"Emmbi Industries Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Emmbi Industries Limited Q4 FY2020 earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on beliefs, opinions, assumptions and expectations of future events. The company cannot guarantee that these are accurate or will be realized the company's actual results, performance or achievements, could thus differ from those projected in any forward-looking statement. The company has 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 would now like to hand the conference over to Ms. Parvati Rai from KR Choksey Research. Thank you and over to you Madam!

Parvati Rai: Thank you. Good afternoon everyone. On behalf of KR Choksey Research, we welcome you all for the Q4 and FY2020 earnings conference call of Emmbi Industries Limited. I take this opportunity to welcome the management represented by Mr. Makrand Appalwar - Chairman & Managing Director, Mrs. Rinku Appalwar – Executive Director & Chief Financial Officer, and Ms. Maithili Appalwar, CEO, Avana. We will begin the call with a brief overview by the management followed by the Q&A session. I now hand over the conference call over to Ms. Maithili and she will inform us about the progress and updates of the company in the previous financial year. Thank you and over to you, Maithili!

Maithili Appalwar: Thank you Parvati. Thank you so much for attending the call today. I hope you and your loved are safe and healthy during this very tough time. I am happy to announce that despite a very, very tough year our company has been able to record growth in both value as well as volumes, we recorded absolutely no bad debts and we have been able to continue our operations through most of the time in this situation.

Before I started I thought today I will tell you a kind of story from our factory, which we all thought were very inspiring, so I wanted to start with that because I think the all of you could them positivity and some light during this time. We have a helper, kind of a boy who used to pick up the scrap and material from the shop floor, his name is Sarvesh and I think 60 days ago, he was working as a boy in the factory, but when this situation happened, then we suddenly needed more people to come and stay in the factory because the migrant workers went away and he also really wanted to get promoted. That has been something that we wanted to do for a long time. So, unfortunately the issue with that that Sarvesh in an accident much earlier had lost his hand and when he lost his hand, he did not get anything for it and because of that the kind of issue was that the tailors need them to be able to operate things with their hands, and so he was not able to grow to become a tailor and he was stagnated in that situation. But here like they say the necessity is the mother of invention so Sarvesh and his unit manager Mani they kind of came together and it took some material which the tailors use for stitching and this is actually a hand operating machine in our factories and they completely innovated and changed that machine and made it a leg operated machine.

For 60 days they trained them in-house and now he is able to operate the machine with his leg and he has been promoted. So, I thought that it was a great story to start with and it also really commoditizes our motto of it every way and I think that has been realized.

Without further ado, I would just like to push on instead of giving a huge overview, that we usually do, I think what is more in the mind right now is the COVID situation and so I would like to talk a little bit more in detail about what our company's reaction to that situation has been.

I will start kind of with explaining what the problems and then kind of problems like this and then I will talk about what solutions we have taken and planning on taking in the near future.

I will start with our B2B business. As you know our B2B business is divided in two parts, one part is the domestic packaging part, where we supply to a lot of FMCG companies, etc., and the other part is our export part, which is again divided between FMCG packaging and advanced competent. If you need any details they are all in our investor presentation.

Now with our B2B section of the company, our short-term issue was the manpower issue. As you know there has been a huge migrant labour crisis in the country, and migrant labour has been going back home, a lot of the labour in Silvassa where all of our manufacturing units are located is migrant and so the short-term issue was going to be the lack of manpower which harm production and that could possibly impact the topline.

So, to deal with this we have taken a number of steps. I would like to talk you through those. The first is an operation called Operation Dronacharya. So Operation Dronacharya is basically a training program for the quicker training of local workforce. What we are doing is that we are hiring people from Silvassa. There is more local workforce, people who were not working in this industry before also some people who were working in the industry but because of shutdown has been laid off etc., so we are hiring them and we have created an expedited training program, they can start working in 10 days, they reach 50% of their efficiency in 30 days and full efficiency in 60 days and what is interesting about this is that the program is expedited so it is actually taking half the time that it used to take us to train before. We used to take about 120 days but we have treated a quicker program because that is what this time called for.

We have also started something called the Kalyani brigade which is to create more women workers in our factories. This is kind of helping to create a more stable workforce because women as you know their families, the way they are localized and they are not migrant, but also because their families and their children are here their chances of attrition with workforce like that become lower. So, we have already started in one of our units employing women. We have about 30 women working with us already and planning on growing this number in the next two quarters.

Third is that we are following our sanitization processes very, very carefully. We are implementing the 15-day quarantine period for any workers that we bring in other states. So, we are of course hiring happening across the country trying to get in workers to come in different parts but we are using a very robust sanitization and hygiene process just to make sure that you know they are not infecting any of our current employees.

For example, the government is allowing us to remove people out of quarantine in seven days but we are choosing to keep them into 15-days just because last week itself we had some group come in from Rajasthan and one of the people got diagnosed with COVID on the eighth day. So even though the 15-day quarantine period means that we are losing some of their working days, about eight working days per person, it is helping us keep our factories much safer because of course if an infected person comes in then the risk is much higher to a larger part of our workforce.

Finally, one thing that really helped out with manpower is our factory structure. So, as you might know from before our factory is divided into a lot of different units, we have this kind of like the auto structure, we have explained, we have like different processes going on in different units, but essentially what that helps with is that none of our manufacturing process is concentrated in one area. It is spread out all over the place and so the chances of people infecting each other are much lower. We have zero infections in our company till date, but even if we do encounter an infection in the future, it will only result in a particular section of the factory being closed rather than the entire factory or the entire operations getting stopped. So, this was kind of the short-term issue in the B2B section.

The long-term issue, which we are foreseeing of course, is a global recession and the global recession might cause a harm to the order position. Currently, we are very happy to tell you guys that about 10 to 12 weeks of our order book is full right now. So we are at a really good point. Our enquiry flow has not reduced at all, so we are not realizing the recession currently at least. The 10 to 12 weeks of orders has been booked even after passing on. So, we have actually increased our prices because of COVID our manufacturing process has become more expensive because of the sanitization requirement, social distancing requirements, etc., and we have passed on this cost to the consumer, but even after that we are full on our order book.

We have also increased our spending on marketing, on SCO, Social Medial Optimization, etc. I am not going to go into details because this is business confidentiality, so we are increasing our marketing spend trying to make sure that the sales remain constant and we are also exploring program for cross selling and up selling our products to our current distributors and our current end consumers. So, if somebody is for example buying a certain type of build a bag, or a certain type of container liner, we are looking at ways to sell other products where we make it at our factory to them.

Now I will just move on to the B2C section, so in the B2C section, the short-term issue which I think had been an issue with a lot of business to consumer companies at this time has been movement of our sales people during this lockdown. So that definitely is difficult because there has been lot of on-ground restriction, there is a lot of problems with crossing district boundaries, state boundaries, etc. So, a couple of the things that we have done in this time, first is that we have re-arranged our staffs and channel partners based on local areas. So, we do have staffs, we have sales executives, ASMs, etc., and we have distributors and dealers that are allotted to a particular area.

We have completely changed that and we have said whatever the area you are in, wherever they were stuck before the lockdown essentially that was the new area that was assigned to them and that was the area that they started selling in. This was done to make sure that each person was able to sell in the areas that they were present in and the company sales or channel partners would not take a hit during this time.

I am also happy to note that we did a schemed called the Monsoon Dhamaka Scheme. We actually had a farmer and a channel partner scheme going on. We run it through the May and June and I am happy to announce that May was the highest ever business to consumer sales that we recorded in the history of the company. So, that was a landmark sales for us especially during a very tough time right in the middle of the lockdown.

Finally, one thing that we have done is if you know our biggest or our flagship product within the B2C segment is Jalsanchay which is a pond liner. Pond liner is a service reported product, which means after the product is sold, the product needs to be installed on site. So, one big problem with installation was that the people who do the installation are also migrant labour usually from UP, and Bihar, and a lot of them went away. But what we did was that instead of stopping our sales which was with a lot of other competition companies did instead of stopping sales we started quickly training local operators in a lot of different areas. We did an e-training which was based out of our factory and had some of our quality people and some of our other local operators who had seen the process, train them on the ground as well as an e-training, factory, and so this meant that in some areas where other companies were not able to sell because of their lack of operators, we were still able to continue selling through the lockdown, which was able to give us kind of a short-term monopoly on those areas and I think that might be the reason that we recorded a very good sale during this time.

Finally, the last two things that we have done with the long-term issues in B2C we are going to see two long-term issues. One is that there is going to be a difficult time marketing in the rural sphere because there is a lot of rural marketing is dependent on exhibitions and bazaar days etc., which are in person events. So with the COVID crisis a lot of these things would not happen and marketing will be a long-term issue. So, we were ready on boarded a communications and branding agency and we are planning doing a TVC, doing radio jingles, also doing more influenza engagement over YouTube and some social media activities as well which will help with online marketing for the company.

Finally, we also wanted to make sure that we were reducing the area wise risk, so as you know a lot of our business were concentrated in Maharashtra, and Rajasthan, and so we wanted to make sure that we were reducing the risk on those areas because we are not certain in this time as to what is happening area wise, so I am happy to note that with Karnataka, Rajasthan, and Madhya Pradesh, there has been 100% sale growth year-on-year in these areas, so that has been very useful and making sure that the risk is kind of mitigated through the area.

Finally, just wanted to give two other updates, our pond run rate which we announce every year, the run rate for the last fiscal was eight ponds per day. We have been able to move it up now to 13 ponds per day and the second update is that our bag making operations we have completely moved it to solar electricity just in an effort to be more sustainable and be in more in line with the environment. So, we have installed a 275 kVA solar plant in our facility and all of the operations are supported completely sustainably.

Thank you so much for listening. With that I will just over the phone to Mr. Makrand Appalwar, Chairman and Managing Director, who will give a financial update on the year.

Makrand Appalwar: Hope everybody is safe and sound and welcome to Emmbi conference call. This year was quite eventful and at times a little bit difficult. A few difficult things what we got was MEIS or Merchandised Export Incentive Scheme, which is an export incentive scheme offered to exporters which was removed by government and the new scheme is yet to be announced probably because of the COVID situation that they are still working on. That will get announced and it will be implemented.

This year we had a volume growth of 21000 and a value growth of around 6%, which was quite decent considering all the situations, what we had. As informed earlier, our R&D spends were kept in control and from the previous year R&D spend which was of 6.33 Crores this year we reduced it to almost half and it is at 3.25 Crores for the financial year 2019-2020.

That was the decision consciously taken considering the slowdown to prevent the cash and use the same money for instead putting it into R&D into the researches whatever done to create a facility. So this year we invested almost Rs.10 Crores and build the brand new capacity of 2400 million metric tons which is augmenting the existing one so as on March 19, 2020 the capacity was 25040 million metric tons which has increased now to 27440 million metric tons. The capacity utilization with the extended capacity considering in mind is 76% for this financial year.

I initially give all the brief, Maithili was quite elaborative about telling you regarding the operations. So now I open the floor for the questions and let us have your question and we will try to answer you, most of them and in case, we are still left with any questions you can call us after even the conference call and we will be happy to do that. Thanks. Kindly open the floor for the questions please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Priyank Chedda from Standard Chartered Securities. Please go ahead.

Priyank Chedda: Congratulations on good set of numbers. Hope you and your loved ones are fine and safe. The first question is on any orders that were left unexecuted or unbooked because of this COVID-19 situation?

Makrand Appalwar: Well, there were delays, they were postponed because all of a sudden you know on March 24, 2020 at 8 o'clock we get an information that 12 o'clock we have to shut down the factories so of course there was certain amount of loss which we faced in the last one week and it reopened on April 9, 2020, so there was a lot of stock and the stock which was not dispatched though it was told that almost a week before that Mumbai was already seeing a major signals and the things were slowing down, so what we could only add is around inventory which got tied up, last 15 days inventory was almost unsold and stayed in the factory or on the course. So, that was the only impact, but there was no cancellation of orders or deferment of any contracts as such because we reopened, we got our permission to reopen the factory on April 6, 2020 and on April 9, 2020 after sanitization and everything we started functioning, so there was a delay of 15 days in those, but not more than that.

Priyank Chedda: Sir, wanted to understand any change in the government subsidy to farm pond liners by any of the states where you are operating in?

Makrand Appalwar: Yes, Maharashtra is slated to announce a new scheme. There was a previous scheme called "Magel Tyala Shettale" that was in the previous government regime. It has been wound up and the new scheme is under process. So as of now there is no announcement yet, but it is a very similar scheme. No name is given but extremely similar scheme or rather slightly better scheme is on its way. That is what is being spoken about by the Agricultural field.

Priyank Chedda: Are we witnessing any loss of sales in pond liners because of this scheme getting changed, when it is implemented right now?

Makrand Appalwar: Not really. You must have heard Maithili telling you that the month of May was all time high sale, this experience in the entire history of pond lining sales where the scheme was already withdrawn and that was the best month they had ever whatever they could have.

Priyank Chedda: Sir on cash flow from operations significantly seems to be impacted because of this stretch in working capital and our receivables are also higher by 15% year-on-year for the full year, I am saying, any lights on working capital getting further elongated or getting improved in FY2021?

Makrand Appalwar: I think we should see some improvement because cash flow in the last almost two weeks stock also we considered it is Rs.7 Crores stock. That was the stock because it could not be dispatched because either factories stopped working on March 24, 2020 where we had no way to dispatch those materials. So what you see a reduction in cash flow is because of the increase in inventory almost of the same tune. Extra working capital got added to debtor days which are there that is because we chose not to lose the topline and continue with the good companies or good customers and it got slightly extended payment terms so that we can continue the business with them and that is what was a very good idea and it came in very handy because at the time of difficulty now when the things are going to be difficult for us all the customers are with us, and the good part is not even $1 receivables are deferred or late or not paid. Every single penny which was supposed to be paid, from any of the foreign buyers has been paid whether I would say there is some sort of a delay by Indian corporate because of again many of our customer corporate are Mumbai based and because of lockdown lot of companies are not operating to their fullest of efficiency, so we see a certain delays from the local companies but that is a temporary thing. I would say that in the next 30 to 60 days when the things will fall back into normalcy that will go away.

Priyank Chedda: Good to hear that. Just a last question from my side, any likelihood of the new scheme that RoDTEP getting implemented in FY2021 and when it is implemented wanted to understand would Emmbi be eligible for retrospective benefits that we have lost during the time when the scheme was launched there?

Makrand Appalwar: What we are hearing is RoDTEP will come in 2021 but before that MEIS is likely to be reinstated. That is what is being told us by our export provision EPC, on sales and Department of Commerce, but anyways these are being spoken. So either generally these kinds of reinstatement happens in continuation like whenever they stop the scheme, it continues from that day that has been a historically what we have seen, but more than that I cannot comment that whether they will do it retrospectively or they will wait right today but I am very confident that this is one of the flagship exporting polymer products from India and if you see out of the total plastic exports happening, value added plastic exports that means not raw material then FIDC when the advanced composite sector in which we operate is having a share of around 10% of the value added export. So this sector can definitely not be ignored and this will definitely get the due credit and due respect to what it should.

Priyank Chedda: Sir, just the day when the scheme is implemented we would see from that particular period 100 BPS again margin improvement coming back to our financials, right? That would be correct?

Makrand Appalwar: Definitely.

Priyank Chedda: Thank you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, topline and bottomline is down in spite of lower taxation, what is the main reason behind this?

Makrand Appalwar: Bottomline is down because of the taxation part. Frankly speaking per house, we have not gone for the new tax regime because we had already deferred tax which was lying in so we are right now still continuing with the old tax rate because the companies which already had deferred tax benefit, which was there with them, did not opt for the new tax regime, so right now they have already opted because what you see and I hope you understand the deferred tax concept, though the numbers which are seen as a tax payable are not exactly the numbers whatever is the math differential that is credited back to the companies. So, right now we are using the old tax rate and whatever reduction in the bottomline in the bottomline you are seeing is because of the withdrawal of the export incentive scheme to the tune of almost a percentage of 100 basis point similar to that is only the reduction. Certain reduction, you will see because of the slowdown and the loss of pre-quarter we had probably in the month of March because of the COVID. So, by and large the operating margin or operating gross margin that you see it is almost constant by 50 basis points up and down but other couple of things, which are contributing to this have caused the reduction in the profit after tax and before tax.

Ravi Naredi: Sir, in the result I am looking the taxation was 6 Crores in the last year and this year it is 4 Crores. So, 2 Crores taxation less in spite of that we have a lower net profit and I am shareholder since last five years, I am not complaining, but telling you that our capex is always going and most of it is going on, debt is going on and our P/E has come to 6, interest burden is also higher, so can you tell anything what will happen in one year or two year because we are in more expectation, we are still in one year, two year, three year and we have been listening to conference and still we are not getting any result on the balance sheet and profit and loss?

Makrand Appalwar: Let me tell you in the last five years if you see the kind of EPS has moved from around Rs.2 to around Rs.10 and now it is at Rs.11 and now back it is around Rs.8.25. So, it is almost four times increase in the last four years. Secondly regarding you asked about P/E ratio. P/E ratios are beyond my control. I cannot really speak about it or I cannot control it or I can only tell you that we can do the best of our efforts to continue getting you the outputs. Thirdly your question was regarding capital expenditure which we have not been on a yearly basis so I pursue that we are almost every time we do some capex, we have almost reached around a capacity utilizations of 75% and onwards and so in order to keep on growing for initial years probably this will be required and now company has this year we have focused on also outsourcing the comparatively less technologically modified or I would say slightly older products so that those products would be moved out, so capex I would say the spill of capexes will slowly start coming down, but in the initial days in order to build up a company which is of a good or global size, we will have to keep on doing this capex and you should appreciate that even in such a difficult time of COVID or even last year, forget about COVID, before COVID the economy was doing something really great or outstanding, it was average mode. So, even in that time, company has performed to the best of the ability. We remain always in the grip, we always grew. So certainties are required to be done, so that is what our belief is and we will continue doing a kind of creeping capex in order to avoid any large scale allotment of new shares or anything so that means share base remains or the equity base remains constant and still the company can have a global size. So, we are training this company as global leader in certain products in the world, but it is going to take some time. It is a long drawn process and it is going to take its own time.

Ravi Naredi: Four year time is not less time. In four years before when you were telling EPS was Rs.2 then the share price was Rs.225. Now EPS is Rs.8 and now our share price is Rs.70. I am not giving you complain that things are not it is going fine in the company. That is just we want to ask what is going on with the company and the system and business because this year the monsoon will be good, so there will be less demand of our products, so what strategy you have taken?

Makrand Appalwar: I think you are correlating wrong thing because when the monsoon is good, our product requirement is not less. It is rather increasing because people have water to store. So, one this correlation is incorrect. Secondly, I have already told you that the share price is a market function. I have no control over it.

Ravi Naredi: I have already told that this is not this is not in your control share price, but marginally could have lost?

Makrand Appalwar: Even one of the largest shareholders of the company, so we have performed outstandingly and still the prices have come down, so I think that is the matter where markets will definitely reward. Our job is to I would say religiously perform to the best of our ability and in these difficult times, instead of focusing on what is the share price, we should focus on how strong the company is, how good we are creating the value for the long-term investors, how good value we are creating for the customers. If that happens in this next 12-18 months the share price everything, the market will be definitely wise enough to reward the hard work.

Ravi Naredi: Sir, last what is the payback period of solar power plant?

Makrand Appalwar: It is around four and a half years?

Ravi Naredi: Four and a half years. Thank you. All the best Sir. I think I have used some hard words but forgive me.

Makrand Appalwar: No, it is a good thing. I absolutely have no complains about it, but I am saying that the things beyond my control I cannot any much of it. If something has to be done in the company, I can do it very well.

Ravi Naredi: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Nitin Awasthi from East India Securities. Please go ahead.

Nitin Awasthi: Firstly congratulations on the performance given the tough circumstances that the economy was in like you said before the COVID itself. One question on the financials and one on the product line up. Now the financial front, I just wanted to understand there has been a significant increase in other expenses and employee cost so is there something which was done in the year which is abnormal in the sense it does not happen every year, something one thing, which took place? The second one is separately on the products. On the products, you have mentioned that Avana is going to outsource most of the manufacturing part and will focus on marketing part and take advantage of the distribution that the company has built, now in your presentation I see that you had mentioned fish feed and fish seed. Both of these products are very dynamic to my understanding and both of these products are not very capex intensive in the first place. So, what was the reason of taking a product which is not capex intensive and still having it outsourced?

Makrand Appalwar: I think you need to take it in a right way. So, when I said that we will be outsourcing certain products of Avana you should see that we are way two verticals in Avana and one is which we are also manufacturing ourselves and one is Avana Create and Avana Design. So the Avana Design part is going to come from outside and as the gentleman before you was actually speaking about the capital expenditure coming in so what we are also looking at it is the entire Avana Design reach which will come from the outsourced manufacturing capabilities. These capabilities would be kind of not necessarily which are related to the polymer manufacturer but it is going to be related to our ultimate end users. So now when we play the cords or make a water logging tanks, they are used by farmers for fish breeding and fish growing. So we already have connected with them. Our people are going up and down so in this two particular products fish feed and fish seed we will not be producing outside at all. We are already in the process of time and certain market leaders in these two products, and these products will be distributed through Avana Distribution Circle. So that is the new concept of what we are getting in Avana apart from whatever products which we produce because on that there will be certain connections and certain relationship with farmers. Till now almost 18000, 20000 affluent farmers are our good friends, our relationships with our customers. Now those using this extra water or the water storage they have created they are in some kind of additional supply to increase their export I would say income. So we are helping them or providing them or possibility to do better in this. So the fish feed seems to be extremely dynamic product, I totally agree to that. We need to go into that because we know the ultimate consumer very, very personally and we have connect with them and we feel that they trust our brand and they would be able to do the justice. So that is the whole idea.

Rinku Appalwar: With regard to the other expenses, because of the volume growth the salaries have increased because we had a 12% volume growth almost. So salaries had increased according to the volume growth and the second is export trade has increased by almost one-third compared to 2018-2019 because of that the prices increased drastically.

Nitin Awasthi: Thank you.

Moderator: Thank you. The next question is from the line of Awanish Chandra from East India Securities. Please go ahead.

Awanish Chandra: Thank you for the opportunity. Sir, I just had a few bookkeeping questions. Last year in 75 Crores topline we had MEIS but this time we do not have any sort of incentives in our topline, right? Sir, last year same quarter in the topline we had MEIS benefit and this time we do not have any sort of incentive from the government or any export incentives in our topline, is my understanding correct or we are still getting some benefit?

Rinku Appalwar: Sir, the MEIS benefit was there till July 2019 and it got discontinued from August 2019.

Awanish Chandra: So this time we do not have any benefit?

Rinku Appalwar: No, currently we are not under any benefit, but the government has actually said that the government was suppose to renew it, the MEIS benefit under the new name RoSCTL but RoDTEP but because of COVID they are not currently saying what is the declaration and whether they will come out with that but it will come out soon. That is the expectation of the whole industry.

Awanish Chandra: That is fine. I just wanted to confirm, we are now booking any incentives in our numbers, right now?

Rinku Appalwar: Incentives are not booked after the period close.

Awanish Chandra: A small thing, for the same topline you talked about 12% volume growth we incurred some extra cost, but still versus 11.6 Crores the other expenses, 13.5 Crores other expenses look a bit higher because our topline is more or less same.

Rinku Appalwar: No the topline could not have remained the same and it would have resulted in a better topline because Mumbai was shut for almost March 15, 2020 and Silvassa was closed from March 24, 2020 and last quarter. The topline would not have looked the same if the COVID would not have come, so it would have looked much better than what it looks now. That is why you are seeing that.

Awanish Chandra: I was asking if my topline is whatever plus minus 5% to 10% my other expenses was 17% higher versus last year same quarter looks a bit higher, so is there any one time extra expenses we incurred this quarter?

Rinku Appalwar: For example, like eight days salary we have given to all workers since the lockdown, where we could not full production, so orders were already booked, but the same we could not get the topline for that.

Awanish Chandra: Thank you very much Madam. All the best.

Moderator: Thank you. The next question is from the line of Priyank Chedda from Standard Chartered Securities. Please go ahead.

Priyank Chedda: Thank you for the opportunity. I would like to ask what is the capex plan for FY2021 since given we have expanded our capacity already?

Makrand Appalwar: I think it should be in the range of around 5 Crores to 6 Crores.

Priyank Chedda: Even if I have to assume the flat topline growth in the best case scenario and 5 Crores, 6 Crores is the capex plan, and if we have to generate a same kind of a cash flow for FY2021 say around 20 Crores to 25 Crores are we thinking to lighten up our balance sheet, repay or prepay some of our working capital debt in FY2021?

Makrand Appalwar: Yes that depends like how is the cash availability to that tune. We would love to do that because that is one of the key ingredients and is our understanding in mind that we need to cut much as debt as we can. So answer is yes.

Priyank Chedda: Even if debt is not repaid, 5 Crores to 6 Crores is the maintenance capex that we are looking for FY2021, right?

Makrand Appalwar: Yes. That is what is generally what we are seeing. It is nothing new that we thought about and we see a big jump in the utilization of capacity so there is already a 25% cushion available so no big hurry to further expand. So within that maintenance capex of 5 Crores to 6 Crores I think we should be good.

Priyank Chedda: Sir, second question is on the B2C segment, particularly pond liners. First is we had around 30 Crores order that we had received from Kissan to be executed in the two quarters. So, can you tell us how much is being unexecuted or unbooked in the current quarter? The second question is we had incurred some of the discounts or marketing expenses to build the Avana franchise, how much of the percentage you feel that has been done and how much can be expected further annually.

Makrand Appalwar: I will answer this in two separate ways. The first part, which is regarding out of the 30 Crores orders how many realized and how many not, so, I would say roughly 12 Crores to 14 Crores worth of orders we have already realized and regarding the second part, regarding the investment, how much we already made, in Avana and what are we going to do. So, already in Maithili's opening speech, she mentioned that till now most of the investment was in the materialistic side or other thing, but this year we are now also looking at TV serials because probably exhibition route or the village meeting route is not going to be very profitable this year because simply the government might now even allow that. So, I think building a brand in the long-term activity it is around 5 to 10 years. So, we would have a special or extra allocation this year we have given for marketing with the framework of the growth so that it does not impact any profitability, but additional focus and I would say financial support has been given to marketing in order to propagate the brand further so that when the situation normalizes or situation comes back to itself then Avana is one of the most prominent brand. It is already I would say market leader in pond lining and aquaculture business. So, this should further take us to the next level.

Priyank Chedda: Sir just to squeeze up further the EBITDA margins run rate that we exited FY2020 at around 10% would it be fair to assume that this would be the stable margins no further big discounts or marketing spends or other expenses that we have foresee in FY2021?

Makrand Appalwar: I think you should see an improvement in the FY2021 than FY2020 because the multiple things which will happen in the last 15 days of March actually has got this down so I would say that it should not go down but it will improve because one MEIS would definitely reinstated a much before that. Secondly entire whatever happened in last 15-21 days of that lockdown crucial period is now almost behind us and the things we are hoping that it would be better for FY2020-FY2021 so it would not be fair to assume that there would be no any further reduction in any EBITDA level margins.

Priyank Chedda: On the target of reaching retail touch points if you can just highlight what was the exit in FY2020 and what is the target for FY2021?

Makrand Appalwar: I will give it to Maithili she would be able to do the justice to this question.

Maithili Appalwar: Priyank, I think with regard the retail touch points now I dividing the retail touch points into two parts one is going to be exclusive brand outlet so that will be channel partner who only sell our products and only focused on Jalsanchay Pond Liner etc., whereas also for a small ticket item now like Murghas Bags, Tarpaulin which you may be saw on the investor presentation products like this are going to sold through smaller retail shops as well so those will become MBOs or multi brand outlets so now kind of dividing the target for FY2021 between those two things, our hope is that from 300 exclusive brand outlets, our channels partners will be able to push that number up to around 450 the next year as well as we will able to connect with at least 500 multibrand outlets through this year and we are targeting that our smaller product division by itself should see around Rs.10 Crores topline in this year.

Priyank Chedda: Maithili I could not get the last part, what was the Rs.10 Crores topline?

Maithili Appalwar: Yes so like you know that Avana we are now dividing the business, one is Jalsanchay, Jalsanchay franchise, Jalsanchay etc. which is in pond lining and the second is kind of the smaller ticket item, so the reason I am dividing these into two because the distribution system mote is slightly is different because it is likely a big ticket item versus smaller ticket item so the smaller ticket items like Murghas Bags, Tarpaulin etc., they will be able sold through like small hardware stores or agro polymer stores and things like that so we are now trying the divide the topline between the Avana topline itself and through while looking around at it Rs.10 Crores a topline this year just of the smaller product sale, apart from the growth which will be brought in Jalsanchay.

Priyank Chedda: Okay and any guidance on Jalsanchay topline if you can?

Maithili Appalwar: We also Jalsanchay this topline looks like around as if go back so this year we had a Rs.67 Crores topline which was 42% year-on-year from last year, this year we are targeting around Rs.90 top line for Jalsanchay so that would bring the entire franchise Avana to around Rs.100 Crores this year, end of and FY2021.

Priyank Chedda: Great to hear that. Thanks a lot from my side.

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

Ashok Shah: Thanks for taking my question. Sir we have around 40%-50% of export markets so does do we face any competition from the China because China government gives heavy incentives in interest cost and also power cost it comes around 20%-24% for various industries so do we face any competition from them?

Makrand Appalwar: Not really. Luckily we are one of the products globally where we could take on the Chinese competition head on the Indian probably technology or Indian abilities are much superior to Chinese. They are very good in the mass implication, while we are more of customized. So though China manufacturing companies get handsomely rewarded by their government with so much of things what you said up to 20%, 24% still Indian products in FIBCs and the advance composite as a global market share of 22% so we are very, very competitive and I am sure we will take China further on and I am sure government has this time agreed that they would further support our industry so it will be further improved version of what previous years were.

Ashok Shah: Sir since oil price has gone down do you see that the growth would be there for the export market as product price and everything is going down?

Makrand Appalwar: I could not understand this question because see oil price will be high or low I may keep on telling that we are kind of a non-speculative hedged whatever if I am not increased.

Ashok Shah: I am not talking about that but the consumption pattern will increase your cost will be low for the consumer?

Makrand Appalwar: Yes I would say that might happen or it might not necessarily happened because we are not in a consumption goods so then they may offset each other, the slow down what was there and we have seen a reduction in the oil prices might will like to free of their pipelines and other things, it is very difficult to predict yes I would say that it should not a really bad year for us.

Ashok Shah: Have you taken any moratorium or COVID loan or something like that?

Makrand Appalwar: Yes, we have not taken COVID loan but there is a moratorium, which is available, which has been taken by the government.

Ashok Shah: COVID-19 loans first get reduced to I think 8% so is it effective to take a COVID loan?

Makrand Appalwar: It is a good idea. In case but you will need to justify that why do you need a COVID loan. If the companies are doing very well and our cash flow then that is not reluctant to give the COVID loan, they are generally given to the companies which are not paying so well. So we have not had any issue especially the MSME sector where the cash was trapped or they did not have money to get raw material or salaries or something like that then COVID loans come very handy, but in our case we did not have any other situations so could not really or we did not find it necessary to go ahead for COVID loan instead of that way we took moratorium, which is a deferral and then that is also other cost-saving way you can say but that much we are allocating, means whatever deferral we are taking within the limit we are allocating it as and when banks has now paid it will just get paid.

Ashok Shah: This moratorium has been also taken on this employee cost or something like that because there were so one-and-a-half-months of loss has happened to the company and does the salary?

Makrand Appalwar: Employees cost there is no moratorium given by the government.

Ashok Shah: We have reduced for even some lesser or something like that or something.

Makrand Appalwar: You want to say that it will be the lay off the people?

Ashok Shah: Not lay off reduced the salary for the one month or something like that because production was not there.

Makrand Appalwar: Actually we had a given everybody had voluntarily the people who has salary about 25,000 and voluntarily given away certain part of their salary starting from top, me and Rinku, we have not taken any salary for the month of April because that was required to be given and then at every level if people below 25,000 there was no salary cut for anyone but above 25,000 there were some but anything starting from Rs.500 to say 40% of the salary bracket so people have cut their salary on their own voluntarily, workers and labors we did not cut anything because they are not the people to see and I and Rinku we took 100% salary cut.

Ashok Shah: Great. Solar plant which we are planning so what would be power saving going to happen at full capacity?

Makrand Appalwar: It is not power saving. It is basically to generate your own power. It is cost saving on the power cost and we are anticipating it has got a payback period of around four and a half years. So initial four and a half years you do not pay electrical bill cut, you pay say bank loan installment and another thing so it remains as it is and after four-and-a-half hour yes when that solar plant become free then that much comes back coming to you as a saving in the power bill but it is required in the longer term more and more sustainable measures has to be taken because it is seen very positive in the international market at the same time it is always a very good idea to keep on adopting newer technologies so that company always remain I would say technology forefront and technology frontier or I would say one of the front leaders.

Ashok Shah: What is the capex on the solar project?

Makrand Appalwar: It is some 70 lakhs odd.

Ashok Shah: The power generation will be around 10 lakhs?

Makrand Appalwar: 250 kVA per month.

Ashok Shah: Total power saving this number of units consumed power cost will go down by 20%-30%?

Makrand Appalwar: It will go down by say 5%.

Ashok Shah: Regarding this dividend which we have declared last year it was 0.50 paise and plus tax on dividends so it comes around 0.58 paisa approximately so now it is 0.40 paise plus tax has to be paid by the recipient so it will be costing around 40% will go to the government as a tax so is it not prudent to give dividend in the March month instead of postpone to three months and I think USA investor will be paying 40% tax on this and net level you will be getting only 0.24 paisa as a dividend?

Makrand Appalwar: Yes we like to abide to the spirit of any law and any announcement by the government side that this has to be done than taking out shortcuts and everything is not we are highlighting in our life. I think one of the biggest hit will be given to those because being the largest shareholder largest tax I will be paying personally, but still I think some people, some companies are increased particular concept that I feel after other rules on regulations what country creates one has to take it right spirit not that I love to pay taxes, but that is the rule. So we have to pay.

Ashok Shah: Are we targeting with this number of ponds to 15 per year in the current today's situation?

Makrand Appalwar: Yes, I think more than probably. We are targeting slightly more than not.

Ashok Shah: Thank you.

Moderator: Thank you. Due to time constraints, we would be closing the call. I would request them the management to please give any closing remarks.

Maithili Appalwar: Thank you so much for being on our call. We really appreciate your time. If you have any further questions, kindly please feel free to talk to us anytime whether on call or off the called that is not a problem. We promise that as a management we will take all the necessary things in order to better care of the factory. We have shifted ourselves to Silvassa in this difficult time of COVID so that we take good care of the factory and manufacturing, quick decision making is one of the critical thing in this time, so we are doing that we are doing all of our best efforts. Kindly stay safe. Take good care of your health, and be with the company. Thank you very much. I really appreciate it. Goodbye.

Moderator: Thank you. On behalf of Emmbi Industries that concludes this conference. Thank you for joining us. You may now disconnect the lines.