



“Emmbi Industries Limited Shareholders Conference Call”

September 24, 2018



Management: Mr. Makrand Appalwar - Managing Director - Emmbi Industries Limited

Mrs. Rinku Appalwar - Chief Financial Officer - Emmbi Industries Limited



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Moderator: Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited Shareholders Conference Call. This conference call may contain forward-looking statements about the company, which are based on the belief, opinions, assumptions and expectation of future events. The company cannot guarantee that these are accurate or will be realized. The company's actual results, performance or achievements could thus differ from those projected in any forward-looking statements. The company assumes no responsibility to publicly amend, modify or revise any such statements on the basis of subsequent developments, information or events. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I take this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar, Chairman and Managing Director and Mrs. Rinku Appalwar, Director & CFO. We will begin the call with a brief overview by the management followed by a Q&A session. I now hand over the call to Mr. Makrand Appalwar for his opening remarks. Thank you and over to you sir!

Makrand Appalwar: Thank you very much Madam. Good evening to everyone. Welcome to the Emmbi Industries conference call on the day of AGM. Let me first explain you about this concept of AGM related conference call. Since the time, the electronic voting has started, there are very few people who attend the AGMs and many shareholders because they all are remotely located and they are participating in the interest of the company from various parts of the world does not have availability or a chance to actually attend a physical annual general meeting, but as a management we thought each shareholder is very important for us and their participation into our company's operations and their knowledge about us is also very, very important, so that they take an informed decision about the company's various operations. So that was the primary reason why we started this call as an Annual General Meeting conference call and this is reserved for specifically only the shareholders, so I will appreciate everybody appreciate this process or this efforts of our management to reach up to all our shareholders.

I hope everyone of you have already received the annual report and must have cherished and appreciated the whole process, so this year if you must have seen the main theme is on the honeybees and the Colour, the Orange or a dawn glow, which is representing the third strip Emmbi's logo. So why did we choose this let me explain you little bit about the hexagonal honeybee structure. So that are the structures, which is supposed to be the most balanced geometric structure, which can actually deliver the highest compressive load as well as the ability to sustain under the all difficult conditions



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with using the minimal material. So that was our thought and that was our belief in the entire process that company should be such strong that it should be able to deliver in all good and bad days in all tough and the shorter times. So that is what is the entire theme of this year's annual report lies around hexagonal honeybee comb structures and in turn actually the stability and the kind of a ruggedness company's operating system has achieved through this entire process of last 20 years plus of the operation.

In the previous two years, you must have seen that our first blue colored annual report, which was actually giving respects to our blue colored patents was there and next report was actually salutation to a sustainability in the green color and this is the third episode, which is orange color or the new opportunities or the stability. So let me just run through I am not going to repeat because we already had post result conference calls, so I am not going to again speak about just same results and the numbers and this because we already communicated it to you once. So let me tell you about the growth in the future what we are envisaging.

At Emmbi, we believe that whatever is one of the biggest scarcities in the coming days and coming years and because it is going to be one of the scarcity it is going to be one of the largest opportunities also and as a company we would like to encash on the opportunity of the water, which is available in India and worldwide. So presently we are quite glued on to creating a various miniaturized reservoirs or the ponds what we call or the storage or the auxiliary storage of the water in the fields of the farmers, presently the run rate has almost reached more than 5 somewhere around 6 ponds a day and our target is by the end of March or I would say six months give and take, we should be able to deliver almost a pond an hour through the existing infrastructure, which we have already created.

Regarding the second business that is the agri polymer, the belief is the world is going towards the contamination free or chemical free foods and through the crop protection or the yield enhancement range what we are offering is the physical protection to the plants and in the coming days people will appreciate these product lines and there would be more and more takers to these products and that would be the second.

So our belief is as we have been historically a B2B company we have done a lot of understanding and good work in the B2B area but for us B2C was new, so this four, five years of this plan which we are right now in already two and a half years have already passed and another two, two and a half year we would be I feel we will have a reasonable understanding about B2C business has creating the system, creating the software's to run the systems making ourselves available and aware about the B2C thing



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thought processes the B2C processes to operate the business, so we are in that process where we are learning everything which is connected to the B2C segment of the business.

So we are hoping that company would be ready for the next growth level by the end of 2020 where we will exhaust the existing installed manufacturing capacity and we would go ahead at that time we would come up with the new thoughts and new declaration regarding the new opportunities. So this was all about from my side regarding the annual report and growth plans what we intent to have in the near future. Now I would like to open the platform for questions if you have anything please ask me I will be more than happy to address to the best of my ability. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We would take the first question from the line of Saravanan Balakrishnan from Lead India Academy. Please go ahead.

Saravanan B: Sir my first question is with respect to the water conservation product so in your previous earnings conference call you have said that, so there will be an exponential growth which could actually take place post 2021 the management understands how the existing products are being implemented in some testing steps. So will there be any disruption due to trade wars that we are actually seeing in the news on a day today basis?

Makrand Appalwar: You wanted to say the trade war with United States?

Saravanan B: Correct.

Makrand Appalwar: Well it is extremely difficult to predict at this juncture because actually if you see as of now India looks to be a beneficiary country because there is a larger tussle happening between America and China and as such even America would need some kind of manufacturing partners or support that is what is my belief and considering our size and democratic advantage, which this country is having probably India would be a beneficiary that is what is my personal thought is but this is extremely yes I would say speculative I cannot really say that what is going to happen in future if India and America would have a trade war and like so it is pretty open-ended question so I cannot answer it with any concrete thought processes. So hopefully this product to be precise frankly the pond lining is more India centric product. So we should not bother too much about what is especially the B2C segment it is completely domestic. So I think we should not bother too much about the trade war side of this, we should be still be able to do well within the country that is what is I would take it.



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- Saravanan B:** Also with respect to the previous earnings estimate so can we expect 20% revenue growth and 25% earnings growth as we have seen before for the subsequent years as well?
- Makrand Appalwar:** Yes we are somewhere around 15% to 18% topline growth and proportionate bottomline growths, which is generally happening and it looks like our estimates are in the similar way.
- Saravanan B:** Also like in your last earnings call you have mentioned that already the capex has been complete. So will we expect the operating leverage to kick in, in the subsequent quarter's numbers?
- Makrand Appalwar:** Yes I guess what we have said in the previous this that larger capex till 2020 is complete and we do agree to that still and even we also informed in the past calls that we may have some debottlenecking capex, which would continue for some, but it is not going to be substantial. So yes I do feel that there is going to be an improved operational leverage.
- Saravanan B:** My final question Sir as there are any new products that we have filed patent for in this quarter?
- Makrand Appalwar:** No Sir.
- Saravanan B:** Thank you so much.
- Moderator:** Thank you. We would take the next question from the line of Pankaj Shah, Individual Investor. Please go ahead.
- Pankaj Shah:** Good afternoon Sir. Sir I wanted to ask is that our new initiative, Avana it has not been live yet. So why is it taking so much time?
- Makrand Appalwar:** Actually that new initiative is also that particular website has lot of films in it, almost four films and there was lot of rains during the time we were trying to shoot it, so I think in next two weeks it should go live.
- Pankaj Shah:** Regarding our addition of states also in pond liner business so what is the progress in that front?
- Makrand Appalwar:** We have been working and figuring out, which are the new states, but as of now we are not announced it, as soon as we decide which one to add, we will immediately decide because right now, now we are quite handful with Maharashtra and Rajasthan and we would be soon looking at because it depends lot on the government initiatives and the understanding about the states and how the states



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are willing what kind of a cropping. So we are trying to figure out which are the best states for us to venture in, so very soon it would be happening.

Pankaj Shah: Earlier also you were saying that we are trying to do some setup with the bank as in try and create the ecosystem where banks will help us?

Makrand Appalwar: That is almost to the completion and I think within say two to three weeks we would be able to announce some tie-ups because we have received in principal approvals from two couple of banks actually but yet the final letter of the agreement is yet not issued so I am hopeful that within next two to three weeks we should be able to announce the bank tie-ups.

Pankaj Shah: But then how is it going to work?

Makrand Appalwar: Basically banks are going to finance the farmers for buying pond liners so that is like that you are let us say you are a individual who want to buy a car so you go to a Maruti showroom and then let us say there is ICICI Bank.

Pankaj Shah: Yes but then you are doing 100% or some proportionate?

Makrand Appalwar: No there is not going to be 100%. They are going to have some proportion to it and it is going to be anything between I think 60% to 75% of funding, which they are offering depending on the type of the crops availability.

Pankaj Shah: Regarding annual report on page #79, there is an expenditure in foreign currency discount and commission so it has drastically increased from 0.51 million to 10.48 million so what is the increase basically?

Makrand Appalwar: Is it in establishment expenses or where is that.

Pankaj Shah: The expenditure in foreign currency?

Makrand Appalwar: What notice?

Pankaj Shah: It is basically under the expenditure foreign currency there is a discount in commission, so last year it was 0.5 million?



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- Makrand Appalwar:** I think what we will do is we will just keep back this question till the time our people figure it out, we will take this next question and we will come back to you, is it okay for you?
- Pankaj Shah:** Yes sure no issue and something related to annual report only, under acquired brand and knowledge development cost we have capitalized almost 40 million this year I wanted to know what is the exact nature of this cost and which business are they related to as in which segment?
- Makrand Appalwar:** Just ask me the question once more because I was actually trying to figure out just give me one second?
- Pankaj Shah:** Okay sorry, should I repeat right now. See on page #70, under property, plant and equipment under intangible assets, acquired brand and knowledge development cost, we have almost capitalized 40 million this year. I wanted to know the exact nature of this cost and what are the related, which segment are they related to?
- Rinku Appalwar:** Sir it was like last year it was around 4.7 and this year we had added around 3.9 right?
- Pankaj Shah:** Right, the opening was 4.7.
- Rinku Appalwar:** Yes so that, which we have so we are making some canal liners as a demonstration purposes and that expenses we have capitalized as an intangible asset because that contracts is going to be from the government, which is going to come in next five to seven years which is still unknown to us that is why.
- Pankaj Shah:** So you think benefit is going to come in future of this expenses?
- Rinku Appalwar:** Yes, future of this correct.
- Pankaj Shah:** Okay we have spent almost 4 Crores only on canal lining?
- Rinku Appalwar:** Canal lining through various aspects.
- Makrand Appalwar:** See basically the life of the product has to be tested, so what we are doing is at a various places we are conducting these experiments and proving it a point to government and various organizations that if we use it this way the complete lifecycle analysis has to be done. So we are consistently going ahead and doing the experiments all over the nation and that is hurling us from basic knowledge about the product as well as it is creating a thrust about the company's efficiency of product with the people



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who are going to finally use. So this is not delivering any revenues or any remuneration or any profitability's at this juncture, but they are basically investment for the future profits. So that is why they are converted into intangible assets.

Pankaj Shah: But then if it is not going to create revenue should not we expense it out?

Makrand Appalwar: No, I said they are not going to create revenues at this juncture. They are going to be basically and creating it out we can either expense it out or we can either capitalize it, capitalization is one of the wage was expensing it out only in part way like everything which is capitalized ultimately taken through the depreciation and is expensed out know.

Pankaj Shah: Yes.

Makrand Appalwar: So means whether you want to expense it out in one year or you expense it out in five years or ten years whatever so because this is not pertaining to this year's operating expenses so we feel it is not appropriate representation, we put it on expenses because it is not a part of the expenditure, which is required to operate the company in this year and this is basically a kind of a seed which were sowing that in the future you can get something. So that is the reason why we feel there is appropriate to capitalize it.

Pankaj Shah: Fair enough, did you come across page #79 regarding that commission and discounts?

Makrand Appalwar: Yes, basically we are trying to change the sales pattern. Earlier everything use to be through the distributors when we were exporting so 80% of our sale used to be from the distributors and entire distribution network was a sale from Emmbi to that company and when that company use to sell it in the market. So what we are buying with this year that instead of appointing the company we have tried to appoint individuals in some of the foreign countries where they are selling the material in the name of Emmbi and they get money proportionate to the amount of sale they have conducted. So this is the first year where we have appointed two actually these gentlemen's in the European country where the distribution actually is happening in Emmbi. The invoice and the brand is getting created of Emmbi and they are like we are not having any liability of them on our balance sheet as we cannot control them sitting here so we have kept them as a kind of a commission agent for selling at a later date this will help company to create its own identity and brand and slowly we can enter into the global markets with our own name, which is as of now I would say that most of the exports are like 80% of the exports are actually indirect exports that we sell it to some American or European



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distributor and he sells it to the end-user. So it is our next level of sales arrangement we are tying up so that we can have a better probably brand created amongst the end-users about our company.

Pankaj Shah: Okay fair enough and regarding employee benefit expenses also it has increased almost more than 50% so is it because in pond lining business we require more staff or we have more demerger on that?

Makrand Appalwar: I think you have to see two things will be there employee benefit, hiring cost and IFRS which has been some restructuring or some reallocation or renomination of funds, so you see that total cost of companies have readiness in pertaining to the employees it is not all that difference so somewhere it has come down and somewhere it has gone up it is right of a combination.

Pankaj Shah: Sorry I am not able to understand basically.

Makrand Appalwar: Let me explain you this employee that if you see the complete employees cost it is salaried, it is benefit to employees, it is complete return to provident fund and everything so coming together everything plus there is also there is some other there is also labor cost demand and have you figure it out again the numbers.

Rinku Appalwar: We will have to keep in the other expenses and employee benefit expenses if you want the list I will send it to you.

Makrand Appalwar: Along with the note 34 you have to also seen that.

Rinku Appalwar: Note 37.

Makrand Appalwar: You see the labor charges and what else you have to see?

Rinku Appalwar: Factory wages.

Makrand Appalwar: And the factory wages, so if you see factory wages and factory wages not come down labor charges are almost stagnant and what or I think that was again has come down.

Rinku Appalwar: Right.

Makrand Appalwar: So we have to see the whole thing together factory wages, labor charges, salaried, employee welfare expenses all these put together you will see a little different picture.



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- Pankaj Shah:** Thank you so much.
- Moderator:** Thank you. We would take the next question from the line of Pankaj Shah, Individual Investor. Please go ahead.
- Pankaj Shah:** I missed to ask that, we have not spend CSR amount to the whole expenses last two years there is an unspent amongst them so what are the fresh projects which are taking time for implementation?
- Rinku Appalwar:** Basically there were two three things we have decided to go in our area. We have started a tobacco campaign to make it cancer free so that is why it is taking time because we have got 200 people enrolled with us but only 50 people have taken the treatment so far so it is taking time that this year or next year whenever the people get enrolled and we are taking it ahead also we have taken a scholarship scheme for our kids in our area in Silvassa and that also we are distributing as per the need of the person so that is how it is remaining unspent but we will like to spend it within next two years to the fullest.
- Makrand Appalwar:** Right needy.
- Rinku Appalwar:** Yes right needy people basically.
- Pankaj Shah:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that seem to be the last question for today. Well members of the management do you have any closing remarks to give?
- Makrand Appalwar:** Thank you so much. I appreciate everybody's time and I am sure you would enjoy this conference call relating to AGM and if you still have any questions left it is not the end of the communication you can always write us, email us, or give us a call and we will be more than happy to do this and I also thank the physical shareholders who are have visited and they are sitting with me in the same room where you are talking to on this conference call. I thank and invite all of you to visit your factory and enjoy the processes and see everything happening live. Thank you very much for calling in. Have a great day. Bye-bye.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Emmbi Industries Limited we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.