"Emmbi Industries Limited Q1 FY 2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Emmbi Industries Limited Q1 FY2017 Earning Conference Call hosted by KR Choksey Shares & Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Choksey from K. R. Choksey. Thank you and over to you Sir!

Anuj Choksey: Good evening participants. On behalf of Emmbi Industries, I welcome you all. We have Mr. Makrand and Mrs. Rinku over here who would be addressing this conference call and later participants can ask the questions, queries and we would be happy to address them. I now hand over the telephone to Mr. Makrand. Over to you Mr. Makrand!

Makrand Appalwar: Good afternoon to everybody. It is great to talk to you back again after gap of almost quarter. So I am just going to take one basic assumption that most of us has already met other on phone or directly and you know about Emmbi a little and I am going to build up on the recap what is happened. So just quick recap when it comes to believe him and philosophy at Emmbi.

We always believed that Polymer, which is one of the quickest growing you can say elements of the world as to all for us many possibilities. I am sure most of us have noted the changes which happened in our life right from automobile where the Rompers were changed to the drug delivery systems where syringes and needles from glass and metal plastic. We also envisaged lot of change in human appearance. We also changed lot of different places plastic has touched our life. If you see utensils sale 10 years back, the hardly 40% of your appliances kitchen used to be actually nonmetal, now it is around 65% and out of that 65% close to 90% of the kitchen comes out of Polymer based various products.

So our belief is that polymer is one of the quickest growing industry where Emmbi is placed itself with a very interesting product line of itself. I am sure you had a chance to look at our product lines especially the things like products in the water conservation and agricultural segments are one of the three-digit growing things both the bases of these products are small, but they are growing at a much quicker speed. So those are the places, which would get an interesting growth story for Emmbi, which would create real good wealth for company as well as all our investors.

To just brief you on a few things, which we spoke about in our call last time, first were regarding our investment in the food sector. As you are aware food sector and pharmaceutical sectors are growing and if you know aware about it that US FDA norms are changing for utilization of food and pharmaceutical products. So Emmbi is setting up positive pressure clean room, which would create products, which are good for required in that particular sector. The construction work is already on as discussed. We would be spending a capital expenditure of closed to Rs.15 Crores during this financial year to complete the product. The part of it has already been done and part time in process. All machines are ordered. Building is in construction and we are saying to you some developments of the buildings and it is going as per the plan.

We expect the building to be completed by November or December and another couple of months to set up all the machineries and go ahead. Another point, which I spoke in the last concall, was starting up retail activities, which related to water conservation. I am really excited to tell you that actually we have initially plan to start it from July 1, but as the preparations were really good and response was coming up very well so we just expedited it one month ahead and we started it from June 1. So now it is almost two months. There is a good response to the retail activity and we see that in coming time that is going to be one of the very sunrise products for us.

I can just tell you very interesting part of the retail activities what we would be doing. We would be going ahead and getting every quarter at least one product for the next six quarters in the retail sector. Right now we have come up with Flexi Tank and Pond Liners. Within this quarter, we have already slotted and trials are complete for one more product, which is going to be into the agricultural. I would not be really able to name the product because of the secrecy and the competition part to be taken care, but I can assure you that we are doing all our possible hard work to get six products out in the retail space within this period of say 12 to 15 months.

That would really make a very interesting part in the Emmbi's total topline. I expect that going down say within the next three years where company like as I promised from March 2015 to March 2018-2019 the company would double itself. In that particular level the retail product should contribute to around 20% of our revenue within that four years of span, so we have to really work hard, we are doing that the **(inaudible) 6.17** brand which is to be in used for all aqua or the water storage transportation related retails has been very nicely accepted by people are liking the product, people are enjoying the way we are distributing and reaching it up to them.

We will be also coming with the branded crop protection products in time to come. Our focus would be in agricultural mainly crop protection and that too a brand created a crop protection for the Indian farmers and the institutionalized farming activities. As typical cycle goes first quarter is one of the most difficult and weakest quarters for us because of the heat and we being a manufacture company there is a lot of pressure when workers try to take their holidays and marriages season and what not, so still I am glad that first quarter was decent we had topline growth of close to 15%, 16% and we had very good bottomline growth, I think much almost double then what the topline was.

I am expecting topline growth say around 20% within this year and I am expecting my bottomline growth somewhere little bit above the topline growth. So our guidance remains exactly similar as what we gave in the last call. So we are on the place, we are just going as per what was planned and as of now seem to be having not major issues. The external factors such as Brexit and other thing has not impacted the performance of company, because frankly brings it still has not happened on actual it is just right now it is on the papers of business wise, it is still quite distant, so there is no direct impact whatsoever on the company's economics as of now.

Regarding GST, GST would be a big helping feature for the company because as Emmbi has a pan India ambition and GST would help us to simplify our businesses grow in every state equally and with the proper thrust. So we welcome very much entrance of GST and I expect that we would get to see actual implementation of GST probably in the first or maybe second quarter of next financial year and we welcome moved by the government. Anything else, which is regarding to water conservation, is doing perfectly as it was planned and now most of the things, which I was supposed to say from my side, seem to be complete and I would like to open the floor for the questions. Thank you.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Good evening. Congrats on a good set of numbers and thanks for taking my question. I have couple of questions. First one I was trying to understand you have been dropped 15% YOY, please make me understand what the volume growth has been for this quarter?

Makrand Appalwar: Volume growth is actually little less than that because it is again more value added contribution but I would not really go ahead and give the number because that is not really in favour because lot of competition can decode what is my margin percentage and profit percentage.

Baidik Sarkar: Fair enough, but at least it helps us to understand if the segment?

Makrand Appalwar: I would say that topline growth is slightly higher than the volume growth.

Baidik Sarkar: At least I fail to understand which segment is driving this growth?

Makrand Appalwar: This time, the first quarter exports was decent plus the water conservation as I told you there was lot of shortages of water in the beginning of this quarter. So that was the big days and I am very happy that Pond Liners, which is one of the newest, entrant into our field of retail business. The business was always there. We have just had our product, but it was not sold in the retail that has been welcome by the Indian farmers very well and that was the big growth driver. We have also started it in two states like Maharashtra. Initially our thought was only roll out in Maharashtra, but considering the shortage of the water everywhere, we have rolled out in two states simultaneously Maharashtra and Rajasthan. So this whole year we would concentrate now on these two states instead of one. We simply added the team and decided to go in two states instead of one. So water conservation products were also really supporting the companies both the sales like topline as well as bottomline.

Baidik Sarkar: Would you be able to quantify how much give some water conservation and annual product? Would you be able to do that in terms of?

Makrand Appalwar: It is around roughly 15% to 17% from water and around 2.5% from the agri.

Baidik Sarkar: That is helpful. Coming to margins it should be some pressure on your gross margins down about 2% sequentially. I just wanted to understand was that issue on pricing or was your holding?

Makrand Appalwar: That was the more of issue because of the retail, lot of resampling and line charging activity was happening, lot of things went out of the company without any remuneration direct, so pressure has come from there, but I think the differential is not very large, 0.5% or 0.75% so that was the quite kind of calculated you can say game that we quickly reach with more samples and more details and more people, so that we can instead of one state, we can go ahead and start doing it in two states.

Baidik Sarkar: Right Sir, your average for the last year about 33% and down to about 31% again I understood but going forward are we expected to reverse to these numbers or do you think or sampling will see for the rest of the year?

Makrand Appalwar: It should be in the range what we seen in the past. It should be anything between say, 30 and 35 would be perfect. I cannot assure that every time it is going to be 33%, it would be 1% or 2% plus or minus depending on what is the overall situation on the market.

Baidik Sarkar: Getting into these new segments, would be able to quantify how much of incremental SG&A spends these new products launches would cost us?

Makrand Appalwar: For this year advertising and others we have earmarked a fund of around Rs.80 lakh, so that we will be spending this and that has already budgeted that is getting created out of the extra revenues that would not be hitting any of the profit sides, so we will be taking care of it using the surplus cash which would get generated by higher value addition products.

Baidik Sarkar: How much of that would be expand in Q1?

Makrand Appalwar: I think the bigger chink is starting from Q2 we just must have spent around Rs.15 odd lakhs or creating the collateral and other things and we have run some small newspaper ad campaigns in both the states when we launched it, but larger ones are coming within next three quarters, because you would large exhibition called Kissan which happens in Pune once in a year that is generally in December or January, so that would be one of the largest spender and then we are planning to run some more ad related initiatives. We also have started. We would have seen the picture in the presentation, there is a one demo van is showing there, Jal Sanchay demo van, so something similar to that vehicles are getting purchased so that people who are relevant to those product and they are going around in the market, they can be seen more correctly. So those are kind of you can say initial expenditures but those will be remunerative for a longer period.

Baidik Sarkar: Just would add up your comments on your incremental SG&A spends, utilized by incremental revenues as new product will generate. I just wanted to understand that I know your margins will be constant for the rest of the year or there might be some margins pressure going forward?

Makrand Appalwar: I think if I generate probably we would have around 100 basis, our target is to maintain at least 100 bps higher EBIT than what we had last year that is what is our internal plan, what we have given ourselves and we would not go on rampage of spending on advertising and other till the time we generate those 100 BPS extra, so whatever at least we would see that the things which we maintain that much of margin and then we also put some money in advertising in a slab or in the piecemeal manner instead of going ahead for Rs.1 lakh of expenses.

Baidik Sarkar: So EBIT average for the last year FY2016 was about 10.6, so I just think they are looking at a number of also 11.7% if I am clear?

Makrand Appalwar: If I am correct, last year EBIT was not 10.6, it was 12 point something.

Baidik Sarkar: EBITDA was about 12.6.

Makrand Appalwar: Let is not argue on that, I will say that whatever was EBIT as per your calculation in the last year, we would have at least 100%, 400-basis point increment over it.

Baidik Sarkar: Just bookkeeping question, our tax rate obviously fell significantly last quarter because of the R&D benefits that we got but there seems to be some reversal this quarter back to 26% tax rate, so I just wanted to understand why that happened and going forward what is your thought?

Makrand Appalwar: I think Rinku should better take this question.

Rinku Appalwar: We have currently also under MAT, but the differential 5% what you are saying is the deferred tax liability component.

Baidik Sarkar: So it seems the remainder of the year?

Rinku Appalwar: We are under MAT because of the R&D, but the differential will be the deferred tax liability component.

Baidik Sarkar: Which means the net rate for the entire year will continue this over 26% now right?

Rinku Appalwar: Yes almost around 25% to 26% including deferred tax liability.

Baidik Sarkar: My very last question before I get back in the queue, so we have grown about 16% in this quarter and we are placed to endeavor to grow about 20%, so will the balance to growth, will it be back-ended towards Q3, Q4 or will it be equated towardsQ2, Q3?

Rinku Appalwar: No, our Q1 growth is always the lowest and then it goes up, up and up if you see all the years last four years then it is like 16% then it will be like 19% and averaging out between 18% and 22%.

Baidik Sarkar: Thank you.

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

Ketan Pancholi: Good evening Sir. Can you just throw some light on Emmbi Jal Sanchay?

Makrand Appalwar: Emmbi Jal Sanchay, basically Jal Sanchay range is the entire range which is they are designed to protect, preserve, transport the water. So there are flexible tank, there is a canal liner, there is a pond liner all these things, which are relating to water. Basically it is derived from the Sanskrit word Jal and Sanchay so anything which is conserving water so let us say if we have convert into a typical English it will be Emmbi Water Conserve. So it has been translated from English from water conservation to Sanskrit word Jal Sanchay, so all these products which are helping society, which are helping the people and which are helping the country to conserve water all under this Jal Sanchay range. So they are basically various polymer-based products, which are used and now condition to create an Indian changes. Products are not new for us as well as the company. They were getting sold everywhere in the world for the different applications like flexible tanks, where we have always sold in the world for carrying the wine or palm oil. So we sighted a need of auxiliary water storage in India and we got Indianized got flexible water tanks and put it into the Jal Sanchay range. Then there are pond liners. They were always present across the world. So we just got it done for the Indian segment. So basically Jal Sanchay range is the three or four product, which are there which will concentrate or conservation of water in the Indian segment.

Ketan Pancholi: Thanks a lot Sir.

Moderator: Thank you. We will take the next question from the line of Vivek Kumar from Shiv Sagar Investment. Please go ahead.

Vivek Kumar: I want to know the present capacity of the company in Emmbi and what is the utilization level?

Makrand Appalwar: Utilization is 91% in the Q1 and utilizable capacity is 18200 metric tonne.

Vivek Kumar: What is the asset turnover the industry as such and the company?

Makrand Appalwar: It is a very specialized industry so I do not have too much of comment upon what is the asset turnover ratio of the whole industry as such.

Vivek Kumar: It differs from product to product?

Makrand Appalwar: It differs from product to product, so I cannot really.

Vivek Kumar: On the average it turns out to be around three to four times?

Makrand Appalwar: Cannot be said sometimes it is low, sometimes it is more.

Vivek Kumar: Above 3%, can you assume that?

Makrand Appalwar: I am sure you should assume that, but I think it keeps on changing companies to companies depending on what kind of what is the length of the time they have develop themselves. Some people declare their capacities as installed capacities, while at Emmbi we call whatever our declared capacities, utilizable capacities that is not an installed capacity, so we can actually to cross 100% of our install capacity, 18200 tonnes when I talk about. It is not the installed capacity. It is utilized capacity. So that question is slightly difficult to address when it comes to industry, but when it comes to our own company it is very specific that entire capacity which has been claimed is utilizable capacity and we will be adding another 6000 tonnes of utilizable capacity within this year to our existing 18200.

Vivek Kumar: So it will go 18 plus 18 by the 2018?

Makrand Appalwar: No Sir, It will go for 18200 plus 6000.

Vivek Kumar: But you are saying you will double the turnover to double in 2018?

Makrand Appalwar: We will double our turnover from 2015 March, 2015-2016 we will double it in four years and capacity would get added, and during that time our utilization was 83% and now we are adding another additional capacity of 6000, so our capacity itself will grow first and our product mix will change.

Vivek Kumar: What is the capex for this 6000?

Makrand Appalwar: It is closed to Rs.22 Crores.

Vivek Kumar: What is the growth in the export sector? What is the growth you expect in export in percentage terms in the next two to three years time?

Makrand Appalwar: We plan to maintain growth of around 20% both in exports as well as domestic.

Vivek Kumar: Is there any particular product, which you are exporting or it is the whole?

Makrand Appalwar: Mostly if you had a chance to run through our presentation mostly products in the advance composite range is export over the product they are the most you can say sold abroad product in the whole range.

Vivek Kumar: I was just saying since last two or three years, this FIBC sector has come up with such huge growth in India all the other companies also are showing the similar growth in FIBC sector. So what has really changed since last earlier two to three years? What has really changed for the sector as such and is there any competitive advantage India is having?

Makrand Appalwar: There are multiple things, which have changed. When it comes to the overall global scenario. FIBC were produced in mainly four countries, India, China, Turkey and Mexico. Turkey because of their inherent issues, which is proximity to Europe their own internal, instability issues have become very unviable. This is one of the high labour intense product, so Chinese labour cost has actually gone ahead of Indian labour cost. So globally India become one of the most competitive buying destination for the world. This is one of the very export driven products. It is not still highly used in the developing economy. It is more of the developed economy products. So exports growth which you are seeing, maybe even though developing economies…

Vivek Kumar: Are you giving some plans in USA shut down so why was that and what happened?

Makrand Appalwar: Plan in USA shut down I could not catch it. I could not understand the question?

Vivek Kumar: Some many plans in USA shut down that is why the export increased over the last two, three?

Makrand Appalwar: Because of the labour cost like America has a minimum range at $9 per person per hour. In India our labour wage cost is way too more smaller than that so anything which involves larger labour cost could not be produced.

Vivek Kumar: But this has happened in the last since three years?

Makrand Appalwar: No, this is happening in last almost 10 years, but slowly people are starting…

Vivek Kumar: Since last three years I was seeing the growth?

Makrand Appalwar: You noted in last three years, but like we have promised last five year CAGR if you see we are growing at around 30%, I think you noted at a little late.

Vivek Kumar: With regard to the different products, what could be the high margin EBIT?

Makrand Appalwar: Water conservation and agri products are paying is little better than.

Vivek Kumar: What it could be taken 15%?

Makrand Appalwar: You can take somewhat around that.

Vivek Kumar: Thank you Sir.

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

Sushant Kanodia: Good evening Sir. You mentioned 20% kind of seems good for this year FY2017 and you are already operating in 90% utilization levels. So in terms of capacity constraint I assume that you have not added since estimates assume any new capacities coming on stream?

Makrand Appalwar: There are two things. One, there is a new capacity coming up which you would see.

Sushant Kanodia: That will effectively get commission in FY2018 right?

Makrand Appalwar: It would come in the next in this and water conservation there is another capacity which is getting spend by around Rs.7 Crores, there is a new facility coming up that would come way to earlier when we are expecting to commission that by the end of this September. So additional this would create capacity of 3600 tonnes September 2016 plus there is also a change in the value added products. You will see a lot of value addition, so we were at 83% plus we get additional 3600 let us say if you divide it over the year, we still have 1800 added to it. So we come down to around 65% to 75% of average capacity utilization and when we compound it across this probably we would close this year again at a similar kind of capacity utilizations what we had last year because whatever is the additional capacity utilization that would get us 20% odd growth and still the number of utilization would remain similar or may go down a little from 83% we might go down to around 76%, 75% and still have that growth headroom available.

Sushant Kanodia: Considering your capex another two set of right, one is Rs.15 Crores capex which is spend on the food grade FIBC, second is Rs.7 Crores which is spend on water conservation products.

Makrand Appalwar: Yes Sir.

Sushant Kanodia: So water conservation products Rs.7 Crores, the kind of capacity that we are installing is 3600 tonnes and this will get commission in September 2016?

Makrand Appalwar: Right.

Sushant Kanodia: On the FIBC for food grade then the 2400 tonnes of capacity that we are planning?

Makrand Appalwar: Exactly, but it is a different quality of basically when you do something pharmaceutical or food grade the quality of machines and the quality of building you need to build is way too more different, this is the air condition, positive pressure factory which has got you can say that the pressure inside the building is higher than the atmospheric pressure. So there can be never any contamination flowing outside in whatever air is going inside the building as to go from filters, so the cost on those buildings are way too more higher than the normal factory buildings. So infrastructure cost there is higher. But of course they realized the much better product, they can say they are the most advanced kind of packaging segment or packaging material which is required for this and not many people produce it, so it faces much better margin considering the lowest end of our pyramid like for us speciality packaging is one of the lowest end product. So with this particular product even lowest in product will also fetch the margin, which is similar to end products.

Sushant Kanodia: This is expected to pay commission end of FY2017 right?

Makrand Appalwar: Yes.

Sushant Kanodia: What will be the margins that we will intend to utilize from this?

Makrand Appalwar: This year we do not expect too much about out of food grade, because it will just be probably closing the year where the capacity will come. But overall as a year I am expecting anything between 25% and 30% of improvement in our bottomline this year.

Sushant Kanodia: Just for this facility, what is the margin that we intend to utilize from the food grade FIBC?

Makrand Appalwar: It is around 16% to 17% of EBITDA.

Sushant Kanodia: Okay that will be possible?

Makrand Appalwar: Yes.

Sushant Kanodia: Given that Rs.22 Crores of Capex this year, so how do you plan to finance that?

Makrand Appalwar: We are little tied up with the loans from the bank and internal accrual. So around 70:30 or 60:40 ratio from the bank and internal accruals.

Sushant Kanodia: On the debt levels we again fall back to FY2015 levels in FY2017 end?

Makrand Appalwar: Yes.

Sushant Kanodia: This will take care for the sales for the next three years at least right?

Makrand Appalwar: Yes except operational debottlenecking capex whatever is will be required that might be spent, but no major capex is required.

Sushant Kanodia: In the opening remarks you mentioned in branded crop protection product right? Can you please elaborate what on that?

Makrand Appalwar: Basically there are multiple ways nowadays where farming has become very technical and product and yields have become very specific. So everything from Mulch Films to the crop protection films to crop protection covers they all are basically used now to improve the yield and correctness of the farm and counter the environmental conditions of the overall world. Many a times typically problem was if there is no rains then the crops will burn, or if there is more rains then the crops have a problems, nowadays farmers are actually protecting their crop using this artificial methods to prevent themselves any damage from the environmental hazards. So these are basically very, very specific type of films or fabrics, which can act like filters or protectors say there is a Multi film. How does it work? It has got black colour on the bottom and silver colour on the top, so it maintains the temperature of the soil throughout the day. It would not be too cold in the night and in the day it would not be so hot, plus because of the silver-reflecting surface it creates an extra light causing higher photosynthesis, so higher growth of the sampling. So it is basically a very technical support given to the sampling without any chemicals or anything else without putting pesticide or let us say urea to just, for the improvement of vegetative growth we can put urea or for improving the vegetative growth, we can increase the density of the sunlight so that there is higher photosynthesis, so these kind of things are really technical support given to the plants without compromising any of the vegetative values of the product going on it.

Sushant Kanodia: Lastly have you heard anything upon farm ponds by the master government?

Makrand Appalwar: Of course we have heard that is the one reason why we can say retail farm ponds and we have one of the front running companies in doing the ponds for this and there are now 5 lakh ponds in the next three years. It is one of the massive opportunities for all of us.

Sushant Kanodia: But has there any tendering process, which has proceeded in this segment?

Makrand Appalwar: It is not tender based business; government, purchased by the individuals and government aid them, does not purchase it. Government is not an ultimate buyer.

Sushant Kanodia: How do we stand in terms of technical order of the available options to the farmer?

Makrand Appalwar: We have already set up teams which are there, we have divided the whole state into the three district pattern and there is a complete activity which is happening, which is there across the state where people are travelling, meeting people, we also set up kind of Mumbai based knowledge centre this is helping people how to construct pond, how to design it, so all design, development thing has been taken care by us through our knowledge centre.

Sushant Kanodia: Sir lastly on the working capital cycle, has there be any improvement that we are targeting this year?

Makrand Appalwar: Yes, if you must have noted on the year end results, there was a substantial improvement and we continue to keep our activities in the similar direction and I am expecting at least 10 to 12 days across spread over the year to again good on by the end of this year.

Sushant Kanodia: Since we have 18% of exports towards UK and GBB is projecting quite a bit, so had we manage of product on that one?

Makrand Appalwar: Frankly we do not expose ourselves to the fluctuation risk, we always hedge ourselves, the day we have the orders and we are taking it the expenses into the rupees, so we really not bothered too much where the pound is heading up or down, the moment we get orders we put it and we price ourselves with the rupee so it stays for us if the dollar or pound goes down a little, they have to pay a little more pound and if it is the other way around, they have to pay less pounds, but we get just same rupees.

Sushant Kanodia: Thank you so much Sir and wish you all the best for the future.

Moderator: Thank you. We will take the next question from the line of Vikas Jain from Reliance Securities. Please go ahead.

Vikas Jain: Good evening Sir. Congratulations for the good set of numbers. If you can give me the segment wise breakup and throw some light on your go to market that which you announced in the last concall?

Makrand Appalwar: Using the same go to market strategy what we discussed last concall we have already started doing the activity and as I told you we have just moved ahead with the local distribution or the retail distribution of the water conservation product. Initial plan was to just go ahead with Maharashtra but we then looking at the citing the opportunity, we decided to move in Maharashtra and Rajasthan, so kind of extrapolated the similar advice and went ahead with Rajasthan also and that is how the go to market strategy has been used and that strategy basically three year long plan which will keep on riding us on the various levels that what we need to do, how do we need to function, how do we need to create various initiatives marketing plans. So that has been used that is the go to market strategy has been completed and it has been put to use now.

Vikas Jain: If you give the segment wise breakup for this quarter?

Makrand Appalwar: Say roughly we are in the range of I think it is there already in the presentation.

Vikas Jain: It is there for full year itself.

Makrand Appalwar: We are in the similar kind of situation barring water has little over short of the expectation what we are doing, so water is higher than what it was projected. I think it was projected somewhere around 17%, 17.5%, it is around 150-basis point higher than what it was projected, rest around everything is in the similar way little bit of the advanced composites have come down because of water.

Vikas Jain: Last concall you announced some Rs.1.5 Crores on the advertising front and now you are stating somewhere Rs.80 lakh, which you have earmarked what is the actual number?

Makrand Appalwar: That is right last concall we have said it will be spending around a Crores and a half when it comes to advertising, there were two products of crop covers and the Jal Sanchay range so this 80 lakhs are more focused towards the Jal Sanchay and the crop cover or crop protection systems when it will come, we would have separate budget for that which would be somewhat similar. So overall total number might again result to around Rs.1.25 Crores to Rs.1.5 Crores.

Vikas Jain: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Kalpesh Goti from Veda Investment. Please go ahead.

Kalpesh Goti: Good evening Sir. In your presentation you have shown the breakup of revenue by 2019, can you throw give much more about in terms of amount, in terms of capacity, how much capacity we want to add to achieve those targets and how much capex we will do in next two years?

Makrand Appalwar: The next three years, the larger size of the capex will be taken care by within this year which is close to Rs.22 Crores between the next three years major capex spend would be on the operational and debottlenecking capex. So what is happening in terms of the split what we have indicated you, these are the things, which would help us together the revenues what we have targeted. So with this kind of revenue and close to 24000 tonnes of installed utilizable capacity we will be able to gather these particular sets of different kind of products, which can be done.

Kalpesh Goti: What is the current capacity?

Makrand Appalwar: Current capacity is 18200 tonnes and within this year it is additional 6000 tonnes getting added.

Kalpesh Goti: Capex for this year was Rs.22 Crores and your debottlenecking capex would be?

Makrand Appalwar: It is very difficult to give you the precise number, but anything from Rs.1.5 Crores to Rs.2.5 Crores per year.

Kalpesh Goti: In terms of revenue where we see by 2019?

Makrand Appalwar: We are expecting to grow around 20% year-on-year from if we consider 2015 as I mentioned on here.

Kalpesh Goti: In terms of volume?

Makrand Appalwar: In terms of topline.

Kalpesh Goti: Where we see our margin headed? We see our bottom contribution?

Makrand Appalwar: We see our EBITDA increase of around 100-basis point during this year, roughly around 100-basis BPS during this year and 0.75 BPS into the coming year and then next year to that somewhere between 0.75 and 0.5 BPS.

Kalpesh Goti: So we can achieve 15% kind of EBITDA margin?

Makrand Appalwar: Exactly somewhere similar to that.

Kalpesh Goti: You spoke about in US, the labour cost is almost $9, so what is for India right now?

Makrand Appalwar: In India, Rs.420 per person for eight hours, so if you convert it into dollars I know somebody has calculator try and doing that, so 420 divided by whereas $7 for 8 hours and US is $9 dollars per hour.

Kalpesh Goti: Okay, there is a huge different.

Makrand Appalwar: It is a way to different.

Kalpesh Goti: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Sir just a small followup question. What I want to understand the capex that we have for the food grade and pharma what is the revenue potential we have on that?

Makrand Appalwar: So around $2500 per metric tonne into 2400. Roughly $2500 per tonne into 2400, how much is that? So around Rs.62.5 Crores turnover

Baidik Sarkar: Okay, Rs.62.5 Crores?

Makrand Appalwar: Yes at full capacity and full capacity utilization.

Baidik Sarkar: Given that that this was not priority for us you know market business development have been done?

Makrand Appalwar: It is not really when the new product for us, but the product is similar application is new. We know the people who use it and lot of our existing customers will have upgrade their existing usage to this particular level, because not that we are going to sell it to some new companies like pharmaceutical companies with whom we are right now selling. They were not compelled to use food grade product because US FDA was approving them. Now they will be compelled to use this product while we producing the similar product and segregate to similar people only in the different environment.

Baidik Sarkar: You are basically retail perspective speciality packaging volume that is supplying to similar costume right?

Makrand Appalwar: Exactly.

Baidik Sarkar: But the differential margin would be about 3% to 4%, is that right?

Makrand Appalwar: Yes.

Baidik Sarkar: Okay and what would be the revenue potential of the water capacity that you would be commissioning in September?

Makrand Appalwar: Frankly, we have not yet estimated because the nation needs are growing every singe month. There are new announcements, which are coming up. But for us we are targeting through water conservation and agri product all these things put together we should generate our revenue close to Rs.80 Crores to Rs.100 Crores within next four years.

Baidik Sarkar: I am just trying to understand the incremental capacity of 2600 tonnes in the water, what would that translate to, so just rough amount would do?

Makrand Appalwar: So 3000 of 200 so around Rs.76 Crores roughly.

Baidik Sarkar: Given that dependence on speciality packaging is going to come down structurally are our lines fungible for I mean have been the position to divert our lines in some of the product categories?

Makrand Appalwar: Only the line products are actually very dedicated. The basic yarn making and weaving are kind of swing possibilities are there of course when you swing from one vertical to other, you compromise certain things on the efficiency, but with the some compromised efficiencies swing is possible.

Baidik Sarkar: I wanted to understand like my industry colleague, Sushant from ICICI earlier on this call pointed out. Is there a risk to we are not meeting our volume growth aspirations, because the capacities are coming around time, we are 91% now assuming we are targeting 20% of the entire year assuming water does not come on time, is there a risk in meeting the deadlines to installed capacity?

Makrand Appalwar: You want to say that there is a risk of running out of capacity?

Baidik Sarkar: Yes, I am trying to understand.

Makrand Appalwar: I do not think so. We are still 91% when quarter is closed. We are adding 3600 within this quarter. Immediately our utilization will drop down from 91% to probably 70% to 72% and entire capacity what we are talking about is utilizable capacities, we can exceed actually 100% of the capacity. So rather we are again at the end of this year you would see that capacity utilization have moved down instead of moving up. For a temporary period of probably first two quarters, it would move up and when the larger capacities get added to it, it would again come down.

Baidik Sarkar: Will it be a possible to give a sense in that case of what the capacity utilization product wise currently Sir? Obviously water is still a very small portion of product?

Makrand Appalwar: I think that would be little difficult because that is you can say part of the thing which would not like to make it public statement because if they needs to be protected kind of business plan, which we will not try to come up and go ahead and publish it. But we are setting up these much of capacity I told you the numbers what it can generate at the highest possible rated output.

Baidik Sarkar: There is a bookkeeping question. What is the current cost of debt Sir generally?

Makrand Appalwar: Cost of debt is between 9.5% and 10%.

Baidik Sarkar: Given that we are leveraging so much this year for the remainder of the capex, are there any plans to QIP or raise some equity or we comfortable with the current?

Makrand Appalwar: As of now it does not look like we have any reason to do that, because we have enough cash flows, we are comfortable on whatever we have required after even spending all these things you must see last year we still had positive side of cash flow. So cash flow seems to be quite healthy. So at this juncture it does not look like we are heading towards any QIP or anything like that.

Baidik Sarkar: Last question you mentioned that your endeavour is too shorten your working capital cycle another 10 days this year. I am just trying to understand that we have reduced our debtor from 67 to 56 last year, so will the entire savings come from just receivables or we have?

Makrand Appalwar: It comes from everywhere like some days come from shortening of the operating cycle, some days come from extra credit from your suppliers, something comes from reducing days of your debtors, so it is a combination, it is not any one side just 12 days will happen, but it will be collective effort of many things will get this result.

Baidik Sarkar: Right, as Q1 seems at least two days of shortening I understand that there sense of what the traction is?

Makrand Appalwar: Say it again?

Baidik Sarkar: As Q1 seems any shortening of the cycle or expectation?

Makrand Appalwar: We should see that like it is going in the right direction what it is supposed to.

Baidik Sarkar: And last question Sir, any comments in the dividend policy for the year?

Makrand Appalwar: Any comments on?

Baidik Sarkar: Dividend payout policy.

Makrand Appalwar: For this year, we have already announced and in the coming time we would at least maintain the growth what we need to and it would be definitely better than what it was previous year considering the cash requirements anything between 10% and 15% it should be.

Baidik Sarkar: Okay, so it would be 10% to 15% earnings.

Makrand Appalwar: Yes.

Baidik Sarkar: Thank you so much. All the best.

Moderator: Thank you. We will take the next question from the line of Samar Sanghavi from Phillip Capital. Please go ahead.

Samar Sanghavi: Good evening Sir and congratulations on a good set of numbers. Just couple of questions with respect to the water conservation business when we look at the two states that you have planned to enter into could you tell us that would there be any more states that you would enter in the near future, and is there a complicated entry procedure for this kind of business or is it just farmers need to be acceptable to other products?

Makrand Appalwar: It is both the things. One, what is the kind of cropping pattern of the state is also important, because there is particular limit to how much area you can earmark for field pond considering the size of your pond, like your field, like say if you have 10 acres of land or you are taking a crop which is highly water intensive like rice. So you would never be able to afford a field pond because we will probably need 50% of your land converted into a pond, but if there is crop like kapas, cotton or wheat, or let us say sugarcane, so all these crops have comparatively seasonal need of water and they are requirement of water because of the drip and others are so less that around 10% of your total usable area if you make a pond then you can almost grow the efficiency of your field by more than 40%, 50% it is logical. So it depends on the cropping pattern of particular state, so where it would not be very possible for us to grow is states like Assam or Bengal mostly it is rice-growing states. But the states like Maharashtra, MP, Rajasthan, Gujarat where the crops are such that or anywhere where they are doing anything which is relating to horticulture that is fruits or floriculture that is flowers, all these states are very, very in our favour because the water requirement in those states or those crops is substantially low and the crop cost or the payment where they get out of selling those crops is a way too more disproportionately higher. So those will be on that parameter you need to select the states not just by farmer acceptance or government acceptance or anything like that.

Samar Sanghavi: Do we see that our business entering into these two states or we will hold down till the time we see results from Maharashtra and Rajasthan?

Makrand Appalwar: I think next nine months, we would only continue with Rajasthan and Maharashtra. At the end of six months beginning of January 2017, we will take a call, which is next two states we would like to enter and then again next year we would take the new two states. So we would not discount anything of this, but we will not make too much of hurry also, we would like to learn from the mistakes which we learnt.

Samar Sanghavi: What would you have been in your spend in terms of these two states Sir?

Makrand Appalwar: Spend in terms of?

Samar Sanghavi: Your distribution channel?

Makrand Appalwar: It is not very substantial as of now, because it is more of a dealership network based activity and there are around five, six people who are planning the knowledge centre and back end support at the factory and office, so that is not a very substantial as of now, because more dealer based activity.

Samar Sanghavi: Your current dealer network would be Sir?

Makrand Appalwar: Right now we have nine people working with us.

Samar Sanghavi: Another question that I wanted to understand is when we mentioned 18200 tonnes is there utilization capacity with just currently based on product mix. So if let us say for instance water conservation and the products that we are manufacturing go down on stream and we start distributing products, what would be in terms of the max production that we could go to I understand that you want to disclose exact numbers but if you could Ballpark?

Makrand Appalwar: Basically if the things are coming great on the water conservation side that is my dream, I do not know when it is going to happen on that. I would like to get away from entire speciality packaging.

Samar Sanghavi: You would not have to get out of speciality packaging entirely.

Makrand Appalwar: I will shift all speciality packaging into water.

Samar Sanghavi: Okay, so if I am understanding correctly around 10%, 15% of business specialties anywhere is going to be reducing and going into the food grade business and the rest of the business you hope that you know you get out of the speciality entirely?

Makrand Appalwar: I would prefer not to do that and do the water work.

Samar Sanghavi: Again with respect to the capacity, what I am trying to understand is that 18200 you can manufacture, how much of your growth can actually come from value growth when you are trying to move away from these speciality packaging businesses into these more valued added businesses?

Makrand Appalwar: 30% near about.

Samar Sanghavi: 30% growth in terms of realization Sir?

Makrand Appalwar: In terms of realization.

Samar Sanghavi: That is significant Sir.

Makrand Appalwar: Because lot of this water conservation business is service supported product business, because it is making and supply of pond. When you make a pond, you give fabric as well as you give technology and you give people you actually lay the pond, so you can say pond is created at roughly a rate of around Rs.95 per square meter, out of that around Rs.18 comes out of service and balance comes out of product, so automatically that part which is not connected to your capacity get added into your topline.

Samar Sanghavi: That gives good amount of picture. Thank you so much for your time.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Anuj Choksey for his closing comments.

Anuj Choksey: Thank you all for participating in this conference call. We would love to answer your queries if you all have any. You can mail us or call us whenever you all want and we get you connected. Thank you and have a nice day.

Moderator: Thank you. On behalf of KR Choksey Shares & Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.