



“Emmbi Industries Limited Q4 FY17
Earnings Conference Call”

May 22, 2017



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Emmbi Industries Limited
May 22, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited Q4 FY2017 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 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 Mr. Ankit Merchant from KR Choksey Shares & Securities Private Limited. Thank you and over to you Sir!

Ankit Merchant: Good afternoon everyone. On behalf of KR Choksey we welcome you all for the Q4 FY2017 Conference Call of Emmbi Industries Limited. I take this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar, Managing Director and Mrs. Rinku Appalwar, Chief Financial Officer. We will begin the call with a brief overview by the management followed by the Q&A session. I now hand over the call to Mr. Makrand Appalwar for his opening remarks. Over to you Sir!

Makrand Appalwar: Thank you Ankit! Good afternoon everybody who is dialed in from India and regards to everyone who is dialed in from outside India depending on their time zones. Let me first familiarize you with designs, presentation and the way we are going to take this call ahead. So most of you do remember and do have must have gone through our last year’s annual report, which was dedicated to the blue strip of viz., or this, which was dedicated to the year of our blue collared patrons or blue collared employees. The next year, which is this year under review, was the year of sustainability in the green strip what is there present in Emmbi’s logo. So to sustainability many of the people do restrict its ambit only to environment friendliness, but at Emmbi we defined sustainability little broadly. We talk about a sustained business growth so that year-on-year our growth and our performance remain constant. We talk about sustained value creation for all the stakeholders who are attached to our company and we talk about sustainable business practices, which is a part of the green initiatives what we are doing. So what we are talking about is the growth spiral, which has been represented everywhere in this, so we believe that whatever products you produce are generally at some level the products can be replicated so we are very, very focused or we spend this whole year extremely focused on creating a specialized or a unique operating processes, which will be very hard for people or competition to copy and by way of that we would get an edge over our competition and remain ahead of time. Of course in the whole process our Emmbi Innovation Lab, which played a very instrumental role in doing so by giving their support in developing new products, new processes and everything, which is relevant to that growth spiral to continue in the coming years. One of the initiatives, which are there to have a sustainable business growth is also a multi locational and a multi geographical presence, so I am happy to announce that we have added couple of more country into our distribution network and we are almost now 54 odd countries across the world where the products of Emmbi are being sold, our distributor through various

new things, our new distribution channels. Another focus what we took was as you are aware in India the year or this arena has been decided as the arena of manufacturing growth or the time of the manufacturing growth through the Make in India initiative, so it is very important for us to support the existing things happening in this, so we started a clear skill upgradation activities by way of which we increased the skills of our manpower we define about the way the yield optimization what is going to happen and that is one of the major focus, which was there under the year of consideration. So for us sustainability will not be only green thing or not only the biodegradability or eco-friendliness. Sustainability means a little wider to us sustainable business practices, sustainable growth, sustainable competitive advantage on various of our products.

For the people who are newly joining in I have just briefly touched down on the product profile, which Emmbi is having. We have products, which are divided into four principal ranges, specialty packaging, advanced composites, water conservation and agri polymer. So these are the four principals. All the details about this particular product ranges I have put into Appendix A, so people who are joining in new would may run through that so that they have a better understanding what are the products, which are classified under those categories. I am very happy to announce you that during this year we have almost had a three or four of the breakthrough products, which were launched, one of them in the advanced composite range, which was for the aluminum kind of a barrier packaging what we call it aroma lock. The intention is to basically lock the aroma of the coffee, which is getting transported, so today what coffee you are drinking probably everywhere in the world either through companies like Starbucks or Costa or whatever so they all need basically a bulk transportation of coffee from various places where they are growing coffees to the place where the actual coffees dispensed, so we have taken a very active initiative and we have created a 1 tonner to 10 tonner large size packaging where they can actually package the coffee with maintaining the aroma, so I am glad that Emmbi has now been active in touching your lives every morning through a strong cup of coffee.

Secondly the second thing, which comes in is our 13-1/2 feet wide pond liner, which we have launched, so pond liners why are we harping so much on bid is pond liner is a basically product, which is used in for saving the water it is basically the large ponds are lined using this and lesser the number of joints what we have in the ponds higher the chance that there is less defects, there is less percolation, there is any loss of water and this is the widest and this also saves lot of manpower, it improves the yield when to start making the pond it becomes much quicker, so we are extremely excited to launch our widest width pond liner this year, which came through and we launched it into the last year on the largest Rishi exhibition or the agriculture exhibition, which happens in Pune called Kisan and that we launch this. So I am sure that would yield a very important growth and I am glad that in the very first year almost operating nine months we have made more than 650 ponds creating almost 130 Crores litres worth of water storage capacity across the width of Maharashtra and Rajasthan and the new capacity, which we inaugurated at the end of last financial year on March 20, 2016 would be able to get us to move this in a

much larger level. We are targeting that within next three years time till by 2020 we should be able to reach somewhere around 10000 ponds per year with CAGR of around 140%, 145% and that would be making an complete change on the Emmbi's distribution profile where today a larger part of our distribution is to be hardly 5% odd or less than 5% of the distribution is B2C, which would change to around 75, 25 distribution in the coming time, so that is one of the important thing, which happened during this year.

Lastly we had planned this large capacity expansion, which was there we were actually expanding our capacity by almost 30% odd and a part of that capacity expansion was a positive pressure clean room, which is basically a solution for food and pharmaceutical packaging, which is required across the world so that facility is almost till the completion on June 21, 2017 about less than a month from now that would be going live and on stream. The buildings are complete, machines are already there in the factory and final trials and trial runs are on so on June 21, 2017 we would be initiating this particular facility. These are the three very important things what we have seen during this year. I am sure you had a chance to run through the financials of the company and we had a topline growth of around 10% while the bottomline has grown by almost 20% and the EPS has also grown by 20% so that has typically happened because of the better utilization of the capacity plus better contribution of the value added products in our product profile so we feel that, that is one of the reason so I could make a, like if I have to make a statement I will say that by spending little below Rs.25 Crores we have expanded our capacity or we have expanded our capacity by around 33% and with the reserve capacity possibility of another 7% to 8%, so less than Rs.25 Crores of spending and we have increased the capacity by around 40%, which would have a buyback period of around three years during this period, which is coming up. If you see we have also given you the spreads like because of the growth in the B2C, which is a typically domestic business displayed this year is more in the favour of domestic business while export business did not shrink, but percentage has actually reduced and on the donut height next to it you get a global scenario where we are present so that helps us to have a completely diversified presence across the world, taking care of the kind of a seasonality differences in the economies happening and again making the company more sustainable when it comes to the production and the distribution processes.

Donors are basically about distribution of the sector wise, which we have done in the past, this was kind of a targeted, this is similar to that we have not gone off much on anything about a percent up on there. This year in the presentation we have added one more additional donut. You must be checking that. It is B2B, B2C combination how we are doing and we would be updating you this on a quarterly basis that how we are, so during next three years we target that our B2C profile, which is also a highest paying profile for us and which will be very helpful for us to create a brand, which is we are trying, which is the new two brands, which were launched Jal Sanchay and Krishi Rakshak, they would be contributing to this part of the profits.

Next slide if you have run through these are basically revenue breakdowns in percentages, what happened in the past three years and what is going to happening for next three years, they are telling you about that, so that is our plan we have created sufficient manufacturing capacity, which is going to be there with us for this period of time that has been largely taken care by the capex, which we have done this year and I guess in next couple of years we might not be needing a severe capital expenditure in the company barring around maintenance capex of maybe around 5 Crores every year might be required in the coming time, but no major capital expenditure is required during this period of the time, so this is all about what happened in Emmbi during last one year and we have sent to you a presentation, if you have any specific questions you can ask us in a specific and if you have any general questions I will now open the floor for the question and answers. Thank you.

- Moderator:** Sure thank you very much. We will now begin with the question and answer session. We have the first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar:** I am sorry Sir I miss this in your opening remarks, but would it be possible to quantify how much of revenues you might have lost this quarter due to carry forward impact of demonetisation?
- Makrand Appalwar:** It is a very tough question to answer in the numbers basically because I would say probably demonetisation would not have been happening, I will not say it about demonetisation the market would have been in a similar range, probably instead of 10% topline it would have been in the range of around 15% odd.
- Baidik Sarkar:** You mean for the year as a whole right?
- Makrand Appalwar:** Year as a whole like because the demonetisation did not happen in the last quarter if you say. It was in Q3.
- Baidik Sarkar:** I was worried about the carry forward effect?
- Makrand Appalwar:** Yes.
- Baidik Sarkar:** So as things stand today what kind of a volume visibility do you have for FY2018 for each of the segments and you look consolidated if it is possible to give us the number of growth might look like in FY2018?
- Makrand Appalwar:** We are targeting around 20% this year consolidated growth and detailed growth we have given you on the slide, which is there inside the presentation I hope you have received the presentation, if not I would just tell you again, so detail growth projections are there in the percentage also, but by and large I see around 20% improvement in the topline in the coming year.

Baidik Sarkar: So would that be an aggressive assumption or would that be a buffer cost assumption given the dialogues you had with the customers given the order book ramp up you have been saying, I am trying to understand how you might have adhered to the 20%?

Makrand Appalwar: That is actually you can say it is our target like what we give ourselves that what we need to do and then everything splits around it like we cannot depend only on one customer needs or he assures us let us say for sake of argument he does not want to buy that. Important thing is to make that happen through some other customers, so that is our internal guidelines what we want to achieve during this year and it has been formed by the experience by talking to people, by addition of new manpower, by addition of new facility, by addition of new products, so if you ask me how do I arrive this number 20% is it that I like that number that is why I say that no it is not exactly like that, that is because right now if you see last year we almost completed 92% odd of our installed capacity. With the new addition we have come down to around 70% because new capacity got added, so overall like this, so even if we have to complete this within next three years what we need is 20% growth every year so we complete again back to 95% and 97% of our installed capacity so, typical you can say marching way is build a capacity bring it down to 70%, again march it back to 90%, 95%, again build a capacity bring it down to 70%, within three years bring it back to 90%, 95% that is the typical pattern we like to follow and that is how the organization does not get too much of a stress on its all operational things it works more smoothly, everybody, everything works in a more harmonious way and that was exactly I was talking about that growth spiral probably you missed the initial communication so that was the part I talk in the initial comments.

Baidik Sarkar: Sure will it be possible to quantify what our revenues from the pond line segment was for FY2018?

Makrand Appalwar: I can tell you about pond liner retail was in the range of around 3.5% of the total revenue that is what I am talking about retail pond lining the newer business under the Jal Sanchay brand.

Baidik Sarkar: What is the quantum of debt that we have capitalized in our balance sheet as on date?

Makrand Appalwar: Debt, which is capitalized?

Baidik Sarkar: How much more are we due for in FY2018?

Makrand Appalwar: I do not think we have capitalized any debt there can be something, which is capital work in progress. We have already completed 15 Crores worth of debt has already been factored in are in a gross block and the rest remains in the capital work in progress.

Baidik Sarkar: Maintenance capex on a standalone basis would be about 5 Crores right this is in addition to what we have invested.

- Makrand Appalwar:** Roughly around 5 Crores a year.
- Baidik Sarkar:** Last question before I get back to the queue. From a margin perspective obviously again in Q3 onwards we did take a knock. Just given how the raw material scenario is panning out crude is panning out do you think it is realistic for us to at least maintain our margins or do you think our margin improvement is actually in the offering as you climb up the value chain in terms of your value added products.
- Makrand Appalwar:** Actually we are not really connected to, the margins are not really, may be in a percentage they might be connected, but in the absolute numbers they are not really connected to the price of crude like they stand on their own because we have ability to pass on the shocks in either side and that is the policy, we do not really believe in the speculative way of operating so we pass on the socks on both the sides to the customers whether the crude is softening we reduce the prices and if crude is getting strengthened so we have approximately a cycle time of around 30 days for which generally we have inventory enough to take care of that so we pass on most of this. It would not be inappropriate for me to say that whether crude goes whichever way the impact of margins on our absolute number would not really make a big difference.
- Baidik Sarkar:** Sure Sir! So given that we are climbing up the value share and what kind of margin exit you think FY2018 can see it?
- Makrand Appalwar:** We are targeting at least 75 basis point improvement in EBITDA 75 to 100 basis points improvement in EBITDA during this year that is what is our, what we feel from our existing situation.
- Baidik Sarkar:** Thank you Sir! All the best.
- Moderator:** Thank you. Next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Good evening. Thanks for giving me opportunity. Most of my queries have been answered. Just wanted to know one thing Sir you mentioned that the new capacity, which will cater to FMCG and Pharma sector that will be commissioning next month, so is this included in your current capacity expansion of that 6000, which would be operational in this year?
- Makrand Appalwar:** Yes, it is already included in that and the capex has been also included in it and factory unlike or the capacity is now starting on June 21, 2017.
- Umesh Patel:** But the remaining capacity has already started from March 20, 2017, which would cater to...
- Makrand Appalwar:** Remaining capacity of around 3600 tonnes, which started on March 28, 2017.



Umesh Patel: This 2400, which is suppose to start in June that includes your FMCG and pharma right?

Makrand Appalwar: That is right, you are right.

Umesh Patel: So in terms of margins what kind of synergy that you are seeing from this sector particularly compared to your existing product mix?

Makrand Appalwar: It is around you can say EBITDA level increase of around 500 basis points when it comes to food and pharmaceutical.

Umesh Patel: So currently overall on console level you are generating around 13% EBITDA so does it mean that this is the EBITDA margin?

Makrand Appalwar: 17%, 18% of EBITDA margin in that particular product range.

Umesh Patel: So have you tie-up or have you given any product trial run to any of the Indian FMCG pharma players?

Makrand Appalwar: Hindustan Unilever has been our existing customer for almost last 20 odd years and already we are having a substantial exposure with them for a while and this will be, actually, but frankly this focus is not Indian manufacturer, the focus is more of a American manufacturers and we have already started tying up with them an American or European manufacturers because frankly the requirement of this kind of highly clean or highly contamination free packaging in India is very limited, it is more required in the western country, so this particular product range is not really India focus it is more of advanced composite activity, which would be more on the export side.

Umesh Patel: So what is the revenue potential in FY2018 and 2019 that you are saying from this product range is?

Makrand Appalwar: The total capacity is around 2400 tonnes what is we are installing so very first year because almost one quarter is already over, so we are not expecting a very big deal of this, but at least 30% of capacity utilization should happen during this year.

Umesh Patel: That would translate your revenue from the segment by how much?

Makrand Appalwar: So that would give us around say 12 to 15 Crores of revenue during this financial year through this particular product.

Umesh Patel: With the EBITDA margin of 18% and next year it would be around?



- Makrand Appalwar:** We are expecting around doubling the revenue through that to 60% utilization and then third quarter should be in the range of around 90%, 95% of utilization.
- Umesh Patel:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** I last attended your AGM too. Just I would like to know what will be the capital capex, routine capex you have told about 5 Crores, but while we consider other than capacity expansion capex in next two years current year, or end of the next year?
- Makrand Appalwar:** There is no such plan Ravi Ji, unless and until if there is any brilliant idea which comes up, then the talk is different, but that as of now there is no such plan.
- Ravi Naredi:** What is the rate of interest now at present finance cost?
- Makrand Appalwar:** Averaging around 10%.
- Ravi Naredi:** And how is the business scenario?
- Makrand Appalwar:** Right now it is good. Global business is improving plus the water and agri; government has a very strong push on that, so it looks pretty decent. Domestic packaging looks does not as aggressive as it was because there is a little bit of a slowing down happening in the domestic market, but overall scenario seems pretty happy and encouraging.
- Ravi Naredi:** Your export is too high, and the rupee is appreciating so how are you dealing with this?
- Makrand Appalwar:** We have our hedging policy like we frankly do not cost ourselves in dollars we cost ourselves in rupee and convert it into dollar so if dollar rate reduces or increases and if you take into account Rs.3 for 10 dollars, it is so much minuscule that let us say the 10.30 instead of 10.35 so the person who is buying is not really impacted very severely because of the fluctuation is there I would love to have it at Rs.67, but this would not really impact our buying policy for anybody. Most of the currencies are playing in a similar way. We do not have to worry too much about the dollar rupee conversion unless and until other global currencies does not act in tandem with that, if they act differently and only rupee become stronger then there is slightly worry after let us say 30%, 40% of appreciation, but till then I think it is okay.
- Ravi Naredi:** All the best and thank you for everything.



Moderator: Thank you. Next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: Good afternoon. Congrats for very good set of numbers. I have two three questions, one regarding growth. Now you basically did about 240 Crores of revenue in FY2017 and you are guiding to about a 20% growth, which is roughly about say 50 Crores more 45 to 50 Crores more. Now in one of your interviews on CNBC basically you had mentioned that there could be considerable growth coming in from the pond liners itself, now if you look at that I think the number is roughly around 40 Crores or something is what you would achieve in FY2018, so that is an incremental say 32, 33 Crores then you have the aluminum packaging, which you talked about and there will be some growth coming in from your normal business as well, so given that you have two new lines of production starting in FY2018 is it 20% a little conservative was my first question?

Makrand Appalwar: Should I answer this first so that we do not miss the third. So there were two questions in it, about what is going to happen in water conservation, so what we did is the capacity what we have already installed in three years time would take us around a topline of say around 90 to 100 Crores about the new capacity topline and rest of the balance capacity what you see that is not newly coming in it is only a swing, so what is going to happen is that low margin products may go out and a higher margin products will come in so that might not really add my topline to a larger scale because there is no fresh addition of capacity in other sectors and we are almost 92% utilization this year so that might not impact our topline severely because it would be hardly a percent or 2% or 3% when it comes to changing from a low end product to a slightly value added or higher end product so that is why we are giving you this numbers of around 20% that is what we see that is the additional capacity, which has come in, that is the reason why we are seeing this, so I think I have made it clear.

Sangeeta Purushottam: Yes. Now second question was that I am assuming that most of the capex is over, your debt levels have actually peaked out, so going forward let us say you will be generating cash because your normal capex will be about 5 Crores in profit plus depreciation minus dividend is more than that, so are you going to be paying down debt, what are you going to do with the funds, which would be coming your way?

Makrand Appalwar: Frankly unless and until we do not find something absolutely fantastic reason not to pay down debt and go ahead with some another expansion before two years. As a policy we would love to cut down on our debts and focus on what we did because we would like to consolidate because this is almost 30%, 35% to 40% of the size expansion so it needs a consolidation, more focus on the new products, creating the margin, focus more and more on, basically cost of funds is in the range of around 10% to 12% so with that we bring down that would be interesting so yes. To answer your question straightforward yes we would getting, we will be working on getting down the debts during this next couple of years from the surplus cash and making the company's balance sheet more stronger so that, when two years down the line we will complete this learning face of pond lining business, which actually we have been speaking

always last three years that till the time we understand this business because for us B2C is a new business so within this three years we learned this completely and three years down the line we will have to have a much larger step where considering the national and the international market we will need to produce lot of more products, so we will keep the company and everything financially and you can say with all the technicalities and skill sets ready, so that is the plan, this two years would bring us there.

Sangeeta Purushottam: So that means interest cost also should be actually coming down next year right?

Makrand Appalwar: Yes it did come down this year if you must have noted that last year it was around 4+% of the revenue that was in the range of around 4.15%, this year it has come down to 3.44% of the revenue, so I am hopeful that other things being equal it should come down.

Sangeeta Purushottam: So if you come down in absolute terms also right because you will be at it and what kind of tax rate do you expect to have in 2018?

Makrand Appalwar: Right now we are in the MAT and I think we are still going to continue for one more year during the MAT and if there are no changes in the rules what is happening considering what Emmbi Innovation Lab is doing we are likely to get our R&D certification extended and we will also consider into the MAT again for 18%. What you see this numbers is also because of the deferred tax liabilities though it appears to be in the range of around 25%, 26% actual payout tax rate is only 18% and the balance goes to the deferred tax liabilities.

Sangeeta Purushottam: Thank you very much.

Moderator: Thank you. The next question is from the line of Richard Sim from Sidden Champion Fund. Please go ahead.

Richard Sim: My name is Richard from Sidden Champion Fund. Just like to congratulate the management for a good job in growing the EPS by 20% we are very happy shareholders. My first question is actually with regards to the pond liner business, I would just like to know, I read that Emmbi is actually a top three player in the pond liner business, who are the other two top players?

Makrand Appalwar: The one more is Owens Corning, which is an American Company I think you might be knowing it and another is a company called Texel, which is in Ahmedabad they are the two another top players.

Richard Sim: Are we able to actually come with like a price premium and what is the difference between our pond liners and the other two competitors?

Makrand Appalwar: To answer your first question are you really able to come under premium the answer is yes we are selling at a premium than most of the others and what is differentiate us so what happens is this product is basically kind of creating a water reservoirs on a individual basis like it is the small farmers of India or whatever wherever they create the reservoirs so when you create a reservoir what you need is a longevity and the time for which it stays on it because it is exposed to sun directly and it is so we have a certain amount of polymer blends, which we have worked on and frankly if you are interested in a very detailed specific understanding we are able to measure the nano tube size of the polyethylene, which we are using in that and create a particle, which actually blocks the nano tube, so the migration is at least of this, which is absolutely homegrown and not revealed technology to the world so that is one thing, which is completely unique. Secondly the size the width of the pond lining what we produce is the widest in the world what we can produce today, this helps us to have the pond liners for the less joints in it, let us say there is a pond, which is created and the normal point and takes 10 joints, our pond liner takes around 60% less joint, so we only get four joints, so it can be quickly fixed, less number of joints, less material used, so the cost of yield per square metre is low, so farmer is getting the product, his intention is to create a reservoir at a lowest cost, so he gets the product at lower cost and I get paid better compensated so that is a very win-win situation for both the parties. So that is one of the unique in our product and the first thing, which I explained you about nano tube they also patented that part of this and of course they have just registered a patent it is not issued it is going to be a long process in India, but that is one of the things.

Richard Sim: Just to make sure if my understanding is correct, because we have a special time of technology that are able to make our pond liner more durable first of all and secondly is because of the size that we can actually produce, we can produce it at a bigger size, so we need less joints and hence lower cost of the farmers is this correct?

Makrand Appalwar: Yes, the lower because he is talking about I want to create a reservoir of let us say 2 million litres then I go and say okay for creating a 2 million litre reservoirs let us say I am going to cost charge you Rs.200,000, so my competitor will come and say that okay for getting, so my competitor has to say okay I am going to match the price and I am going to charge you again Rs.200,000, but for that Rs.200,000 I used let us say a 10 kilogram of material so my competitor has to use it 11 kilo of material. So effectively when I go to the competition and he says that he has to sale at this particular point I can miss even by earning more by getting a premium on my product I can give the farmer a better product or the product at a similar cost, so that it does not pinches him and the company gets compensated that is the technology, which I would like to explain.

Richard Sim: That is really great. Just moving on to my second question I understand that we are installing our packaging materials to e-commerce players like Amazon and Snap, so I just wanted to understand do we do directly with them or do we do through a dealer?



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Makrand Appalwar: No we do directly with them.

Richard Sim: May I know what other suppliers are they also getting from other than?

Makrand Appalwar: Not really I am not really familiar with who are my competition suppliers there because they are pretty secretive about what is happening inside their organization, but considering their operational and not many companies in India do have those skill sets, so I do not think we might have too much of a very big competition there.

Richard Sim: Just very quickly just one last question. I understand that the thin room to go great plan right, running this coming May-June period. I would just like to understand about this what was this actually packaging used for, is there any example?

Makrand Appalwar: Yes. In anything like, this all, the story is little say you can say about a year-and-a-half-old so when United States changed its rules for the food contact packaging so what happened in very easy terms let me give an example of pizza so when you order a pizza it comes in a pizza box and most of the Pizza box are food grade because your pizza is sitting in it and it is getting connected to it, so if it is it migrates from microorganisms or anything else you are actually going to eat it that is the concept, so what Americans now have reached a conclusion that only the first out of four contact, which is getting up to the enduser should not necessarily be food grade, but three generations before let us say if there is a pizza it is made out of a wheat flour and the wheat flour is made out of the wheat, so if wheat itself is contaminated then your wheat flour is contaminated and if the wheat flour is contaminated your pizza is going to be contaminated so then whatever good quality pizza box you use you are still going to have some contamination in your food so they change their norms for packaging so all the food grade packaging like typically what happens from your region let us say oriental region palm oil and other thing get exported to America so in the whole time you could have used any packaging there, but now as per the new norms you need to have a food grade packaging so that, the palm oil, which is getting out of your region will have to be food grade packed so that there is no contamination happening because of the packaging into that palm oil, which ultimately is going to get refined either used in the food or whatever I do not know what are the end applications of palm oil though, but I am just assuming that people might be consuming it, so that is basically that is the story, so in this particular type of packaging manufacturing what we do is we create an artificial environment where there is a positive pressure, the pressure inside the manufacturing facility is higher than the atmospheric pressure so no air can flow from outside to in everything has to pass through the HEPA filters so that everything is clean and everything goes in is clean. The people who work inside are certified that they have no disease, they have no contamination or any contagious diseases happening, the lubrication, which is used in that facilities of food grade, so anything let us say for sake of argument something gets into the food, which is produced in there should still be edible kind of a thing, so importance of food grade or pharmaceutical grade packaging setup is packaging or whatever products what we do are not going to be changing the

products are same, it is the atmosphere in which they are going to be get manufactured and the process by which they are going to get manufactured is going to change and that gets to the premium not many companies across the world do have this kind of facilities where they have everything from creating thread, weaving the fabric, cutting the yarns, making the yarns, printing, everything is in the controlled environment, so this is about the clean room facility.

Richard Sim: I like to know about this clean room facility, know about packaging, I would suppose like raw material cost is it right?

Makrand Appalwar: Yes food and pharmaceuticals that is right.

Richard Sim: Just one clarification, can you elaborate more about who are the customers and how big can this market actually grow?

Makrand Appalwar: This is growing. This is pretty quickly growing market and a lot of companies like food companies like Cargill Foods or the seed companies like Monsanto, Pioneer like many company very larger and smaller companies, the companies, which produced the bakeries the American Peanut Council all those people who use anything or any ingredients or any inputs, which are required for the human consumption during the process are the customers.

Richard Sim: Can I just understand who else actually also does produce this or offer similar services?

Makrand Appalwar: There are some manufacturing in China, some in Turkey and a couple of them also in India, but I do not think they are in the, I do not know whether they are in the listed space or not, but there are couple of more companies in India are doing that.

Richard Sim: There are also a couple of more Indian companies?

Makrand Appalwar: Yes.

Richard Sim: Not listed also doing this okay. Thank you very much that is all my questions. If I have further questions I think I will come back again.

Makrand Appalwar: Yes or you can write us separately we will be able to or just give us a call we can tell you in all details.

Richard Sim: Yes sure thanks.

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

- Shashank Kanodia:** Congratulations on profitable growth. Starting with on the pond line facility that we commissioned in March so how has been the ramp up till date now we are two months ahead of it?
- Makrand Appalwar:** Four ponds a day almost we do so it is pretty good.
- Shashank Kanodia:** Sir what is the selling price for each pond if you can guide us?
- Makrand Appalwar:** Roughly 1700 to 2000 square meters.
- Shashank Kanodia:** Per pond if you can get...
- Makrand Appalwar:** Yes that is what per pond.
- Shashank Kanodia:** Sir you mentioned that right now we did 650 odd ponds and we plan to ramp up to 10,000 ponds per year right?
- Makrand Appalwar:** No, per year not this year within next three years.
- Shashank Kanodia:** Within next three years cumulatively?
- Makrand Appalwar:** Yes around 140% growth rate, somewhere close to 10,000 points in three years.
- Shashank Kanodia:** On the ground level have any state governments putting any new tenders or any productive step the government is taking?
- Makrand Appalwar:** It is not government buying, I am not selling to government, my customers is not a government, it is about individual people all across the country, individuals are buying that and because of the shortage of water and the concept has been very profitable to farmers, farmers are now already convinced, government is giving them some subsidy though, but it is not we are not to suppose to collect the subsidy, we make the ponds for the farmers and they do collect the subsidy.
- Shashank Kanodia:** Subsidy entirely B2C no B2B element?
- Makrand Appalwar:** Not this particular Jal Sanchay side market like we export from B2B things, which where we cannot personally engage and selling in other countries so there we do that B2B also, but that was our like business in the past also, but the new thing is in India we do not do anything B2B we do for some businesses like I will not say again B2B because there is one pond we sell to some sugar mills for the sedimentation storage or some chemical companies for chemical storages and all those things, but not in a major way that we are selling to any company and then they are redistributing not like that. We have

created our own distribution network. I am happy to tell we also started a certificate course for building a team of Emmbi certified pond lining operators, so we do a 15-day certificate course for people, we issue them certificate and only we sell to the distributors who are our certified operators because it is very tricky to actually understand how to seal it, how to make it, so we have gone right from the base level created a manpower, a manpower force for this, creating lot of jobs also for them in the rural area and that is how we are penetrating this market.

Shashank Kanodia: Secondly in the aroma lock technology for packaging of tea and coffee so what are the current clients of ours in this segment so have you penetrate sufficiently?

Makrand Appalwar: I would not be able to really name, give you the names of the clients, but yes larger coffee companies, which pickup the coffee somewhere from India, Africa and move across the world use this particular and this was actually produced on demand of the customer so yes right now we have a good deal of business, which is happening during this year.

Shashank Kanodia: So any guidance on the effective tax rates you do mention that we have got to MAT paying company for at least in a year or so, but on the P&L account that you charge effective tax rate, which is 26%, 27% any guidance you can give?

Makrand Appalwar: That is happening because of the deferred tax liability. Actual tax rate is 18% only, but because of the deferred tax liability we have to show that number, which is not a cash outgo for company, but that number comes there so I think 25% is a reasonable guidance.

Shashank Kanodia: Lastly on the GST rates, which have been declared recently so what is your reading on different segments that we are present into right now how does it affect us?

Makrand Appalwar: Mostly most of the things we are in 18%, pond lining it is not yet declared because it was never a product, but in Maharashtra where we are selling, the VAT is zero, so now generally what they are doing is they care copying the VAT thing, so that has not yet come up, but that might come as zero or if that comes as a tax probably, but I am more on the bullish side because it is a farm product and it might be equated because direct farmer is a enduser customer here, so it might get some more you can say a humble treatment that is what I can feel.

Shashank Kanodia: For 18% is rest of the products right, for advanced composites, special packaging and what was the existing rates cumulative that we were paying?

Makrand Appalwar: Almost the same 12.5% plus 4% so almost the same.



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- Shashank Kanodia:** Sir lastly there is some confusion upon the commission date for your food grade FIBC, so is it June 21, 2017 or Q2 of FY2018?
- Makrand Appalwar:** June 21, 2017 is the date where we will be started on this year FY2017.
- Shashank Kanodia:** The entire amount of 21.5 Crores is capex we have already spend right as we stand today in FY2017?
- Makrand Appalwar:** Yes.
- Shashank Kanodia:** Thank you so much and all the very best.
- Moderator:** Thank you. Next question is from the line of Navratan Bhaiya who is an Individual Investor. Please go ahead.
- Navratan Bhaiya:** In the new press release you have mentioned that the company is operating at 92% of the capacity you mean 18000 metric tonnes?
- Makrand Appalwar:** Yes 18200 metric tonnes into 92% was last year.
- Navratan Bhaiya:** Roughly 16500 plus metric tonnes we are operating?
- Makrand Appalwar:** Around that yes.
- Navratan Bhaiya:** So if I work out, and before coming to the exact question this 6000 metric tonnes of additional capacity is it dedicated water conservation manufacturing facility or?
- Makrand Appalwar:** 3600 is water conservation and 2400 is food and pharmaceutical packaging.
- Navratan Bhaiya:** As I understand 2400 tonnes pharma packaging capacity is exclusive you cannot use it for other products right?
- Makrand Appalwar:** We can use it, but it will not be very smart, you can always produce non-food grade in any food grade thing, but unless and until we are not, let us say for sake of argument we are not able to sell food grade, which will happen during first six months that 100% of the food grade capacity will not be sold as a food grade, in those days we can use it for non-food grade packaging activity, but yes I cannot produce pond liners in the clean room of course.
- Navratan Bhaiya:** Balance 24000 metric tonne capacity is that interchangeable or there are entrances to?

- Makrand Appalwar:** Actually the capacities were interchangeable like if you have seen that we have started the dedicated water conservation manufacturing facility on March 28, 2017 while we have already done 650 ponds during the last year. So that was actually carved out of the packaging or other older business advanced composite business we would take the capacity from that these things were done so the parts are fungible, but then what happens is when you do this the efficiencies get compromised, so now as we have a dedicated facilities and the scale where we can afford to have a dedicated facility per vertical wise, so my view is or my vision is during the next few years all these four verticals, which we talk about we would love to create a dedicated facilities for that so that their own efficiencies will peak and we would be able to get better realization and margins or profitability through those individual facilities.
- Navratan Bhaiya:** So another question exactly with the current capacity utilization, which is roughly 16000 metric tonnes realizations per metric tonne works out to 40 lakhs please correct if I am going wrong?
- Makrand Appalwar:** I do not know how did you calculate this, but...
- Navratan Bhaiya:** This is just the topline divided by the metric tonne utilized currently so that gives me approximate sense of realizations per metric tonne.
- Makrand Appalwar:** I think you should get around figure of Rs.150,000, Rs.40 lakh may not be possible, you need to recalculate probably so if you divide the topline let us say 15500 or 16000 whatever number is let us say 16500 I am taking just a ballpark figure, so roughly you should get around 150 means it is 150000.
- Navratan Bhaiya:** So 150000 is the realization right now for the product, which we have in that 16500 metric tonne right?
- Makrand Appalwar:** Correct.
- Navratan Bhaiya:** So is there a possibility by tweaking the product mix we can see an upside in per metric tonne realization from 120000 to say 170000, 160000.
- Makrand Appalwar:** Yes that is the plan. Actually you have totally spoken from my mind that is the plan that changing the product mix and increasing considering that there is no change in the raw material prices and there is no change in all other things and they remain exactly like what they were last year you just tweak the high value added products more then 150 will become 155, 160 like that.
- Navratan Bhaiya:** So do you have any figure in mind the realizations per metric tonne your target?
- Makrand Appalwar:** We have given you the numbers like in the presentation there are projections that how the product mix will change you might be able to arrive something on that.



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- Navratan Bhaiya:** So roughly 10% upside can be right?
- Makrand Appalwar:** 10% upside in what?
- Navratan Bhaiya:** Realization per metric tonne.
- Makrand Appalwar:** This is difficult to answer the question it is like because I am not sitting on the number like the image of 10%, you have that number you can extrapolate that.
- Navratan Bhaiya:** This will be EBITDA accretive whatever tweaks we will do will surely be EBITDA accretive right?
- Makrand Appalwar:** Absolutely.
- Navratan Bhaiya:** One more question, so in your last interview you mentioned about total pond line market capacity of 2000 Crores for two states Rajasthan and Maharashtra.
- Makrand Appalwar:** You are right.
- Navratan Bhaiya:** We have build a capacity of 100 Crores, which will be 100% utilized over next three years, 30% this year, additional 30% next year and then balance over third year right?
- Makrand Appalwar:** Right.
- Navratan Bhaiya:** Sir what is the total market size do you see across India not just Maharashtra and Rajasthan and what type of plan?
- Makrand Appalwar:** It is expected to be around \$3 billion around roughly 18000 Crores, but those are all estimates by various regions so you must study the water stress levels across the country then you would understand what is the market size, but right now because we as an MD were learning this whole business it is completely a new thought process creating a personalize ponds itself is not a very old business in this country, so for us the question always comes and when this bigger market size or opportunity is there why are you not jacking it with a booster engine so the answer is basically we ourselves are learning the business and I personally feel that unless and until you are sure because we are sitting on the money of everybody in the value chain, so it is very important for us to understand the business very correctly and once that has been done and that is why we are creating this ground work till next two years we are creating a organization B2C, distribution setups, ground level, operator creation, creating the awareness about the product, how to use it, so it is hell of a work and it is hell of a penetration activity, which I would love to do and as we can say organizational side I would love to learn this business right in my DNA and then I would like to probably give it a booster engine so that the second growth what we see

from after let us say 2020 onwards from 2020 to 2025 that would be the one, which will be driven by these kind of things.

Navratan Bhaiya: So probably you are down the line you will be in a better position to give an outlook regarding this pond line business?

Makrand Appalwar: Yes I think I would learn some more things during this year and I would be definitely happy to share with you.

Navratan Bhaiya: So how has the experience been lately? We have been doing this business in a small basis say, but what is the outlook we have had till date is it positive?

Makrand Appalwar: It is very encouraging like till now I am extremely happy you can say a substantial amount of my time these days I am devoting for this business, I have been traveling, meeting farmers, understanding their needs, like basically you must understand why, why question is the important thing that why this product is used and then everything become very simple, so I have been traveling very often now and meeting farmers across, both of the states so of course in Rajasthan I have stopped doing last one-and-a-half months it is too hot there, but in Maharashtra I have been traveling, so why is very important and once you understand that answer of why then you can fix up many things because and you get lot of many answers you get better confidence because in this Rs.2 lakh you create an extra season of sowing for them. One extra season of sowing let us say average farm size of 3 acres and cropping, fruits or flowers or anything, which is vegetables in one season you can recover the money. So it is very, very important for them. Now we are understanding from problems of the bridge gaps like people do have intention, so we tied up with some banks we created a situation where banks when you go to auto loan company you find some people who are willing to fund you for that bike or a car whatever you buy, so same thing we did, we tied up with some banks. If somebody does not have money now the banks are willing to fund them so that took some time making the banks understand what is this product, how does this work, why would they be able to repay you without any problem, so what we are doing is we are going on a very, very ground level creating a organization ready for that. We have people who are doing exactly, we are advising them what, we have a toll free number where we run and advise people that how to make a pond, what should be your size of the pond, what crop you are taking, if this particular crop has to be taken then what is the return on investment for you, one season or two season, how fast you will get the money, so all these things like organization must understand before we go in with a much larger scale of operation because unless and until you do not have this pulse of knowledge or business, which people are related to you I think the success is always going to be a question mark.

Navratan Bhaiya: Say farmer finances with a bank you paid upright right the company is paid upright?



- Makrand Appalwar:** We get paid upfront, but he get paid from bank, it is exactly like a auto finance like you buy a car you get a loan and car dealer gets some money and you get a car.
- Navratan Bhaiya:** When you said that in one season the investment is paid back to the farmer you mean four, five months?
- Makrand Appalwar:** We have 60 to 90 days the cropping season generally. Typically because of the shortage of the water they lose this summer season. During summer season because of the actually some fruits especially are very good and sweetly ripe if they are able to produce in those seasons, so those seasons they can capture, in the same land they do not have to have any more capital expenditure land already is there of course they have to do another revenue expenditure whatever needs to be done and then they can have one more season of sowing.
- Navratan Bhaiya:** A few small questions. Sir in the last concall you talked about few products and process patent any update on that?
- Makrand Appalwar:** It is on but unless and until we do it we will not be able to announce it because it is little vulnerable thing and as soon as we register it will immediately put it on the paper.
- Navratan Bhaiya:** On a lighter note do you have any milestone in your mind say 1000 Crores topline company and if any timeline to it?
- Makrand Appalwar:** I think we are looking at 2025 see I will not say what is the topline that is not the way we operate we are saying that it is a continuous growth process continue that is the plan and we do everything, which is required to be done and everybody who is attached to us whether they are our shareholders, they are suppliers, they are borrowers, they are funding people, they are around, they should be happy and a CAGR of around 20%, 25% is the happy CAGR what we would like to maintain, so when will the number come difficult to comment because lot of things the topline is not, you cannot focus that I am focusing the whole business just for the topline, you have to focus the business probably I think for ROE or ROC so that would be more company or management is more focused on building the right ROC.
- Navratan Bhaiya:** So the focus is on need based profitable business, which improves ROC, there is no focus on improving topline to say a magical figure of 1000 Crores business?
- Makrand Appalwar:** I will not say that is the milestone I am looking at, I am looking at a sustainable growing company with a right ROCE, growth rate of about 20% to 25% continuously come and it will be sustainable, basically our intention is suddenly if we bring 100% and then after three years 5% if it comes, it would not work for us. We would like to have a tapered smooth growth, nobody is pressurized, nobody is unhappy in the whole system, everybody works, it works like a finely tuned guitar that is my story.

- Navratan Bhaiya:** Thank you so much Sir! That is it from mine.
- Moderator:** Thank you. Next we have a follow up question from the line of Richard Sim from Sidden Champion Fund. Please go ahead.
- Richard Sim:** Just wanted to check right, understand the aroma lock we are actually entering this space, and companies with the likes of Uflex I believe, so just like to understand who are potential customers?
- Makrand Appalwar:** Uflex is the one which does the job where we do our job and get it to some location. Their ambit is not about generally more than one kilo or two kilo. Our process is basically from the place it is produced to the place where they put it in Uflex material. We are in a different part of the value chain you understood, so we do not compete with the companies like Uflex because they are the one are post-roast like coffee typically if you classify and there is a pre-roast and post-roast so they are a post roasted activity we are pre-roasting activity.
- Richard Sim:** So actually the amount valuation is actually just in front of Uflex I believe?
- Makrand Appalwar:** We are ahead of Uflex yes we are in the basic level like once we do our job then Uflex get to do their job.
- Richard Sim:** Just one last question. I see under the sustainable business practice how can we go up from the business model chain from B2B to actually B2C, because we are actually looking into some other Indian companies like Pidilite, they actually build like a community together with their customers, they give furniture, design, free to the customers, to give an inspiration to value ad to them so, if it does to Emmbi self right, how we actually going to produce. Can the management just share more light on this?
- Makrand Appalwar:** It is a multilevel thing because it is new concept like it is new thought process what is happening a personalized water reserve let us say start from this. So I am going to sell it to one farmer so what is required there is a requirement of a person who can identify who needs a personalized farmer reservoir once he has identified that then there is somebody who need to find out what size of the reservoir he needs then there is a person who will say okay, you need an agricultural expert who needs what kind of a size you need, once that has been decided you need a kind of a civil engineer or a person who can design what is going to be the wall strength and other thing of the pond, once that has been designed then you find out what kind of a pond lining can happen, there we come into again picture so what we do is we facilitate the whole process. We tell people that okay what you need to do, once the lining has to be done you need a kind of a people who actually go on the place because I cannot as a company only we cannot reach so many places where we are targeting around 10000 ponds a year that makes almost one pond one hour so I cannot say so we are creating a fleet of people a dedicated people who understand how to create a pond so when we create a material they are the people so we train them how

to create a pond, by that we also create an employment, we also create a brand, we also create a trust. We give them a training that if you do we have a B2C you can say toll free number where they can log in and they can ask us that I have understanding that I want to make a pond, what will be my cost and how fast can I do it, what is the right season, what is the right time, which is the crop I had to take, for what crop how much litre water storage do you think is the right thing to do, so these things all will be creating this B2C and that is the thing. We are creating a complete ecosystem around it and what probably again very easy to make everybody understand is in case of apple where what happens there, once you buy an apple phone you buy an apple computer and then you go on iTunes and then everything is on the iCloud and then so effectively you get connected to their entire system and then we have a very specialized printers for apple machines, which probably some time does not windows machine cannot print so you get into their ecosystem and once you are in that ecosystem you can easily communicate with that client better you can understand needs better, you can create the product exactly like what is required like we have also pond recently we understood that some people like the ponds, which also can be doubled as a fishing ponds. So we created a pond, which is also water storage pond as well as fishing pond, so these things will keep on emerging.

Richard Sim: How do you actually select your distributors and dealers?

Makrand Appalwar: I think Richard best thing is you should visit India and I would arrange a very nice visit for you to visit some ponds because we are on the call and I do not answer few more questions, so if I answer you in length or give me a call I can spend at all the time with you.

Richard Sim: I think that is all from mine. Maybe I will just follow up through emails. Thank you very much.

Moderator: Thank you. Due to time constraints we will be able to take one last question. The last question is from the line of Vinay Pai who is an Individual Investor. Please go ahead.

Moderator: Thank you. Due to time constraints we will be able to take one last question. The last question is from the line of Vinay Pai who is an Individual Investor. Please go ahead.

Vinay Pai: Just two more questions I do not want to extend the concall. First is any working you have done on the cash flow on the balance sheet and annual cash flows are done?

Rinku Appalwar: Yes I have done one thing on the cash flow Sir! The cash flow from operations is positive and the cash flow at the end is also positive.

Vinay Pai: For Makrand there is another question that has any foreign, anybody asking for any strategic stake in your company or is it you think your products are very innovative and innovation led company I am sure somebody some foreign party or somebody must have approached you by now is it yes or no that is it?



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- Rinku Appalwar:** Not anyone currently Sir!
- Vinay Pai:** There was one more question. Recently there was a news item on economic times that they are going to shorten the patents application.
- Rinku Appalwar:** Yes I have also read that, but that is still not confirmed that was a news from Nirmala Sitharaman Ji that they are going to, they are just working on that, but till now it has not come I am also talking to my lawyer that they were doing it for 18 months, but still it has not come, it is still three years to four years time, but I am expecting that because that was a very strong statement from us I am also expecting that to reduce it to half.
- Vinay Pai:** One last question is that ending March 31, 2017 all the capex is done is not it now from henceforth 2018 there is no capex as such only the maintenance...
- Rinku Appalwar:** Yes there will be a debottlenecking capex and there is one small, which was like we have spent around 21.52 so almost 1 Crore capex is still pending, there are some three four machineries, which have not yet come so that will come in this balance sheet.
- Vinay Pai:** No, this 1 Crore is a very small amount, but apart from this 1 Crore?
- Rinku Appalwar:** No major capex Sir!
- Vinay Pai:** That is all from my side.
- Moderator:** Thank you very much. That would be the last question. I would now like to hand the conference back to the management for any closing comments.
- Makrand Appalwar:** Thank you very much everyone for joining in and taking interest in Emmbi. As a part of the management team I take this opportunity to thank you and assure you that whatever is our best to our ability and wisdom we will continue doing and try to get the best results for you, thanks for investing in Emmbi I really appreciate and I know that you have lot of options and lot of choices and that you chose us is very important for us and is very prestigious for us I really appreciate this. Thank you very much. Have a great day.
- Moderator:** Thank you very much. On behalf of KR. Choksey Shares & Securities Private Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.