



“Emmbi Industries Limited Q2 FY20 Earnings Conference Call”

November 14, 2019



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Moderator: Ladies and gentlemen, Good day and welcome to the Emmbi Industries Limited Q2 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, assumptions and expectations of future events. The company cannot guarantee that these are accurate or will be realized, the company's actual results, performance or achievements could thus differ from those projected in any forward-looking statements. The company assumes no responsibility to publicly amend, modify or revise any such statements on basis of subsequent developments, information or events.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Parvati Rai from KRChoksey Research. Thank you and over to you, Ms. Parvati!

Parvati Rai: Thank you. Good afternoon everyone. On behalf of KRChoksey Research, we welcome you all for the Q2 FY20 Earnings Conference Call of Emmbi Industries Limited.

I take this opportunity to welcome the management represented by Mr. Makrand Appalwar -- Chairman & Managing Director, Mrs. Rinku Appalwar - Executive Director & CFO, and Ms. Maithili Appalwar – CEO, Avana. We will begin the call with a brief overview by the management followed by the Q&A session. I now hand the conference over to Mr. Makrand Appalwar for his opening remarks. Thank you and over to you, Sir!

Makrand Appalwar: Thank you Parvati, and welcome all of you ladies and gentlemen from every part of the world. It is a great pleasure to speak to you again at the earnings conference call of Q2 of 2019.

We are in a very interesting and a peculiar situation these days and I am very happy to tell you that whatever problems about the situations of the markets in India were there in the first quarter were able to bounce back, we have got around. Our Q1 to Q2 is around 20% up and that is a remarkable success and I am very happy about the way team has performed and even compared to the Q2 of the previous year it is still about a 10%, 12% up.

So, interestingly company was able to bounce back, come back to its normalcy though the situation and the markets are not very favorable. I was always talking about this situation and the possible fungibility or I will say ability of company to swing the production lines. This has terrifically helped us and this has kind of gave us that strength that the situations or



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the products which were having a hard time in selling in the domestic market especially the domestic packaging because the sectors like FMCG or automobiles or doing substantially slow I would say. So, those were the product lines which were really having a tough time getting any delivering any growth so that was the time where the water conservation and the hydro polymer sector came to hand and they started doing much better than what they were.

So, that fungibility really helped and I was always used to say that the whole constitution of Emmbi is in such a way that we are almost recession resistant or I would say resistant proof company and that we proved. A good part is to inform you that the B2C vertical which was always an interesting part of all our communication in past is also doing very well and slowly we are marching.

I am hoping that you had a chance to run through the presentation which we put forward yesterday and our B2C vertical is marching towards the 25% targeted level which we were thinking. Regarding the B2C I wanted to have some specific information shared with you.

In the past, we were always talking to you regarding the number of states in which we are operating, but when we went more deeper in to the distribution side or I would say the B2C side, we realized that just measuring the states will not really make the entire sense so what is happening is the sell is more on the clustered basis because I am not necessarily every single district of any state is water deficient or water surplus. It is the cluster.

So, sometimes typically if you see the four districts of Karnataka which are very close to Maharashtra that is Bagalkot, Belgaum, Bidar and Bijapur are actually very, very growth-oriented when it comes Avana or I would say water conservation business but the entire Karnataka state probably might not be. So, our focus has actually now re-oriented and now we have decided that we will be having our more approach towards the cluster-based approach so that we can identify more water deprived clusters than independent of whether they are in the state A or state B and then we will go ahead and put all our efforts in developing those clusters.

So, henceforth this is the first time in our presentation, we have given you how many B2C touch points we are operating so around 200 exclusive retail touch points we are operating in the present situation and we have an intention that we should at least increase it by around 12% to 15% that is the reach around a mark up to 25 retail touch points during this financial year and that is how we will be and hence for the B2C I would say growth or B2C penetration we would like to also measure it through the number of touch points we are increasing.



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So, that is one of the interesting change and this is what I was always talking about that company's management is learning the new things in the B2C area because many at times many people ask me the questions in the past that when the product is doing so well why are we not growing much quicker than what we could and I was always used to tell that historically we have been always a B2B company and we are trying to learn the B2C game and we are trying to understand more clearly.

I am happy that we are learning it better and as promised at the end of five years we are committed that we would definitely deliver the topline of 100 Crores through the B2C vertical and we would be definitely very close to 1.1 hour, every hour which has been committed by us.

One another interesting thing the Jalasanchay Super or Jalasanchay Fish friendly which we initially started calling it, but at the later that when we had a penetration in the market and we have seen that what better it can improve then we also realized that because of the typical color which we are using which is the sky blue color the evaporation losses of the water in that particular pond liner is also low. So that has been with some more technical modifications. The product has been branded at Jalasanchay Super and it has been marketed in the field as a low evaporation loss as well as fish cultivation friendly product. So, it is not then now only restricted to only the fishing side, but it can capture much larger ambit and it can be any product for the people who are having slightly more financial background. So, it has basically opened up larger horizons for this particular product I would say. So, that launch has been very successful, and we are able to convince lots and lots of more people. I think we are almost reached a level where almost a pond a day is happening of the Jalasanchay Super.

Regarding exports it is keeping pace with the company's growth. Exports are increasing. We are able to get a interesting improvement in all our existing customers who are buying from us. There has been an upgrade in the food grade facility. It is a very interesting for all many of us we have been always speaking about our brand-new food and pharmaceutical grade facility. Previously it was categorized as grade A facility but recently we have got an upgrade and we are now AA grade food and pharmaceutical grade facility. This will definitely open more doors to more company so naturally we have started a campaign to reach up to more people. We have started a campaign to go ahead and communicate with more people who would go ahead and look at this food and pharmaceutical and we will go ahead can further increase the exports.

I am very happy and I would say proud to also inform you that the entire financials are very stable during this very crunch time where there is a substantial pressure on recovery from most of the companies. The entire cash conversion cycle was constant. We did not go back



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even a single day there was some improvement in the inventory cycle actually it is reduced by three days but overall cash conversion cycle remained flat because the time was very difficult. As you are aware the money supply in the market is very less and most of the people are delaying the payments but still due to the good product quality, good service and the relationship we could maintain the whole balance and the company right now is standing on the very interesting and very stable I would say outlook when it comes to the financials.

Another interesting thing, I would like to share my colleague, Maithili who is heading the Avana division. Avana is basically a special business or I would say a separate business unit which has been created within Emmbi with the purpose to develop the B2C segments or the B2C business. So naturally when and that was the whole intention why we have created a strategic business unit and not decided to run it under only the Emmbi. So we wanted basically people with the independent thinking, people which will think like a typical B2C so they have come up with an interesting addendum to the existing business and before I conclude my discussion, I would give it to Maithili for small information which is a interesting. I am sure you are going to like the whole new idea so she is going to inform you about the new way Avana is going to operate. I am just handing over to my colleague.

Maithili Appalwar:

Mr. Appalwar I would like to thank you for your comments and I would like to take it from here about telling you all a little bit more about Avana and what the future planning with that is going to be at least for the coming 18 to 20 months or so.

One thing that you might have noticed and one thing that we have definitely noticed now being in both the manufacturing as well as distribution business is that with manufacturing now the kind of clock piece with products are going lower and lower in that every five years or every four to five years a new product comes into the market which means that it becomes harder to get an adequate return on investment on the capacity you install and the kind of machines which you make on the training that you give your people etc., but with distribution if you are able to achieve a last mile connectivity then those clock piece can stretch for much longer so the same distribution network can service a lot more products and service a very different types of products and in turn can keep adding to your revenue for a long time.

One other thing that we are now going to be doing with Avana is starting to distribute products which we do not manufacture ourselves. We will be developing and designing the product based on our understanding now of working with farmers over the last three years as well as the data that we have collected of over 7000 farmers which we have served at this point.



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The vision of Avana will continue to remain the same which is to increase farmer prosperity but now we will be looking at products which can be contract manufactured which means that we will be able to increase our revenues in a much more asset light manner.

Some of the products that we are looking at this point include Murghas bag which is Fodder bags were also looking at fish feed, we are looking at Leno bags which go into onion production all of these products have been designed and before the end of this fiscal will be commercially launched. If you do have any other questions about this we will be happy to take them during the question hour. Thank you.

Makrand Appalwar: Yes, please I think we are all completed we can put it open for the question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: I had a couple of questions, see for the last two, three quarters when we have been looking at the company's performance what is very clear is that your B2C initiatives are doing very well and they remain on track, both in terms of sales as well as in terms of innovations that you have been introducing the steps to improve availability of finance etc. Now my question really was on the rest of the business which is really where some concerns have emerged, now while it is very encouraging that on a quarter-to-quarter basis exports have pickup. I just want to get a sense from you that when we look at year-on-year on the non-B2C the B2B part of the business what has been the growth in exports what has been the growth in the domestic business and where do you see the challenges and why is it that while our sales have grown by 10% our gross margins have contracted which is why the EBITDA has not really grown so if you can help us understand the challenges that are there in the 75% of the business and how are things like to be going forward.

Makrand Appalwar: Sure thank you so much. I would split it into three questions, one about how is going to be the growth in the export market, let me first tell you about that, the export market is actually doing I would say reasonably well it is not doing out of the world but it is stable at around 10% to 15% of the base. What is there is, there is a limitation of how much we can produce in the export market because the particular type of products which are getting sold, the particular type of machines or the configurations which have made. We have certain amount of a limitation which can be more efficiently which can produce the export material so it is consistently growing. If you can see that the pie is growing as well as the percentages of exports are remaining constant are slightly increasing, I would say by the end of the year it might increase by 1% or a 2%. So export is consistent and it is growing. As you are saying that we are increasing or improving our qualities and the certification



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parameters. I informed you that the food grade is now upgraded to AA standard. So this kind of things would definitely help us to get more value added people who will come into the ambit of the better buying export. Secondly coming to the domestic business in the packaging, so I would say like the Indian economy it is not doing so phenomenally well because it is directly connected because we have lot of selling happening in the FMCG or the automobile sector so it is directly connected to what happens in the Indian economy. So as you can see that a large part of in like 16 out of I think 24 functionalities of the Indian economies have not grown our other contracted so that had certain amount of impact on the domestic packaging business which is probably a specialty packaging vertical what we call. So it is little bit not doing rather it has been little bit shrunk, I would say to the tune of around 10% to 12% during last six months. But the interesting part is we had an ability to swing type to B2C so we could take care of that so overall company has grown and as a choice as B2C was generally paying us better so it made a sense to move there. Your third was pertaining to though the topline were growing the bottomline did not grow in the same proportion or rather the GP has been reduced by almost a 100 basis points. Typically like in order to maintain the topline certain times when the things are difficult we have to offer some extra discounts or give us some kind of expedited deals where we have not really be very rigid about our margins. So that has kind of a hampered our EBITDA by almost 100 basis points but it is a temporary phase so it was very important for company to maintain our topline so that as and when the market situation improves we can quickly go back to our normal pricing structure and the things will be sitting on its own way which was there earlier. So that was the by and large I would say answers of all your these three questions and if you still have anything in specific you can please ask me I can be more specific towards that.

Sangeeta Purushottam: What I do have so I just wanted to understand like, Sir if you look at the post GST the 80, 80.8 Crores of our sales out of 80 Crores in the second quarter I am assuming roughly about say 15 Crores would have been the B2C business right roughly?

Makrand Appalwar: Yes around little higher I guess 16 higher.

Sangeeta Purushottam: So let us say we are looking at 81 and you minus 16 which is B2C which gives us 65 Crores of the B2B business, now in the B2B business if we split it into domestic and exports then could you just tell me what the numbers look like for this quarter compared to the same quarter last year.

Makrand Appalwar: I would say if you see the whole thing the domestic has little bit contracted because whatever has gone up in the B2C has been like carved out of some pie from the domestic market so the entire like the balance domestic market I mean to say the domestic packaging market so the little bit of a growth what we see in the B2C side this also got carved out of



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little bit of a domestic B2B business, export business side constant or grown. So export actually grew and domestic packaging did not.

Sangeeta Purushottam: No I have a specific reason for asking this you see there are we have also been tracking some of these unlisted companies many of them who operate out of Madhya Pradesh and others people who are producing FIBCs largely for the export market and their business is booming. In fact some of them are actually expanding capacity they are inundated with orders and the kinds of products they produce are actually inferior to what you are making. So what I am not able to understand is that why is it that your exports are growing only at 10% to 15% whereas other people with poorer type of products than yours are actually seeing growth in the range of 30%, 40%, 50%?

Makrand Appalwar: That is right but that is the phenomenon like if the pie keep on like I would say the pyramid keep on tapering so the always at the bottom of the pyramid there are the products which are more run off a mill. We are making more run off a mill product naturally you are going to have larger base. The moment you make more niche product so your base is going to be smaller plus and like we are kind of a company which sells at very higher premium like we are not the company which will compromise on the cost, we will not say the cheapest seller of the market so the companies which come new before they really understand what is the pricing, how the costing goes they start selling at particular cost and so sometime they pull some larger share of the market. There is a typical shift happening from I would say China to India that has also been at times getting attracted by the newer companies because for us maintaining certain standards, maintaining certain stability of the buyer is also equally important so naturally their basis are small so their percentage is always easy like for me replicating 10% is almost their replication of almost 100% if somebody has a one execution line I replicate 10% of my capacity and he replicates 100% of his capacity the size or the absolute numbers remains same, so though our growth in export is in the range of around 10% to 15% somewhere in the bag. So absolute numbers and the quality of clientele, we are servicing or the quality of type consistency consistent buying. There is no pulsation. That was our intention that company would retain this consistent selling approach this company would always have a nonreturnable kind of a non-return all fitted into its operation so that there is no contraction of business anytime and we could deliver that we could even though such a challenging situation we could deliver that. So that is the whole idea maybe some newer companies or the companies which are I would say starting is that they always grow at a much quicker speed and if you see the initial few years of post IPO at Emmbi had we are almost 100% growth in the initial three, four, five years.

Sangeeta Purushottam: These are not that small I mean in terms of sales there would be maybe about 60%, 70% of your size. So the kind of growth they achieving is not on a very small base so my question is that are you therefore loosing or get share to many of the new entrants and who are



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maybe pricing themselves cheaper and if that the reason why export for you is growing only at 10% to 15% and if going forward also are you saying that your export business the inherent capacity of the pace at which it will grow maybe 10% to 15% only?

Makrand Appalwar: I would not I will just drop the word only because the consistent growth of 15% is I think the decent manufacturing growth generally people will have, so yes I want to say that our export business would rise in the range of around 15% to 17% while the other businesses because we believe in more I would say I do not know which exactly in Emmbi based companies because most of them which I know is whether listed or unlisted are doing horribly bad frankly speaking. But I do not want to name it here and like few of them are actually approached us whether we can take care of their marketing side. So I will not like to name it here, but most of them are really doing very tight on their cash, very tight on their market or order book.

Secondly regarding the maybe we are not capturing the businesses which are coming but naturally we are not losing anything of our market share people who is coming out of China may not be I am offering the same prices or I am ready to go down to the price which is but whatever I am selling if I sell 15% or 18% more than my previous year naturally my everything is growing my next plant growing, the share of my client who was buying from me that is also growing so I think we are anyway not going back and as a policy in Emmbi we like to have more less pulsating business or more sustainable business, more smoother operation so that everyone in the whole value chain remains comfortable so we are not a very high risk kind of a company that will go out of the way sell in the countries or the territories which are very risky where there are no insurances available, I will say more stable players we like to play so to answer your question yes we will grow with around 15% to 17% when it comes to our export business.

Sangeeta Purushottam: This 15% to 17% is you are talking value or you are talking volume?

Makrand Appalwar: Pardon me.

Sangeeta Purushottam: 15% to 17% long-term growth is value or volume?

Makrand Appalwar: Volume.

Sangeeta Purushottam: So does that mean that in the second quarter you have seen say roughly 10% growth in exports, a similar degrowth in the domestic market and therefore the B2B business has been more or less flattish and the growth that we are seeing is comes from the B2C business is that the right interpretation?



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Makrand Appalwar: No, I would say the export is a larger size than the domestic packaging. There was a contraction of domestic packaging by certain percentage. There was a larger percentage of export which has contributed so even the packaging business in itself has grown then B2C of course it grew, so in both the segments it grew by it grown as the business and the contraction of domestic business cannot be or domestic packaging business should not be attributed to a credit or discredit of us, it is pertaining to the entire market and I am not independent on that.

Sangeeta Purushottam: That means for our sales to go back and for our margins to go back because your fixed cost is managed to control quite well so the fixed cost have not grown very much. So we are really going to it depends on the domestic situation turning around?

Makrand Appalwar: I would say to see the whole thing in the full throttle say again going back to the 14.5% or 15% of EBITDA margin probably I will not say incomplete we are dependent on domestic situation but for maybe another quarter or two because we are changing as you see first quarter the growth was only 3% the second quarter, quarter-on-quarter growth was around 20% because it took us around three months to align our sales understand what is happening here so now in case we realize that okay this is going to take another four years to revive this country and I am sure we will not wait for another four years to relook into our way of selling probably another three months or so we would understand fine this is not going in our favor we need not bother too much of our domestic packaging move onto other factors move on to exports may be certain customers or certain areas which are been promised or earmarked or kind of committed to certain domestic customers has to be relooked into or the contracts has to very negotiated. You cannot take care of these buying what you are being committing. So we are decommissioning you the commitments and moving on for the exports. So it would get realigned but there is always a time. It cannot on without really getting hang of it or being very sure that this situation will not revive I will not feel that comfortable to drop out my customers who are being with us for couple of decades with us now. So it would take a call and we will move on. So to answer your questions this is not going to be completely dependent on the domestic market forever but it might be dependent on domestic market for another three to six months I would say.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Sir we have identified some 200 touch points to grow. Sir, can you just say is this prospect type of this touch point so if say in which state we have identify and we would be doing future marketing based on the touch point to reduce our cost of marketing?



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- Makrand Appalwar:** Yes, I would say you have quite rightly understood. At least the states are not necessarily all states have changed but when it comes to Rajasthan now and the neighboring districts of Haryana and Punjab are also being tapped when it is now we are going to Karnataka initially our thought was to first penetrate the entire Karnataka but we realized that there is no point going all across Karnataka but districts which are just across in the Telangana districts or the districts which are typically I would say strong holds of the shrimps another like Dharmavaram or Vijaynagar so instead of going and moving across the state we have decided to make a cluster and move around it. So naturally because of that lesser area has to be covered by advertising people, the marketing staff, the sale staff and more concentrated efforts could happen so that is the whole idea that the districts or the clusters which are having more need of our products would be identified instead of going on the typical state model that this state will be taken care and that state will be taken care, we realized that the entire state not necessarily always behave or has the same needs across its length and breadth so we are not bothered like typically if you see in Maharashtra still the Vidarbha region is not really very, very I would say active when it comes to water conservation. They are pretty much behind the rest of the Western Maharashtra or Marathwada or I would say this part of the broken part of the Maharashtra. So depending on what is the activity happening in that area, how interested people are, how interested farmers are those clusters would be developed and that would reduce our cost and that would improve our effectiveness basically we will be reach to more people who are in-need instead of just reaching more people, reaching the more targeted addressable market they are just reaching any market so that is the whole idea behind it.
- Ashok Shah:** Last quarter rainy season has affected our sales?
- Makrand Appalwar:** It has affected some delays here and there about a week line delay in certain districts a week earlier in certain districts so in by and large there is no major impact on the sales but yes we have to realign certain shipments from one district to other like that kind of things.
- Ashok Shah:** Also what is the situation of food grade packaging then what is our plant utilization new plant utilization of this food grade packaging US FDA approval?
- Makrand Appalwar:** Last quarter we have crossed 50% of it and I just in my previous information I gave you that the facility has been upgraded from A grade manufacturing facility to AA grade manufacturing facility so naturally more people would probably be attracted by us to come and join us.
- Ashok Shah:** So now it is a breakeven front or it is still not a breaking even?
- Makrand Appalwar:** No. I guess it has already behind us even at 35% it was breaking even.



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- Ashok Shah:** Thank you that is it from my side.
- Moderator:** Thank you. The next question is from the line of Siddhart Mehta an Individual Investor. Please go ahead.
- Siddhart Mehta:** First of all I want to say congratulations for having a very strategic view of the business. This is where we do not find that in many companies that they go through they look at the situation, they assess the situation they think long-term, they think how things can be improved and held. I think that is an excellent approach you guys are taking. I also wanted to ask you given this wonderful way of looking at things given this high quality of products given also the fact that we are doing innovation and development, I just keep feeling that like lot of the participants and a lot of the other people that you will meet I think that we also deserve to be doing more to be growing faster to be achieving greater success. Yes 100 Crores is a very big number but at the same time in the overall scheme of things the way the world is 100 Crores is not such a big number for the quality of work you are doing the kind of things that you are doing the quality of management we have. So is there some possible things that you can think of that can propel us forward if immediately there is no nothing that you can think off would it be appropriate to maybe retain somebody from McKenzie or some other company as a management consultant who could then advice us that how can we grow faster because we are certainly very capable we are certainly having the best products so I think we deserve to be going at much faster and greater volumes?
- Makrand Appalwar:** Siddhart Ji, let me like redo and thanks for complementing so that 100 Crores was basically for the B2C part. I was only talking about, the overall company. I was not talking about the complete company topline so that 100 Crores we will be roughly a 20%, 25% of our total sales so company would be somewhere around 400, 450 Crores and there will be a 100 Crores of activity. Now when it comes to growing faster when we started this B2C activity that was the time I initially declared that initial five years will be our learning phase, we will be trying to understand whether this product mix and whether this whole process what we are trying to do makes sense and we totally understand your thing and we are working on that. We are already engaged with certain management gurus. I would not like to reveal the names of the company but we are already engaged with people to draw in the kind of a next level growth policy so that by 2020 for which like the plan for operation till 2025 is already on the blueprint has been created. Of course, we are also not going to be satisfied with this numbers of 100 Crores or 450 Crores in the whole company and we are looking for a much larger base and that is what we are feeling that the after five years which will be completing in 2021 that is what as our initial first cycle because it is a warrantied product and we were very much worried and paranoid initial days whether this whole thing works fine, because we are handling this kind of a exposure and this kind of a solar treatment in the Indian terrain was a very critical when it comes to a technical manufacturing of



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polyethylene or handing polyethylene for five years in the exposed condition. So we are almost now very comfortable and this is the time like we initially also as we are probably interacting for the first time in the past also I have been very consistent in saying that this is the time where we are testing or creating a launch pad so once this launch pad has been create and I am sure this onwards 2021 the growth in the B2C vertical will be definitely much faster and quicker because it will be then only a replication. It will be a replication of what things what we did in the past while other areas also with the larger pie would also grow at the constant speed of around 15%, 17% consistently and that way the company would probably be able to maintain roughly a gross period anything between 18% and 20% on total so every three years kind of three to four years company will keep on doubling itself. So that is the whole view and that is the reason why we are being very categorical growing the company in its own organic way, creating Avana division, getting in the people onboard from the companies like Syngenta or others who are basically typically B2C company or the agriculture companies or getting the people from the telecommunication companies or tractor companies so if you see our B2C vertical staff like we have people from tractor companies, telecommunication companies, seed companies, fertilizer companies, pesticide companies so all that everybody who were involved in the rural distribution has been selected and put over there who had a typical B2C vertical and that is how they are developing all these new ideas, but we are not a very high risk company. We are kind of a very stable and we are like to go ahead and be very patient about our growth. So yes there is a potential we are looking at it we are not going to be satisfied at these numbers and consistently we are going to work to take it ahead on the retailers.

Siddhart Mehta:

You have extend everything very well, but I still feel that when we are growing say for the B2C in five years to 100 Crores and having the quality of people that you mentioned from various companies maybe they can do well and maybe I hear a lot throughout this call I hear that we are conservative, we are stable, we do not take high risk, we do not do this, we do not do that, we are very careful, we want to be very conservative but maybe we are maybe swinging the needle too far on the left maybe there is a thought or concern that yes maybe at sometimes, we can take a risk maybe we have the size to take a little bit of a risk, maybe we have the chance to be a little bit more aggressive because it is good to be cautious it is good to be aggressive but then if all of us were like that we would put all our money in FD and put it into the bank so that also does not takes that we have invested in equity?

Makrand Appalwar:

Presently, I think that I thought see in the manufacturing business around 20% of the growth is a decent growth like most miss. Hardly, if you see the chart of most of the manufacturing companies, I would say 90% or 99% of the manufacturing companies would not grow with the speed higher than that. So we have to also see the sector in which we are so we have to and that is the reason where we are going for this more composite model which is a combination of asset light and a asset heavy so whenever is the manufacturing it



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is a very asset heavy model so that is the reason where we are getting so as soon as we go at the next level when it comes to a distribution side the growth will be much quicker but I cannot get the numbers because still we are at a much nascent stage there, I understand the importance of growth, I understand that we can be much quicker or we should be much quicker I do not want to say that we are conservative but I would like to definitely say that we are calculative. We do not want to be rash, you do not want to be because it is a very high responsibly when you are handling somebody else's money, running up or we were publicly listed company is a substantially large responsibility than running a private company because you need to be answerable, you need to be correct, you need to be transparent to many people, many stakeholders, so definitely approach is going to be definitely forward looking, upward looking but definitely our approach is not going to be rash.

Siddhart Mehta: No, rash is something maybe extreme but anyway I would just leave you with this thought that please see if we will may have swung a little too far and may be given the size on the quality of products that are there maybe we can go a little bit ahead just keep that as a thought and maybe that you can reflect on that because all the people that you will meet you will find this kind of a concern expressed repeatedly from a lot of people I am just guessing this. So if that is the case then you do have to consider this and we are equity investor so we understand that every time we invest in equity there is a risk. We do not expect this to grow like FD in the bank we expect there is a risk, we expect you will have some good quarters, we will expect that you will have some occasional bad quarters the best of the company is whether it is a Infosys or HDFC sometimes they make a mistake so this happens so we as equity investors are mentally aware of this and are prepared for this so we will stand behind you even if you make a slightly rash decision we are still behind you do not worry.

Makrand Appalwar: I appreciate this.

Siddhart Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Priyank Cheda from Reliance Securities. Please go ahead.

Priyank Cheda: Thanks for taking the question. First question sorry I joined late any target that you would like to call out for the pond utilization by the year end and what I am sense is that initially we were running at 11 now we are running at 13 plus?

Makrand Appalwar: I guess we should give some more reference and that looks the situation at the present usually around 15 by the year end.



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- Priyank Cheda:** Sir anything that you would like to call out on the initial success of the two important initiatives that we took out one was on the new states addition and the second was the financing tie-up so any initial success that you would like to call out on those two aspects?
- Makrand Appalwar:** Yes I mean I will give it to the Avana chief so that she can be more elaborate on this.
- Maithili Appalwar:** I will definitely go ahead and say that the addition of states has been extremely helpful to us because when we are looking at the climate right now with Maharashtra the rains have been kind of unpredictable and because of that the sale from that area like you were saying it goes one week here or there so the sales in Karnataka as well as Rajasthan has been able to balance that out really well and that has been extremely helpful for us in growing the revenues on the B2C end and this what was your second question was the banking the financial tie-ups correct?
- Priyank Cheda:** Yes.
- Maithili Appalwar:** So, the financial tie-ups are also going well I think the kind of the help from that is that we are able to increase the addressable market to and not only looking at farmers who have the 2 lakhs or plus in their hand, we were also able to cater to farmers who have amounts lower than that we have also added a new District Central Cooperative Bank to our list of tie-ups because those who are working out so well in the Pune area so in like the addition of a new bank has also been helpful to us and we are also now getting representative from these banks to come to different exhibitions and trade shows that we take part and interact with farmers so that they are able to make the process of getting a loan a little bit simpler for that.
- Priyank Cheda:** Thanks that is all from my side.
- Moderator:** Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** Thanks for again taking my question. Sir, are we participating in Kisan exhibition which is largest for the farm sector in India?
- Makrand Appalwar:** Yes of course as usual every year we are there you all are, you will definitely receive a invitation from us and this year there are lot of new and interesting things which you would like to see is starting from the way the invitations are sent. This year we are also bought some 2 lakh pre-invitations which will be distributing to our farmers through the electronic media and the entire data collection would be from the QR code based better management so I am sure Ashok Ji we will send you the invitation so kindly join us we are there going to be there from 11 to 15 all the day.



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- Ashok Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- Sangeeta Purushottam:** Thanks for taking my question again. I just wanted to check that are you beginning to see any signs of the domestic market improving post the second quarter if you could just give us sense of how you see things?
- Makrand Appalwar:** Frankly, I did not see any turnaround yet because things were as low as like they were earlier. To my knowledge the answer is no.
- Sangeeta Purushottam:** In terms of the discounting which you needed to do in the second quarter has that come off or is that likely to continue into the third quarter also?
- Makrand Appalwar:** Probably that might not because our need to push in domestic packaging has reduced. We could not sell of the parallel so we might not because instead of keeping the capacity ideal I would like to give the discount but when I no need to give capacity ideal I might not.
- Sangeeta Purushottam:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vinay Pai an individual investor. Please go ahead.
- Vinay Pai:** Good evening Sir. Just looking at the balance sheet and the cash flow analysis if we see, there is a line item called dividend paid what exactly is the dividend Sir?
- Makrand Appalwar:** Dividend.
- Vinay Pai:** Dividend is the cash flow from financing activities I am not sure what it is?
- Makrand Appalwar:** Just give me a movement must be a last year's dividend which we use to have paid. It goes in that quarter.
- Vinay Pai:** It is last year's dividend is it.
- Makrand Appalwar:** Yes last year's dividend which we paid so it must be gone in that quarter yes.
- Vinay Pai:** And the second question is the capex I must have and I think last time and even the con call before that we were let to know that there will be zero capex from your company but again I mean zero capex in the sense there will be negligible capex from this year for at least two to



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three years that is what I understand but this year again there is 9.47 Crores capex is there and it neutralizes that net cash flow from operating activities so it is free cash flow is zero here?

Makrand Appalwar: No. It is at 9.5 Crores what you see as a total capex I think just one second I will just give you the breakup. Around 1.75 Crores odd is the intangible range where there is a marketing and other the related thing and around there was some part was also our capital work-in-progress which we got it from the previous year and some part where there were the capital was committed and the projects were yet to complete so though they were not classified for this so they were classified in this and 5 to 7 Crores of the debottlenecking capex will be required and this is what we said not the zero capex so it still remains where we keep it our statement at some 5 to 7 Crores of debottlenecking or a maintenance or 9.5 Crores?

Vinay Pai: Further on in this next half of this financial year and that is this current half will there be any more capex?

Makrand Appalwar: No, not much of it I would say but I would say some small capex would always remain because there are always launch of new machines or new additions or other things so couple of Crores here and there can always happen or when we are growing we change certain things like now the pond lining as all of a sudden have been started taking more swing so more sealing machines are getting on the like the robotic machines are on the market so more robotic like each robotic machine is costing around roughly 7, 7.5 lakhs so that those are coming in. So certain bit of a capex would remain it will never happen zero, but it will never be like 20 Crores or something.

Vinay Pai: Another small point that I would like to bring in is illustrated your pond liners in the presentation but nowhere I am seeing Emmbi branding on it, if we go to cricket stadium or football and all on the boundary of the field there is always a branding of all these companies likewise I do not see Emmbi return all along the pond liner?

Makrand Appalwar: We are trying to develop Avana as a retail brand because Emmbi has a retail brand developing that we thought Avana has more meaningful theme and the whole I would say literature or the campaign is towards the Avana. Likewise Tata Enterprise is there but Tanishq is a much larger retail brand for them or Tata Enterprise is there Titan is a much larger watch brand for there or even many people may not even know that Fevicol is produced by Pidilite so selling brand or a distribution brand and a company brand are two different concepts. Actually this has been advised to us by a few of the marketing gurus only and this umbrella brand of Avana is getting created so larger communication or larger distribution related activity would remain under the brand Avana which is exclusively or



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100% owned by Emmbi. So then the corporate name Emmbi might not be seen but you will see Avana everywhere.

Vinay Pai: Yes, but I may suggest that this Avana branding should be there on all your pond liner so that everybody put look at this now.

Makrand Appalwar: It is there. Definitely there it is very much.

Vinay Pai: I cannot see the pond liners do not have Avana or anything there?

Makrand Appalwar: No, I think probably you are missing on something but every single like on every fabric which we roll out of the fabric, there is a continuous printing on it Avana Jalasanchay, it is already there.

Vinay Pai: Right, that is all my side. Thanks.

Moderator: Thank you. The next question is from the line of Abhishek Vigneshwar from Trustline Holdings. Please go ahead.

Abhishek Vigneshwar: Thank you for the opportunity. If I am correct you mentioned that the domestic packaging industry is not doing well and you have said the impact is because of the auto sector may I know how much this business share we are having with the auto sector?

Makrand Appalwar: I will not like to exactly pronounce to the numbers but we do lot of things for the companies VCI and other protective packaging which are used by the automobile companies and the component manufacturing companies so naturally because the component manufacturing is on the lower side, the things are on the lower side as a policy sector wise numbers we do not give publicly because that can directly connect with our competition, you can understand that all the components are the cars or the automobile where there are fine leath I would say machine the spare parts needs to be protected from the corrosion and that corrosion protection earlier use to be done by the oil application and other things so now that has been done by the VCI film or VCI paper or VCI fabric which has been produced by us so lot of automobile companies are our customers and automobile sector as it has been little bit slower their entire operation is little slower.

Abhishek Vigneshwar: Sir my second question is can you tell me more about Avana and can you throw some earnings projection on that some topline numbers in Avana.

Makrand Appalwar: Yes, so we call it Avana, Avana in the literal sense means protection in the Sanskrit it means protection Avana. Basically the whole idea behind Avana is to create the understanding or the market or the situation so that we can protect the wealth or the



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Samriddhi of the farmer so we call it Samriddhi means Samriddhi drop by drop or prosperity drop by drop is the mission of that particular arm of the whole theme. So if you see we have already given you the B2C number around 23% of our topline in this quarter came from the B2C. The entire B2C activity is under Avana. So Avana vertical or a B2C vertical should see around 100 Crores of topline by 2021 and that is the time where it will grow after that it will grow quickly, it will grow, we will have much more products much more areas geographies which are going to be connected and naturally because it is going to be a brand driven or it is a brand driven business everything which is connected to any branded product or a brand driven or a brand I would say benefit which are been reap by the brand created companies would be available to Emmbi on that. So Avana is an exclusively own brand by Emmbi, which was required to be done because the entire DNA original DNA of Emmbi was pertaining to the B2B activities and now as we are entering into B2C it needs a complete new thought process it need a complete new way of thinking and that has been taken care by Avana.

Abhishek Vigneshwar: Thank you so much Sir. You are explaining so well. Thank you.

Moderator: Thank you. The next question is from the line of Priyank Cheda from Reliance Securities. Please go ahead.

Priyank Cheda: Thanks for the followup. Sorry to again harp on the growth parameters. I missed your first half. My question is we all understand the current industry slowdown and particularly on the industrial side so anything which strategic change you would require post 2020 or post 2021 end to realign our whole of the model to get back to that 15%, 20% kind of conservative growth rate?

Makrand Appalwar: Frankly I do not really call 15% or 20% of the growth rate is conservative. It is a very nice means for any manufacturing company today will like 9% of the Indian manufacturing companies are not growing with that speed arising for other say given the service companies are not growing so saying 20% is a conservative growth rate is not a great idea but still I would say we are already means kind of designed ourselves to match that so either there can be more than that or at least that much so whatever changes were required to be done actually it seems that you have missed the first part of the call we have specifically explained the distribution model which or the distribution approach of Avana which we are taking place which would also be an asset light model which will be more working on the products produced by other companies and distributed by Avana. So those products would be designed and conceptualized by Avana or Emmbi and this manufactured by non-Emmbi companies and again distributed by the Avana arm of the Emmbi. So that is going to be another additional this with keeping the cost of the investment on the lower side.



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Priyank Cheda: Thanks a lot Sir. All the best for the future ahead.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Makrand Appalwar: I really appreciate and if you have any more questions, please feel free you all have our numbers you can reach to us and we will be more than happy. I am so sorry that if we have missed anybody in the question queue kindly give us the call on the person and I will be more than happy to answer all queries of everyone in person. Thank you so much and I appreciate your time.

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