“Emmbi Industries Limited Q3 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited Q3 FY17 Earnings Conference Call hosted by KR Choksey Shares & Securities Private Limited. 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 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 Mr. Anuj Choksey from KR. Choksey Shares & Securities Private Limited. Thank you and over to you Sir!

Anuj Choksey: Good evening ladies and gentlemen, this is Anuj Choksey from K. R. Choksey. We welcome you for the Q3 Results of Emmbi Industries. Mr. Makrand Appalwar and Mrs. Rinku Appalwar have joined in. They would give you a brief on the working and then it will be open for questions. Over to you Mr. Makrand.

Makrand Appalwar: Welcome everyone, I am Makrand Appalwar from Emmbi Industries. Thank you very much for joining in the Emmbi Industries Q3 call, so I will just quickly take you through what happened in this quarter.

Continuing the topline nine monthly we had around 10% of the growth vis-à-vis last year and bottomline wise we have around grown by 25% in EPS and bottomline both vis-à-vis nine month of the previous year the same time. You know that due to the comparatively not so favorable business situations during the quarter three, we feel that we have lost opportunity of business during that period to the value of around 10 to 11 Crores, which got shifted into the next quarter, which can be catered in the time to come.

Now let me tell you about the projects, as you are aware that we are conducting two main projects during this financial year spend are estimating a total spend of around Rs.22 Crores out of which 15 Crores are year mark for the positive pressure clean room FIBC manufacturing and 7 Crores are year mark for the specialized or dedicated manufacturing facility for the pond liners. So the manufacturing facility for the pond liners is almost we are into completion and we will be having a formal and official in which inauguration of this facility on 28th March that is on the day of Gudi Padwa where we will start commercial production on those machines. All the machines are in the suggestion of the company and they are under installation, building was purchased readymade with certain customization now it is completely fit and ready to use well we will be commencing our initial trials from the first week of March and 28th March will be inaugurating water conservation facility. The second expansion was for the clean room, which is in the process and building is now the RPG sector is complete and all the walls and flooring is complete and we are completing AHU or the air conditioning part of the manufacturing facility as we are aware when you are producing a food grade facility lot of care has to be taken for the environment creation while doing the manufacturing. So that is one of the critical and important job, which we are right now processing. Till now we have spent amount of around 16.5 Crores towards the capital expenditure in first nine months out of which 11 Crores came from bank and around 4.5 Crores came from the company's internal accrual, balance amount whichever is year marked for the project is already loans are sanctioned and internal accrual money is available with the company so I do not see any reason for any funding shortfalls or any delays on that account when it comes to both these projects.

Third thing I would like to brief you is I am sure you must have run through our presentation, which we circulated. A very specialized advertising efforts and marketing efforts has been taken by company. Company has launched a new mascot called Dr.M, Dr.M is basically we are let it represent company Emmbi and Dr.M is going to be our representative, he is an artificial character, which we have created who is going to speak to various types of our customers especially right now he is getting used in the agricultural and water conservation related rural marketing where he works like a canvas or he works like coordinator to speak to farmers and the people who would actually appreciate direct targeted information more than implied information, so we will be using this character, all the description and details about the character is actually sent to you through the presentation.

During this quarter, we have taken past and various exhibitions and other promotional activities. I am happy to tell you about launch of Kissan calendar, which we did during this quarter and all the Kissan where we are present through our rural focus are presented with the calendar of Indian tithis and panchang and the relationships with the monsoon and expected rainfalls and metrological situation, which would make them connected more to Emmbi. The whole efforts or a whole focus remains getting better connected with the farming and agricultural and the rural community of India, so this is one of the main important events what happened. During this the first nine months we have completed around an expenses of 60 lakhs towards the total advertising expenses, which is actually year mark in the range of around 1.2 initially, but it was downsized to 80 lakhs at the second quarter and I think we are in the place and we should be able to complete our advertising part within the stipulated amount. Considering the present situation and the market conditions we still feel confident that we would be able to achieve our regular growth speed of 20% after the completion of this coming financial year and till 500 Crores I think getting on this speed should not be a big challenge for company and we would remain committed to all our investors and stakeholders to work in that direction. Company's focus we are kind of trying to realign ourselves instead of addressing anything about the products, the more thoughts are now completely getting sorted out to kind of focus about the need, so everything is a need and a solution based development as well as product creation approach. This we feel that in the current time we all will accept that pure manufacturing companies without the knowledge and serviceability factor are not going to be equally challenging and competitive as the companies, which will have a knowledge and servicing factor attached to them. So considering this reality and instead of remaining into the hardcore brick and mortar side of the business we thought that connecting it with the knowledge as well service-related activities coupled with the knowledge sharing with people. We have created this special initiative within the company where we would be talking to all our buyers and all our suppliers about various possibilities to do their jobs in the better way than what they used to do within the existing setups. This particular new thought process will be applied across the company in all the four product verticals and that we feel would help us to maintain the existing CAGR, which remains within the stipulated expected rate and we would like to take it ahead in that matter.

I hope this was brief and clear information, which I tried to give you and now I would like to open the floor for the questions. Thank you so much.

Moderator: Thank you very much Sir! Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Obviously Q3 has been a tough quarter could you just let us know in your opening remarks you said that about 10 to 11 Crores was what you estimated as your sales loss have that come back again in the first 45 days of Q4 in addition to what you would have normally done in Q4?

Makrand Appalwar: No, I do not think it would come back entirely in one quarter because even though as a business it might come we would not be able to adjust the serviceability so I guess this would get spread over couple of quarters it would not happen that there would be a complete jump in Q4 vis-à-vis Q3, but of course there is going to be a substantial improvement what we feel we will see in Q4, but the entire 11 Crores or 10 Crores of loss of business or postponement of business I would say I did not really use the word loss of business, postponement might not get adjusted within one quarter, it might take two.

Baidik Sarkar: So at least the first 45 days that we have seen this quarter are the volumes normal or are the volumes still a bit static?

Makrand Appalwar: No, they are much better than what they were in Q3 and almost I would say that they are coming back to normalcy, yes.

Baidik Sarkar: So would the best-case scenario for Q4 be a flat quarter again or is it fair to expect a reasonable amount of growth.

Makrand Appalwar: No, I expect growth.

Baidik Sarkar: Would it be to I mean rough cut of how much you think we might be able to grow Sir 10%, 15% something lower?

Makrand Appalwar: I do not frankly remember the exact number of last year.

Baidik Sarkar: It was 56 Crores last year.

Makrand Appalwar: So I am expecting anything between 65-70 this year.

Baidik Sarkar: Now coming back to your capex the first part of your capex, which is your pharma and food-grade packing plant are the revenue potential of that if I recollect is about 60 Crores is that right?

Makrand Appalwar: Yes.

Baidik Sarkar: How soon do you think we can scale up that Sir and when is the dues commencement you mentioned Q1 and any specific month you have any date?

Makrand Appalwar: I think I am expecting my target date is actually first or second week of May I am expecting it to push the button by 15th of May it could have been little earlier because of the Q3 disturbances. There we are actually building like actually making brick and mortar building there so it was a little delayed because of Q3 things, but still I am thinking we would be able to start by 15th of May and I expect that within first year at least say 20% of the capacity would be able to utilize.

Baidik Sarkar: So, which is roughly about 10 Crores for the year?

Makrand Appalwar: About 10-15 Crores for the year.

Baidik Sarkar: I missed the debt equity mix that you mentioned in opening remarks, see you spent about 16 Crores could you just give me the breakup again Sir between internal accruals and debt?

Makrand Appalwar: 4.5 and 11.

Baidik Sarkar: So 4.5 is internal right?

Makrand Appalwar: Yes.

Baidik Sarkar: Going into FY18 you have given that you have got two new capacities coming up what do you think would be the base case growth rate?

Makrand Appalwar: FY2018?

Baidik Sarkar: Yes.

Makrand Appalwar: I would say anything between 15% and 20%.

Baidik Sarkar: The pond liners what would the approval revenue capacity be, the total capacity is coming in?

Makrand Appalwar: It is coming for 3600 tonnes right now we are commissioning 3600 tonnes of capacity that is around 550000 square feet per month so that is sold at around 77 so say around 30 Crores.

Baidik Sarkar: So 30 Crores would be at 100% capacity utilization?

Makrand Appalwar: Yes.

Baidik Sarkar: So how much you think we can revamp in FY18 Sir out of this?

Makrand Appalwar: I am expecting a revenue of around 2.5-3 lakh square meters per month so it would give us around 23 anything between 18-23 Crores I am expecting next year from the pond lining business.

Baidik Sarkar: What is the margin profile you have been having?

Makrand Appalwar: EBITDA level margins are in the range of around 18-19.

Baidik Sarkar: So if we end up doing 15% in terms of revenue growth next year where do you see a blended margins going up we are at about roughly 12.3 right now at an EBITDA level?

Makrand Appalwar: I would say that we would settle down next year somewhere between 13.5%-14%.

Baidik Sarkar: What could your peak debt be Sir after you completed capex in both the new facilities what could your peak debt be at and how much we are right now?

Makrand Appalwar: I would invite Rinku to answer this.

Rinku Appalwar: We have around 15 Crores of new debt and the old one was around 3 Crores so we will be around that, that will be the debt portion for the new facilities.

Baidik Sarkar: So new debt will be about 18 Crores?

Rinku Appalwar: Correct.

Baidik Sarkar: What is our gross debt as of now?

Rinku Appalwar: As of now it is around 13 Crores.

Makrand Appalwar: No, he is talking about term debt plus working capital.

Rinku Appalwar: No, I thought about the expansion you are asking about. Term debt was plus working capital is around 73.

Baidik Sarkar: So which means peak debt should be about 91% by next March, is that right?

Makrand Appalwar: I do not know what is 91%, but..

Baidik Sarkar: Sorry 91 Crores I meant.

Rinku Appalwar: Yes almost.

Baidik Sarkar: Right Sir. Wish you all the best I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Praveen Sai from Edelweiss. Please go ahead.

Praveen Sai: Thank you for explanation in the opening remarks. I just wanted to know like there has been a slowdown in the growth and I am saying for the quarter-on-quarter from the last second quarter also we had delivered a slower growth this quarter as well, so because the last quarter was somewhere around 8.7% this quarter 4.5% so like which segment short of about the demonetisation impact apart from that where we are seeing a slowdown?

Makrand Appalwar: Let me explain you in this way like generally if you see historic track record of Emmbi the growth kind of a division is 45% of the growth come from first half year and 55% of the topline come from the second half, so we always have a split of 45%, 55% between the two quarters. So if you see half yearly growth previous quarter was around 8%-10% and we are expecting that third and fourth quarter will pickup and as usual cleanup the whole process again back to the normalcy. The third quarter as you are aware there were lot of financial disturbance so everywhere there was a slowdown starting form exports to the domestic market because there were less availability of trucks, there were less availability of raw material, there is less availability of buyers, and the entire value chain was actually kind of stressed because of the various fund crunching issues, so I would not be able to say that only one particular area or a product got hampered, but I would say even if post salary days when people were going to remove the cash from the bank the workers were remaining absent for even one day they remain absent it is a 3% loss of productivity for us. The last two months you can understand even people were away for one or two days we lose 3%-6% of the efficiency and we were more cautious you can say in Q3 about not allowing the inventories to pileup more, so everything was more controlled kind of steps, which we have taken, so we were not sure which way we are heading, which way the whole picture will look like after sometime, so it was more of a cautious approach, I do not think any particular product or a segment got hit, but it was overall a stressed operation I would say because of the financial situations in the market and that caused this little bit of a slower growth.

Praveen Sai: I am just going back again in a history so I had seen a lower growth in this quarter and there is reason for that, but in the last year the same third quarter the 2% of a growth, fourth quarter is a 14% of a growth versus your first half of around 19% plus of a growth, so is there a huge seasonality in between the first half and the second half even though we have clocked higher percentage of growth?

Makrand Appalwar: No, not really I think last year if you remember that was the time where petroleum prices started coming down and toplines were a little bit of a polymer prices were softening and that is why topline was coming down it was one of the time what you are referring is, the time where crude was hitting the lowest of the levels.

Praveen Sai: Can you give us some more colour on the pond lining business because I see there is lot of players, lot of a competition in the market for the pond lining itself so how you are placing that and how you are taking the competition?

Makrand Appalwar: Frankly I kind of not very completely agree to you that there are lot of players because if you see the market size, the market size is enormously large and compared to that there are only three or four structured organizations, which are in the pond lining business and I would say both all four companies put together even does not have a potential of say 5% of the acceptable or expectable market size so the very comment that there are many players in pond lining I have not kind of in the same agreement or on the same page there are lot of people who are trying to be there, but are not there. Now to answer your second thing what is special about us and what is that we are doing, so pond lining is basically water reservoir creation, when water reservoir the most important part is leakproofness so in order to achieve that in December 2016 we have launched world's widest pond liner or pond lining material so that helps us to reduce the number of joint so we are having a width wider than anybody anywhere in the world so that is helping us to create a brand, which is viewed as one of the most premium brands in pond lining. Secondly we did a very strong and detailed study about the polymer chemistry because pond liner is one of the plastic material, which has to sustain itself in the outdoor conditions for five years, now doing this you need a very specialized polymer chemistry to be understood and we have done a very scientific approach and study using some of the American Research Laboratories and understood what are the right kind of materials or the doping agents, which we would like to use or which we need to use so this year we are right now we are the only company who is sitting on this kind of a technical knowledge about the product, so this is helping us to keep ahead of most of the competition and one of the competition, which is Garware they are not even offering the polyethylene liner, which is their product is almost prices are more expensive than our product, which is PVC and again it is not fully built, so technically there are only three companies, which are having a structured organization, which are offering this product remains in the market. So I feel considering the market size, which is actually with the new open announcement of government during this budget, this budget was almost tailor made for the companies like us where they have allocated 45000 Crores for various water conservation approaches and 10 lakh extra ponds if you see average size of let us say 1250 square meter of ponds then the market become almost 10000 Crores.

Praveen Sai: Also I just wanted to add like apart from the government budget in states like Maharashtra and Rajasthan you can also keeping some amount for that actually thrust and that is also going to give us I think some numbers?

Makrand Appalwar: Actually the present business what we are doing is out of the states only because the announcement, which has come right now in budget has not converted into business till now, it is in the process so I think that would happen during the course of time say six months to 12 months anything we would actually start getting business out of that. The present business what we are doing which we estimate in the Maharashtra and Rajasthan the market size is close to 2200 Crores, 1500 Crores for Maharashtra and 700 Crores for Rajasthan, I am talking only about two states because we are only present in those two states so that market size itself is big enough for us to scale up to our required levels.

Praveen Sai: Is there any seasonality like the fourth quarter getting lot of pond creation versus first quarter or like that is there seasonality in that?

Makrand Appalwar: The pond creation business in Maharashtra is a little low in the July, August month because there is a lot of rains happening and in Rajasthan it is not there because actually it is a very dry area and entire water management is through the canal so all 12 months.

Praveen Sai: Today's news of El Nino so will that also give a thrust to the pond lining business?

Makrand Appalwar: I guess so yes.

Praveen Sai: Great Sir I will come in the queue for further questions.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Good evening. Sir you have been especially guided for around 11% kind of topline growth for FY17 and I think given that you are guiding for 65 Crores I think that will be easily doable for us. On the bottomline front Sir you are guiding for 25% growth in nine months that has been the case so will the full year we will be able to clock 25% PAT growth?

Makrand Appalwar: I guess it should be anywhere between 25 to 30 that is what we look at.

Shashank Kanodia: So that means you are looking for some kind of margin expansion that can happen at the given base for us in Q4?

Makrand Appalwar: No, in Q3 because there was a subdued topline, but you should have seen that the bottomline growth was lesser than it was expected so because what happens is you employ the same people you employed, you run the same machines, you create everything and your topline is compromised, effectively all your expenses get shared on the lesser topline, your net operating margin falls, that net operating margin fall will not result into Q4 so that automatically will improve the bottomline growth of the Q4.

Shashank Kanodia: Sir in the budget speech Mr. Jaitley said that they have initially allocated funds for 5 lakh ponds and eventually they are looking 10 lakh ponds this year and incrementally they are targeting 5 lakhs next year so is that the ones showed robust on the ground for this kind of activity?

Makrand Appalwar: Yes because whatever allocation they are giving that is actually translating back into actual business because they allocated this in the past and that converted in to states starting this business so 5 lakh ponds were allocated all over the country out of which Maharashtra and Rajasthan, which is our area territories, but 111000 for Maharashtra and 50000 for Rajasthan. Now they have allocated an additional 5 lakhs every year so this would be definitely a big booster because at least when next we add one state or two states during next six to 12 months business would be definitely much more quicker and faster to grow.

Shashank Kanodia: Lastly on the capex front given the fact that our crop production thing will start from this year and farmer get from early next year so we will be spending the entire amount in FY17 only right?

Makrand Appalwar: Yes, I think we would barring one might be little bit of a spillover might happen in the first quarter of this year, but I think at least 90%-95% of the total thing would be taken care within this financial year.

Shashank Kanodia: So given the fact that we will on a optimal basis generate around 20 Crores of cash flow from operations next year so will our debt increase going forward in FY18 because I do not understand why will your peak debt hit 91 or 90 odd Crores?

Makrand Appalwar: Actually I did not really understood the peak debt calculation with Baidik, which he was doing so and I am not a great finance guy so it would take me some time to answer your question on the peak debt in a very classical way.

Shashank Kanodia: Because the best of estimate I think you will reach the peak debt this year itself around 76 or 78 odd Crores and post that in 2018 there will be just some working capital requirements and that will be made from the cash flow from operations right.

Makrand Appalwar: I think what you say is correct plus one more just addition and information I would like to give, the entire pond lining and crop protection business is 100% cash and carry business so we get 100% advance for this, the impact of that let us say if that contributes to around 15% to 20% of our overall business then we would have a 20% business, which is 100% cash paid so that will definitely help us not to expand our working capital in the same line as it was happening in the past or that was happening in the B2B business.

Shashank Kanodia: True, and Sir lastly globally there are some protectionist measures taken by various countries, so is it something which are cause of concern to us can it impact us?

Makrand Appalwar: I think that is a good news for us because we were anywhere paying duty while export into let us say if I talking about America we were anyway India was having a duty and our competition such as Mexico was a part of Naphtha was not paying a duty so we are expecting that if Mexico also get a duty on the product then that would be a wonderful situation for us because that makes Indian products more attractive.

Shashank Kanodia: Any incremental demand that you are witnessing on the front on the exports?

Makrand Appalwar: Right now it has not happened, it is still on the paper, Naphtha has not been scrapped so I am not seeing, witnessed, everybody is talking about it but it is not yet happen the impact is not to the application it is just on the paper.

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

Moderator: Thank you. The next question is from the line of Ankit Merchant from KR Choksey. Please go ahead.

Ankit Merchant: Sir just couple of questions. First I would like to understand the product mix for this particular quarter so how much was advanced composite, how much was speciality packaging, and water and agri for the total revenue for this particular quarter?

Makrand Appalwar: I think it was very similar to if we have the half yearly numbers, which we have given you in the presentation so this quarterly numbers we have not yet circulated, but we will get it send to you in the time to come.

Ankit Merchant: About the other expenses I believe the debtors have increased sharply any such reason it is currently 17% right now, which used to be near about 13% year-on-year?

Makrand Appalwar: Yes because actually the expenses has not increased sharply, percentage has gone up, if you see absolute number it is in line because topline has been compromised because of the lack of stain, the percentage looks larger.

Ankit Merchant: Even your gross margins COGS has come down a little bit so any particular stuff, which has happened.

Makrand Appalwar: No, because it is a slowdown. Gross margin would come down at a larger invent, unsold inventory around Rs.80 lakh of inventory was added and we had a kind of a less amount of yield per person operating because people were away for doing something, which is not relevant to business so this is I think in totality resulted into slightly more stressed this.

Ankit Merchant: And Sir about the tax provision I believe that is also little higher could you share some light on that?

Makrand Appalwar: No, it should remain within the MAT structure so 18% plus the tax looks higher because of the, Rinku could you please take this question?

Rinku Appalwar: Yes, the tax it looks higher because of the deferred tax liability, but the tax is within the MAT. It is well because of the deferred tax liability, but otherwise it is within the MAT.

Ankit Merchant: Just a broad breakup because product wise it is still not available, but if we have to consider how much was export and how much was domestic if the number is ready or something?

Makrand Appalwar: I guess we are in the similar lines I think we should have around 46% or 47% of export and 50%-53% of domestic slightly better skewed in the favour of domestic business on the nine monthly basis.

Ankit Merchant: Thank you Sir and about the demonetisation did it impact our payment debtor days any such did you see that?

Makrand Appalwar: Frankly there should not have been a reason because we do not have any cash business but many people took this as an opportunity not to pay on time.

Ankit Merchant: So at the end of the year how much should it be the debtor days?

Rinku Appalwar: No, I think it is getting corrected it was stretched in December, but now it is getting corrected.

Ankit Merchant: For the creditor days it is still the same we did the payment the way we used to do?

Rinku Appalwar: Yes, it is currently at the same level what was there in the last year.

Ankit Merchant: Thank you.

Moderator: Thank you. The next question is from the line of Ketan Pancholi an Individual Investror. Please go ahead.

Ketan Pancholi: Actually wanted to ask you about the breakup I think the component of FIBC export percentage of overall?

Makrand Appalwar: You want to say that how many FIBCs are exported?

Ketan Pancholi: Percentage of the topline?

Makrand Appalwar: Yes, percentage of FIBC I would say that almost 99.5% of the FIBCs are exported.

Ketan Pancholi: Overall topline?

Makrand Appalwar: Overall topline FIBC should be, FIBC is in a different way I would say we do not really classify it in the sector of FIBC and non FIBC, but we classified as a speciality packaging and advanced composites, so in larger part of the advanced composites, which is also FIBCs do get exported.

Ketan Pancholi: That would be how much percent?

Makrand Appalwar: That would be around 40%-42%.

Ketan Pancholi: The point I am asking is because I have been looking at some companies in Turkey and China, which are sort of FIBC and they are showing like last quarter they showed some degrowth in the topline so is it that the world market is saturated for FIBC or is it just India is gaining market shares?

Makrand Appalwar: Exactly what I think the second reason is most correct because Turkey in last six months has been politically very unstable and in China because of the growth in the wages cost and comparatively much higher price in various things when it comes to Chinese market there is a very steep flow of business change, which is happening. Most of the growth what you have seen in Indian companies is not because of the new markets getting created, but it is because of the shift of buying from either Turkey and China to India for India becoming more attractive destination for people because of our various government policies and our positioning and our pricing when it comes to our labour cost, our ease of operations, ease of doing business, all this is causing the shift from both this larger I think there should be if you see FIBC at the business wise India and China are almost similar at power with manufacturing on each other and third largest should be Turkey, so we expect as a FIBC association that within next three years India will be absolutely number one with more than 10%-15% gap between India and China.

Ketan Pancholi: That sounds really interesting and one more thing talking about FIBC only do you see like there have been like many players in USA, which are doing FIBC recycling and since you are talking about pond liner technology and technical expertise so are you looking to go into recycling of FIBC also, which would increase margins proportionately then because that will give you…

Makrand Appalwar: Actually there is as per the new law which has been adopted the term is the protocol of our new environmental systems, import of used FIBCs is environmentally unfriendly and it cannot be done cross the countries, so we cannot import American FIBCs back into India and recycle them as in a legal activity, so people are now considering having a recycling center probably back into the application countries like having a recycling center back in USA or somewhere in Europe it can work that way and then your repalletize them or regranulate it and use those granules for various applications so that is one of the business model getting created, but bringing them back to India it is not legally acceptable.

Ketan Pancholi: So are we looking at setting up something in USA and then putting up there only or it will be in Europe and just selling it there itself?

Makrand Appalwar: You want to say that are we looking at some manufacturing to be done in USA?

Ketan Pancholi: Yes, collection of scrap and then recycling the scrap in USA or Europe.

Makrand Appalwar: No, at this juncture we do not have any such project on our card that we would be recycling.

Ketan Pancholi: One more thing talking about pond liners you mentioned Garware, which we know is one of the other players and which are the two, three other players, which you are mentioning about?

Makrand Appalwar: Owens Corning is there and there is another company called Texel.

Ketan Pancholi: Could you repeat those names?

Makrand Appalwar: Owens Corning American company and there is another company in Ahmedabad called Texel.

Ketan Pancholi: That was very interesting, thank you.

Moderator: Thank you. The next question is from the line of Vinay Pai an Individual Investror. Please go ahead.

Vinay Pai: The first question is regarding inventory, last year if we just go a quarter back the inventory was around 60 Crores so do you have any figures for this quarter end like Q3 quarter end inventory because I guess lot of upsets and all awkard so is it higher than 60 or is it gone down?

Makrand Appalwar: No, it went up by 80 lakhs, it is not what bothers me because it was kind of operational issue, which we all know in Q3 so I think if I explain you in a broader way we are continuously focusing on bringing down the inventory days and you must have noted that if you see almost inventories nearly constant while the topline is continuously growing so inventory days are getting cut and we have kept an internal guideline that we should cut inventory days by at least 10 days per year till the time we do not reach up to 90 to 100 days of inventory cycle.

Vinay Pai: That is good news Sir! As a immature thing like see you are purchasing polymer from Reliance when you pay advance you get a discount so if you do the same of in terms of offer to the customer see if we pay in advance they get a discount do not you think your cycle will recover?

Makrand Appalwar: It does but what is the challenge is comparatively the banking in India is the most robust so my buyer, which are not in India and who are through the distributor and distribution partners it, for them getting money in Europe or America is much difficult or tougher task because banking there since 2008-09 problem has become so strict and difficult to borrow for comparatively smaller companies that is getting them a credit line is really, really difficult for them, so even though we offer and even though we willing to offer them a discount the credit line availability was those people itself is low, so I think this would not happen this way by offering them discounts front end because the cost of money, which is getting charged to us is definitely less than the discount, which we will have to pass on. In case the domestic market if we ask decide to give them a discount the cost of discount passed on to customer will be higher than the cost of money, which we pay, so effectively I feel though it looks like there is a debt on a balance sheet it is all basically needs to be paid or it is all supported our secured debt you have inventory or a book debt equivalent to that so that really should not be a big matter of worry and that helps us to keep the business within our control because that helps or lock people from changing the supplies very often going to other counties and they hang on with India more often than they can go anywhere else.

Vinay Pai: The next question is regarding the ponds that you are the things that you are supplying for the pond my query is that, the opportunity size is big I agree there is no doubt about, but does the farmer have the financial capability to have this sort of facility in his farm because he has to first remove the earth, he has to employ large amount of manpower to dislodge the mud the top player of soil from the thing and he has to engage a lot of manpower and then he has to buy the film from Emmbi and EST commission it and all so the farmer has got a lot of cost element on it. Being the opportunity size is so big, but on reality in reality will it be, do you think it will be a very good business model for this pond lining business considering the ground realities that we have on hand?

Makrand Appalwar: Let me answer this question in two phrases, one how much money is available with farmer to dig a pond and line it and whether it is they are financially stuffed enough to do that, the answer is not always, sometime they are running short of the cash, so in order to take care of that what we are doing is we have aligned with almost four or five banks, we are connecting like typically automobile company does when you go to buy a car they also look on you with some auto lending companies or a finance lending companies that you want to buy let us say Peugeot or let us say Mercedes they would always tell that okay these are the five companies from whom you can borrow and pay us for the car, so we are taking a very similar model we are worked onto four or five banks who help farmer to create that bridge loan then whatever amount of money you hear from this financial ministers and everybody that we have sanctioned 10 lakhs new ponds or like we have sanctioned additional 5 lakh ponds to make them 10 lakh ponds so that money actually is disbursed to farmers for digging the pond most of the cases. In Maharashtra government used 50000 for digging a pond, in Rajasthan actually they give 100% of the ponds cost including the film cost or a lining cost for doing the pond, so that works with a bridge loan they take borrow it from the bank give it to us and whenever they receive the subsidy it goes back to the bank and they square off the account. We are creating a credit line for farmers of a shorter period around three to six months, which is required for bridging that money, which they are retrieving from government and getting paid this is one activity we are doing and just to explain you let us say a viability or you can say a payback period for a pond lining is just one season at least a farmer does extra one season of a cropping because he has an extra stored water then he receives back entire cost of the lining, which we apply so the payback period is so less and acute that sometime farmers are also borrowing if they are not getting a subsidy or they are not willing to engage with government they are borrowing from banks holding it for three four months and repaying it within the one crop so both the way I know it was a little bit difficult, but we are developing a financial model, which helps them to borrow from banks they have met a standard applications and everything just like auto loan application and they can go submit it to bank and then using that at around 7 to 9 days bank sanctions their loan and then we get paid from there.

Vinay Pai: Just now I heard that you get the farmer gets only Rs.50000 for removing the file, but that again we are a bit low is not it?

Makrand Appalwar: I really do not know whether it is low or not, but that is what they get because the cost of removing the earth for an average pond is around a lakh rupee and they get around 50000 as subsidy from government.

Vinay Pai: Third and last question is starting from April the next year onwards will there be any fresh capex towards the expansion or whatever do you foresee any apart from work?

Makrand Appalwar: Apart from finishing the existing capex I do not see any substantial capex requirement at this juncture. It is barring the maintenance capex, which will be required, but that is not going to be very sizable so for next 24 to 30 months I do not see any substantial capex coming within just two years.

Vinay Pai: Right Sir! Thank you so much.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72. Please go ahead.

Kashyap Jhaveri: Just wanted to understand just one question this business wise can you highlight EBITDA margins in terms of speciality advanced composite, water conservation in agri you mentioned agri I think you mentioned about 18%?

Makrand Appalwar: Agri and water conservation is specialty packaging is least in around 9% to 10%, and advanced composite around 4% higher than that.

Kashyap Jhaveri: That is it from my side. Thank you very much Sir!

Moderator: Thank you. As there are no further questions, I would like to hand the floor over to Mr. Anuj Choksey for closing comments.

Anuj Choksey: Good evening everybody, good evening participants, good evening Makrand Ji, and Rinku Ji. Thank you for participating in this Q3 earnings call. In case if there are any questions left we could definitely help you forward it to the management and revert with the answers as required. Thank you all once again.

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