier there was a limitation on the subsidy towards offer on the ponds, but now that has been removed. Any farmer who goes and says that I want to make a pond government is offering him Rs.75000 subsidy, so as a part of government you can say protocol or government's efforts to increase the productivity of Indian farmers this is one of the basic steps they are taking, so these are two very major contributory schemes and apart from that in this budget they have decided to go ahead with additional 96 districts to be brought under the intensive irrigation scheme program, so automatically whenever somebody want to use sprinklers or drip or any intensive irrigation process they need a stagnant source of water and for stagnant source of water making a pond is the most cheapest and most viable alternative today.

Shashank Kanodia: Thank you so much and wish you all the best.

Moderator: Thank you. We will take the next question from the line of Devansh Lakhani, an Individual Investor. Please go ahead.

Devansh Lakhani: Congratulations on a good set of numbers. I just wanted to know this manufacturing 4.0 program that you highlighted that you are going to use the IoT technology for machine communication and so on, what is the benefit in terms of cost or operating leverage that we would generate out of that over the next two years or something, you said it would be implemented after the next two quarters?

Makrand Appalwar: Within the next two quarters.

Devansh Lakhani: Within the next two quarters, so let us say the results show from the third quarter from now, so what would be the cost benefits or the operating leverage that we can achieve out of this thing or some other benefit in terms of monetary as well as non-monetary?

Makrand Appalwar: Let me explain you basically the technology getting used, so what we are doing is whenever you are producing a badge process then there are multiple machines, which operate creating the same badge. Let us say I want to make 50000 meters of fabrics then I put four machines that you should draw 50000 meters of the fabric then we assume that all four machines started together and they would produce 12500 meters each and stop at one point of time. Now the reality is they never start at exactly the same point, they will always start one after another because one is getting changed, other will get changed like this, so there is always a delay, so let us say one would draw 13000 meters, other would draw 12800, the other will draw 12600, so like that there is a gap in the production and let us say if I wanted to draw 50000 meters of fabric and that gets completed at 03:00 hours in the night because factory runs 24 hours then there is nobody to take a decision at 03:00 hours, no managerial cater is available at that moment, so the decision to stop those machine and take a changeover gets shifted by around 7, 8 hours and it gets taken in the morning, so these electronics are basically preprogrammed and the four machines would talk within themselves and they will say I already made 13000 let us say machine one would say guys I already made 13000 so you guys restrict yourself to 11500 you do not need to make all the machines and then whatever time it need to stop it has got basically a preprogrammed alarm system that at 80% it gives a warning, we are completing our 80% production, so you guys be prepared for what is going to be your next changeover and then at 99% it says okay I am just had 99% and after 1% I am going to switch off, so you be prepared for what is going to be my next slot, so this is going to be, so what are we using here in generally entire managerial thought process or managers are available in the daytime, while these intelligent machines would decide themselves that even that it happens at midnight they would stop even that happens at 3 o'clock it stops, so they do not overproduce or underproduce both the way, so how does impacts on me because generally what we expect is that our wastages or the scraps or the downgraded product would come down by around 2% in the annualized way, so say 50% of our annual revenue is coming out of exports, out of that around 2% degrade or downgraded material is reduced, so 1% on the overall level will be leveraged and out of that around 50% is the cost of raw material and others, so we would at least have a net benefit of 0.5% to 0.75% on our total buying to get these things and that is going to be substantial like that would be straightaway contribute to our EBITDA because that is not going to add any other cost or it is not adding plus that would add our additional efficiency, anything which was underproduced or overproduced it has to be consumed somewhere else with some concession or discounts that would go away. We will have as better inventory control, we will have a better process control, so that is why I am very, very bullish and very excited about this new and basically slowly everything, all components or all machines in the factory, they start speaking or they start interacting their production datas with each other then the factory would have much better harmony and much better manufacturing ability, which automatically will push up the productivity and that is why the production and that is why the output, so I would say that this simple exercise would directly yield us around 0.5% to 0.75% of the topline and indirectly frankly it is not yet, I am not able to compute it because that is going to be a little bit of a time and understanding.

Devansh Lakhani: Basically all the machines will get this thing right, the technology will be coming in, all the machineries across all the plants that we?

Makrand Appalwar: Exactly.

Devansh Lakhani: So just on this particular point, we are reading a lot about automation and IoT and AI and all that taking over from manual job in the near future, so is it something that probably not taking away jobs in our company, but something that the manpower employment would reduce over the next three years, five years or something in this company?

Makrand Appalwar: Yes, I understood your concern that we are country with lots of people and we need to take care of all of them. Thought at Emmbi is like we do not want to cut the numbers, but we want to increase the throughput, so let us say I have one man who produces one tonne of material in one month I am targeting that I should have one man who produces 1.25 tonnes of material in one month and by that we improve the productivity, so I can commit that we are not in mood to cut down the people and by then create further job shortages in the market, but we are using all these augmented technology, we are making our own people more efficient, we are making them more empowered to take decisions because it would be simple they do not have to worry whether their decisions are right or wrong it would be governed by the pre-decided protocols, so actually I think this is the need of the country like India. We are not country like any western country where people are really in shortage and they can really go on the very high end automation, but we are a country where we have lots of people and we have to make best use of them. So this technology would not cut down the manpower, but it would improve their productivity.

Devansh Lakhani: Do we see any of other competitors in the non-listed or the listed, any other companies implementing this technology or something?

Makrand Appalwar: Frankly I cannot go in their factories, but I have not heard about it.

Devansh Lakhani: If you would have heard because if it is on the same industry?

Makrand Appalwar: It was not frankly from our industry like our development team somebody who was thinking in a like the typical oblique thinking that why cannot machine talk to each other like one of the engineer came with a thought that why we have to tell everything to this machines, why cannot they talk to each other and sort our their problems and then that is how the thought started developing then we just started going, getting sensors then we started thinking that okay why not – this is not a very standard machinery equipment, which is available in off the shelf.

Devansh Lakhani: I am sure that is why the question whether any competitors are using, obviously we would have a much bigger advantage in terms of the time and scale with which we will address the market with this machine, if we are the number one in the industry doing this, so that is why I just wanted, but it is okay, no worry?

Makrand Appalwar: I do not have the data.

Devansh Lakhani: No worries. Thank you Sir.

Moderator: Thank you. The next question is from the line of Yashesh Parekh, an Individual Investor. Please go ahead.

Yashesh Parekh: Congratulation Sir with good set of numbers. Sir I have couple of questions for you. First in the presentation we have stated that we are moving forward to four more states in the next three years, so just wanted to understand, which are the states and what could be the potential opportunity here?

Makrand Appalwar: We have shortlisted Madhya Pradesh and Karnataka as potential next markets to move in and the states after that might be Himachal Pradesh, Haryana, Punjab either of that, but the next three are not yet shortlisted, which two will be there, but the first two has been shortlisted and there seems to be – out of this 96 districts which came in almost 30 districts lie in Karnataka and MP, so probably if you multiple it by an average of initially when it starts it is not very fast because it takes some time for farmers to appreciate and we have to get them to Maharashtra, show them what is happening here, but I guess still there is a lot of space, which is remain for us and whatever is our growth plan we are going in that direction and that would be the next level, so potentially identifying the numbers or connected numbers at this juncture would be difficult for me. Presently we have the numbers for Maharashtra and Rajasthan that is around Rs.2000 Crores for Maharashtra and Rs.500 Crores for Rajasthan, but these two states are yet to connect the numbers and probably another three or six months down the line this will be more a apt question because we will have more deeper dive in those places and even those states would have a better understanding about this thing.

Yashesh Parekh: Whether there is any subsidy provided in this new state by the government?

Makrand Appalwar: Yes, there is a subsidy in Karnataka, there is a 100% subsidy on the pond what they are making, but it is a type 1 pond that is a three-year pond while Maharashtra is a type 2, that is a five-year pond what they consider and in Madhya Pradesh they are also offering 50% subsidy on five-year or type 2 ponds.

Yashesh Parekh: My second question is towards the growth in exports that the company has clocked of 7%, so just wanted to understand that whether the growth has come from the rise in prices or is it on the volume side?

Makrand Appalwar: I guess volume is also part of that because the rise is just now happened, after rise nearly there will be two or months of lag in dispatches so that you would see probably in the next subsequent quarters, but US economy is doing very substantially good and I would say US is one of the bigger contributors to the growth in export what you see, though Europe has not been doing all that great probably almost a year now, but United States is doing really good and the economy is really picking up very well, so I would say that present growth what you see is more of a volumes, down the line you might see it out of the value.

Yashesh Parekh: That is it from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Thanks for the opportunity. The rising interest rate we see in the quarter is largely because of stressed working capital cycle or is it anything else to it?

Makrand Appalwar: But interest rate in the quarter has not actually, if you see percentage rise is not there, it is almost flat or actually it is a little bit lesser than what it should be, so the question is a little bit, absolute numbers have gone up, but you have to see the absolute turnover has also gone up.

Shashank Kanodia: We are still maintaining the net working capital cycle, if some pressure that we are witnessing?

Makrand Appalwar: We would be 10 to 12 days down again this year like as we promised around 10 days a year we are consistently improving our working capital cycle and I am sure even at the end of this year you would see at least 10 days minus.

Shashank Kanodia: Sir secondly on the employee cost, so have we reclassified some part of cost entrepreneurial expenses to employee because on Y on Y basis there is a huge up in employee cost that we see, any temporary staff that we have converted into permanent staff?

Makrand Appalwar: No, basically there is a change in the lot of statutory compliances in this country, the PF has gone up from 7500 was the previous limit, now it has moved to 15000. The bonus has moved from 3200 to 8000, so lot of such statutory things have changed that is actually resulted into this calculation and the newer pictures.

Shashank Kanodia: Sir thirdly on the growth front for 2019-2020 so going forward now we have capacity in place, we have the microeconomic environment, so what kind of growth in topline do we foresee Sir in next two years?

Makrand Appalwar: Probably we would be again in the range of around 15% to 20% both the years till we March up to Rs.400 Crores.

Shashank Kanodia: Do we see realistically clocking that Rs.400 Crores of magical figure in FY2020?

Makrand Appalwar: I do not have the exact numbers, but if you can say roughly 17.5% to 20% of the growth we should be thereby around that.

Shashank Kanodia: Lastly in the previous two unit budgets, there was a categorically mention of farm ponds and allocations in terms of rupee, lakh, Crores as well as lakh ponds, so this time there was no specific mention, so does it anyway dent us the opportunity size?

Makrand Appalwar: No probably they have come up in a slightly more larger or a broader way, they have mentioned that they have identified 96 new districts and they would be working on the intensive irrigation, they did not come up with a name as farm pond because in those days the farm ponds were new and they were not the part of the gentry of the micro irrigation, now everybody has accepted that is a part of the micro irrigation activity, so if you note the budget speech they have mentioned specifically that 96 new districts will be taken care and there is a group budget for entire micro or intensive irrigation has been announced, so we become a part of that entire bandwagon.

Shashank Kanodia: Lastly on the margin front, so what kind of improvements can we see for next two years, given that now I think our B2C share is increasing as well as value added products?

Makrand Appalwar: Right now if you see our EBITDA level margins are somewhere around 14% now it is reaching almost little below I think 14%, but it is almost 14%, so what is our target is to either from value added product improvement, productivity and leverage all everything put together around 25 BPS per quarter we should see the improvement and by 2020 we should be somewhere between 15% to 16% we should be somewhere around that.

Shashank Kanodia: Thank you so much and that is all from my side.

Moderator: Thank you. The next question is from the line of Ankit Shah, an Individual Investor. Please go ahead.

Ankit Shah: I read in your earlier presentation that we are trying to do one pond in every one hour?

Makrand Appalwar: I think we believe that we will be able to do.

Ankit Shah: Basically by when we can do this, what is the target?

Makrand Appalwar: In the same presentation the fourth line is around next three years.

Ankit Shah: Next three years by 2020?

Makrand Appalwar: Yes 2020-2021.

Ankit Shah: Do we have the capacity in place or we largely looking into?

Makrand Appalwar: We have a capacity in place.

Ankit Shah: I also had the same question regarding employee cost basically it is almost double, so I thought if we had to place in more distributors or something like that?

Makrand Appalwar: Employee cot has not doubled probably it has.

Ankit Shah: Almost.

Makrand Appalwar: Yes, you have to see it as a dual impact, you have to see one, there is a 25% addition in the capacity from 18000 we went up to 24000, so one, 25% flat increase in the capacity and second there was increase in all sorts of wages, minimum wages has gone up, PF has gone up, so both these things put together I think we have gone – considering last year of this around 1.6 or 1.7 times.

Ankit Shah: One more thing I wanted to know is how are the earlier quarters innovative products are working how are they performing like last two quarters we had?

Makrand Appalwar: They are picking up slowly like the wool pack is already getting dispatches commercially it is getting sold in the oriental area, I do not want to name the countries, but we are already getting sold there, the poultry curtain is already in a market and already started distributing it through our distributors to the thing. Coffee bag was already devised rather because somebody wanted it, it was innovation by need, not by you can say just by our perception, so that has been already in the selling, so all the three or four products, which has been displayed as innovation in last three, four quarters, everything has been commercially started and exact percentage I have not calculated, but it is contributing to the top lines.

Ankit Shah: That is it from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Vinay Pai, Individual Investor. Please go ahead.

Vinay Pai: My question is, number one is sometime last year you had mentioned that you will be going into retail that is like water conservation products I can get through Big Bazaar or one of these, it will be available close to me, I just want to know is your company doing that or not?

Makrand Appalwar: Water retail basically we are more focused through the Krishi Seva Kendra or the rural areas. Frankly most of the products what you see is more suitable for the rural area than the urban, so the places like Big Bazaar or others they are more urban centric thing and that is why we would not probably see us in those places, but if you visit the Krishi Seva Kendras or the holders in the rural area you would see us.

Vinay Pai: This is currently in Maharashtra or any other state or anything?

Makrand Appalwar: In Maharashtra right now.

Vinay Pai: So in Maharashtra the farmer can go and pickup your product from the retail is it, conservation products?

Makrand Appalwar: Yes.

Vinay Pai: Any plans to increase?

Makrand Appalwar: Almost you can say 13 district has something called Emmbi Mitra, a person is Emmbi employee whose placed in every district to take care of the dealer distributor network and he is directly being present there, we are named him Emmbi Mitra he helps people and then every district has one distributor and every Tehsil has one dealer and through that dealer and distributor network through the shops and through the Krishi Seva Kendra all these products get up to the people.

Vinay Pai: What about the other states Sir?

Makrand Appalwar: Right now first we are rather more glued and focus on developing pond lining distribution in other states, once that has been done we would follow up with these things.

Vinay Pai: So when could that be?

Makrand Appalwar: Probably by 2020-2021 everything would set in place.

Vinay Pai: That is number one question. Number two is recently our Prime Minister Mr. Modi had visited Israel, so if they are supposed to be the world's most recognized water conservation and innovative product manufacturers in the world, so do you intend to get some products there and sell their products in India and all, that could be another high margin prospect opportunity, are you thinking in those lines?

Makrand Appalwar: We do not intend to bring their products into the India, but we are working in very close coordination with the companies, which are having the technologies or the technology understandings or what is called additive understanding, so we are using one of the Israeli companies for the additives, which we use in pond liners and other, so what is our thought is because most of the Israeli products what people try to get it directly from Israel to India crosses are very prohibitive, so we are more focused on creating Indianized alternatives for those products, so we are consistently in touch with Israeli, you can say agriculture or a polymer support in the agriculture, we have been probably had more than half a dozen visitors from Israel in last six months visiting us or our people visiting them and discussing about the possibilities of developing newer product in India to suit the Indian as well as Israeli market, probably we will have a intention that instead of bringing product from Israel and selling it in India I would like one day to produce a product and sell it back to Israel.

Vinay Pai: So you will be announcing any, if there is any concrete plan to manufacture some products, you will be announcing that in the due course of time right?

Makrand Appalwar: Yes.

Vinay Pai: Right Sir. That answers my questions. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Devansh Lakhani, Individual Investor. Please go ahead.

Devansh Lakhani: In the employee cost do we see the increase to be constant these levels on the – the employee cost will it be at these levels in the coming quarters 3.7?

Makrand Appalwar: You have to connect it probably with the topline. I cannot say that okay it is going to be Rs.100 for all the quarters, but we can connect it with the production like let us say if there is 100 tonnes of the production and my cost per tonne is say Rs.25 then that would be in the similar lines unless and until again government comes up with some new wage ruling or other that I will keep a kind of a disclaimer that if they come up with some new things that is different, but if present situation remains then you have to connect it with the topline.

Devansh Lakhani: Sir even with the topline if we see in the same quarter preceding year it was 3.5% on the topline, the employee cost and current quarter it is 5.5%, a 2% increase right, so are we going to see around this 5.5% of the topline?

Makrand Appalwar: No, you would see it little less, you would see it somewhere in between 3.5 and 5.5 because there is a two reason, 1% increase probably you would see is because of the new wage rates and PF rates and other thing, 1% decline would happen because when you employ somebody on the new capacity let us say if there is a 6000 tonne capacity, which is added you employ people you cannot say that okay I sell only 10% I am going to pay you 10% of your salary, so you employ him with the full salary and slowly build up your capacity utilization, so as the capacity utilization of this new facility goes up, which would probably will happen slowly in the next 18 to 24 months slowly that would march down from 5.5% to around 4.5% that is all, so it is now the incremental cost because of the appointment of new people because of the additional capacity would keep on coming down.

Devansh Lakhani: Sir one question on the revenue front about the taxation thing to come under the MSME thing, which has been highlighted in the budget, so last year we clocked Rs.240 Crores and this year I think beyond the verge of breaking that also may be we might cross Rs.250 Crores also it appears like that, so it would not be applicable to us right or how is that?

Makrand Appalwar: What was the budget speech Finance Minister has mentioned that companies, which made less than Rs.250 Crores in the financial year 2016-2017 will be eligible for the tax revenue for and this budget is only one year activity. For this year right now this is the thing, now year before that the limit was Rs.50 Crores, so one budget he moved from 50 to 250, now what is their long-term promise if you understand they are saying that we have to bring all of the industry in the tax net of 25%, so I think next budget you can see either it will move from 250 to either 500 or 1000 whatever Finance Minister feels correct he would move it from 250 to 500 or whatever that announcement will come in next budget then only we can conclude, so as of now we cannot decide that what is going to be our next year's tax.

Devansh Lakhani: But at least for this year?

Makrand Appalwar: It is not clear, at least for this year.

Devansh Lakhani: FY2018-2019 we would be in the 25?

Makrand Appalwar: In MAT yes.

Devansh Lakhani: But obviously we would be more beneficial in the MAT rather than 25 one?

Makrand Appalwar: Yes that is why we will remain in MAT.

Devansh Lakhani: It would be around 22 as you had answered to

Makrand Appalwar: Yes, around 21 point something.

Devansh Lakhani: Thank you Sir.

Moderator: Thank you.

Makrand Appalwar: We should thank everybody for being on our call I really appreciate your time. We understand it is very important and valuable time for you guys. Thank you very much for spending time with Emmbi and we are always available to answer your queries or questions offline whenever you feel we need to speak to each other please call us, make it convenient and once more thanks a lot and I hand it over back to the K R Choksey. Thank you so much.

Moderator: Mr. Kunal Shah, any comments from your end?

Kunal Shah: That was all. Thank you everyone for joining the Q3 FY2018 earnings conference call hosted by K R Choksey Shares and Securities Private Limited. Thank you so much for joining.

Moderator: Thank you. Ladies and gentlemen on behalf of K R Choksey that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.