"Emmbi Industries Limited Q4 FY'16 Earnings Conference Call"

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MODERATORS: **MR. ANUJ CHOKSEY – K. R. CHOKSEY SHARES & SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Emmbi Industries Limited Q4 FY'16 Earnings Conference Call hosted by K. R. Choksey Shares & Securities Private Limited. As a remainder, 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. If 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. Anuj Choksey from K. R. Choksey. Thank you and over to you, sir.

Anuj Choksey: Good afternoon, everyone. You all are welcome to Emmbi Industries Q4 FY'16 Earnings Conference Call. We have with us the management of Mr. Makrand Appalwar -- Chairman of the Board and Managing Director; and Ms. Rinku Appalwar -- Executive Director and CFO of the company. Mr. Makrand will initiate the key thought about the company and performance and after that would address any questions from participants. Over to Mr. Makrand to share his views

Makrand Appalwar: Thanks, Anuj Ji. Welcome friends. Thank you very much for joining in. I also would like to thank K. R. Choksey and Company for giving us this opportunity and support for the call. At the outset it would love to thank you all guys for a wonderful support you provide us across the year on various places and while going through this call I am assuming that we have the presentation or investor presentation which we circulated yesterday as been referred by most of you. If at all it has not been referred by you guys, it is also there available on emmbi's website at emmbi.com. So I would promote you to just run through so that the discussion can be more fruitful and I would just run through the run through the details about the Emmbi and then at the end of my discussion we are open to take your questions, thanks.

So let us start about the basic ideology and thought at Emmbi so, I am sure you must have gone through or seen our wonderful and colorful logo which we named it as **Whizz** which has got three colors in it, that is blue, green and orange. So typically the year 2016 which has been passed was dedicated to our blue collared employees who has been extremely -extremely instrumental and developing and supporting us throughout the development of this company plus R&D which we have been actively doing.

So these three years that is the years of blue, green and orange what are terming it is a three years long program which has been coupled with each other hand on hand. So first year which we passed was the year which we said, which was dedicated to our people and it was a part of our blue activity. So let me just brief you about what was the operational progress or I will give you a progress card what happened best in this Emmbi as achieved innovation center status Emmbi Innovation Lab what we call a separate identity. So Emmbi has been very instrumental in innovation right from the day of inception and luckily I am very glad to tell that during the course of granting this approval government has considered us as a innovating institute right from the day of inception. The Emmbi has been certified as a innovating institute since 1996, the day we started. So that gives probably a DNA of this organization a very strong support.

Another very positive development which we had in this year, we initiated start of construction of food and pharma grade bulk packaging facility which is a positive pressure facility. As you are aware there is a change in U.S. FDA norms which are going to compile many of the companies to use a food grade packaging material all across the entire value chain of food and pharmaceuticals. So Emmbi will be very active in producing that in India and distributing it all across the world which we already have a set up for distribution of our existing products.

Third most important thing we are being quite instrumental in various products which are relevant to the water conservation such as pond liners and cannel liners all across the world. Some of the largest lining companies like well I may not consider naming it here but some of the, one of the top world's lining companies we are their OEM manufacturers across the world. So what we did is, during this year we completely Indianized all the offerings what we were doing it globally. And with our efforts we could get BIS approval which is required for domestic sales for all these products in India. So this is another straight addition to the product line up which is going to be offered domestically within the country.

One more important thing which happened during this year regarding the financial side is CARE has upgraded our rating from BBB to BBB+ in the long-term and CARE A3 to A3+ in the short-term borrowings so, one notch up on both the ranges.

Fourthly, I will say that as you are aware we have a kind of four pronged approach when it comes to our product offerings. So we are offering the products in specialty packaging, advance composites, water and agri. So what happen this year one of the highest EBITDA paying product lie in advance composites and water and agri, so the share of these products have substantially gone up. It has moved substantially I am sure, you must have gone through the graph and the share of comparatively less value adding things which are falling under the packaging domain has been reduced which is being with a very proper systematic approach and intension. So what is our point is with this approach, we would be able to continue our growth trajectory whatever we have created and move in the same path of continuous upgraded or upwardly growth in the range of around say bottom-line CAGR should be in the range of 30% or top-line CAGR should be in the range of around 20%. So say in next three years to four years, we will be able to double the size of the company.

Talking about getting down the percentage of specialty packaging instruments, we were at around 47%-48% in the last year which we bought down to close to 38% and what gave us help because of that is a net increase in our EBITDA and if you see EBITDA has gone up by around 2%. So that is net result of this. As I told you that we are observing this as a year of blue or year of blue collared people, because are they so important, why I am so insisting being a manufacturing company it is most important for us to have a very qualified and very dedicated worker who are going to work with us because those are the people who are going to use their skills to upgrade our operational efficiency. So it is very very important for any manufacturing company to retain and skill upgrade their workforce so, that also first, I would say that is the steel frame which we are creating for next three year that is the whole idea and just to put you numbers to it we have moved down from attrition of 6.9% of our blue collared employees on the annual basis to around 5.1% during this year. That is a substantial jump in reduction in this year.

Secondly, we have started a new initiative called Gurukul. Gurukul what they do there at the Gurukul we are doing a skill up-gradation program when it comes to improvement in the skill of the blue collared employees. So we are trying to improve on the overall skill levels or the skill sets of our own people giving them a better skill sets, better qualification to operate the machines, hence better employability, hence better ideals. So that is helping us kind of to focus on that.

Thirdly, regarding our community which is important part to us, we have created something called Sahyog a special goodwill store which is taking care of all the things which are in abundance to everybody are moved up to the people which are at the lower strata of the society and it is distributed all across the things.

Few of the important things I would like to share with you here are the development of flexible tanks. This is going to be one of the most important development or R&D feature around which I almost I think four or five patents has been registered in the past. So this is basically a wonderful product which has got a best of both the worlds. It has got ability to get itself flexible so that when it is empty it can be stored, it can be transported or even for sake of like many times what happens, at the time there is a catastrophe there is let us say storm, there is earth quake or something like that, so what happens is the entire infrastructure get destroyed at the moment you need a sudden drop of infrastructure transportation movement that is one of the one of the places where these kind of products can be applied very strongly. Then we have created one cycle laden tank which is as you know India is almost more than 60% of the country is in the water you can say stress, what we call a water stressed areas where people are short of water which I think each one of us are hearing every now and then. So whenever there is a stress there is a transportation, there is storage. So both these applications are very good taken by this flexible tank because it can transport the water and it can store itself. While coming back it can get collapsed, it can come back empty in almost one tenth of its original value. So this is going to be another very important thing about it.

Now, let me run through some financials what we had. So if you see during this year, we had a wonderful growth of almost 14.5% close to that in the top-line and if you see the bottom-line which is as a jump substantially by almost 77 odd percent - 78 odd percent. This has purely happened because there is a improvement or increase sharp increase in usage or sell of value added products in our total contribution of products. This moved our bottom-line substantially, this is the plan, I can say that in next three years this is the plan that we will slowly move ahead with our value added product which are developed within the Emmbi Industries R&D center that Emmbi Innovation Lab focus on them and then move ahead and distribute them, we are creating a very strong distribution system for flexi tank with the help of PricewaterhouseCoopers we have engage them for a go to market strategy for flexi tank which will be applied in very soon because till now we always been distributing or selling flexi tank ore on the projects or institutional basis. So now Emmbi will be going actually retail with the flexi tank very in a very near future. So that is one of the major change which you would see in the coming time.

Talking about the fourth quarter, fourth quarter has been also impressive we had a good growth compare to last year's fourth quarter, the profits have gone up, top-line has gone up, we have maintained export thought the country's export have declined by 26 odd percent, Emmbi could still manage to improve its exports absolute figure also by 7% and on a volume more than 20%. So if you see we have been doing consistently good on our export as well as domestic market.

With this, I would like to conclude on my initial this and I would like to keep the floor open for all the discussion. Thanks.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitin Gandhi from KIFS. Please go ahead.

Nitin Gandhi: Sir, can you share something on your tax expenses last quarter you have provided 33%, this quarter only 10% effective so….

Makrand Appalwar: Tax expenses.

Nitin Gandhi: Yes.

Makrand Appalwar: Yes, because what has happened at our R&D center status came in the last quarter of the year so, what happened was it got offset because once you are a government approved R&D center your revenue as well as capital expenditure went towards the R&D you get 200% of it knocked out from your tax so we had that benefit which came in the last quarter and company came to MAT credit. We got MAT credit also because of that and then the tax rate fell down that is the reason why the tax allocation in previous year and this year are distinctly different but this particular advantage is going to stay for next three years like it is a three years' certification and of course then we have to recertify our self as an R&D center.

Nitin Gandhi: So going forward what will be the effective rate for FY'17?

Makrand Appalwar: Frankly it looks like we should remain in MAT for all next three years?

Moderator: Thank you. We have the next question from the line of Baidak Sarkar from Unify Capital. Please go ahead.

Baidak Sarkar: A couple of questions, our utilization currently is about 83%, could you give me sense of how much we can hit by FY'17 and how soon we need to plan for our next round of CAPEX?

Makrand Appalwar: Okay, let me explain this. The 83% what you are seeing is a utilization of the utilizable capacity. The 18,200 tonnes capacity what is our announced capacity is not installed capacity that is utilizable capacity. So we can go right up to 100% or rather we would love to cross through that 100% and go a little ahead that is one thing, so we have that head room is still available. You must have also seen that we have triggered another project which is pertaining to the food grade. So food grade is another 200 tonnes a month so around 2,400 tonnes of fresh capacity getting added by the end of December for this. So right now with this Rs. 10 crores CAPEX which we have already taken care which will be funded by internal accruals and bank borrowings so, it looks like we are good to move for next 18 months to 24 months with some nominal debottlenecking CAPEX which will be happening during this year. For a larger jump which we see which would come in the year 2019 we are working right now the growth team is working on the drawing board to decide what is going to be the outlay and how it is going to funded. So I think we should come back to you very soon with those numbers also.

Baidak Sarkar: Right, thanks for that. So you said the volume growth will be about 20% did I get that right?

Makrand Appalwar: Actually it is not very clear, I am not able to clearly hear you.

Baidak Sarkar: 20% did I get that right?

Makrand Appalwar: Yes, CAGR of 20% that is what we are targeting. So let us say doubling the company in around three and half years to four years.

Baidak Sarkar: Three and half years to four years, okay. And you said, your margins will grow at a pace higher than that. So you could explain where the leverage exactly will come from….

Makrand Appalwar: Did you had a chance to go through our presentation?

Baidak Sarkar: Yes, I did. So you know going by that it looks like your agri product will grow by about 40% to 25% over the next couple of years but agri is still about 3% to 4% of the business…

Makrand Appalwar: Let me explain you, there is one slide which is page number #20, so I would like you to just run to that if you can at all.

Baidak Sarkar: Yes, I am on #20 right now.

Makrand Appalwar: So if you see the agri is moving from 2.8% now to 7% in 2009 and it is water which is moving comparatively quicker and what is happening is then another two tall one… you see the red one and the orange one. So the red one is getting diminished from 34% to 30% and the orange one which is paying us good…

Baidak Sarkar: 43% to 41%.

Makrand Appalwar: Yes, so what is happening is we are focusing more and more on the specialty or anything which is advance composite or are although those things which are having some kind of character attached to it like anti-corrosive, anti-bacterial, anti-fungal. So it is basically a technology driven product.

Baidak Sarkar: Right. Coming to the margin profile be in each of these example, you said your specialty packaging was commoditized, your water conservation was not. So net-net margin profile of each of these four segments?

Makrand Appalwar: You know I cannot say that more than commodity in around the advance composites we have a couple of bps higher at least 200 bps higher margin in advance composites and close to 350 bps to 400 bps higher margin in the water and agri thing. That is the reason when I said, when top-line will grow at the CAGR of 20 bottom-line will probably grow at the CAGR of 30.

Baidak Sarkar: Okay. So what you are implying is say advances 200 bps more than specialty and water might be 300 bps more than specialty.

Makrand Appalwar: Exactly.

Baidak Sarkar: Okay. So the margin improvement for the immediate year say FY'17 can we expect at least 100 bps - 150 bps consolidated.

Makrand Appalwar: EBITDA improvement of 150 bps, at least we are targeting at least a 100 bps of EBITDA improvement.

Baidak Sarkar: So you are implying about 13.3-13.5 for the entire year?

Makrand Appalwar: Yes, I think we are almost 13 so, let us say 14. 12 point some like almost close to 13.

Baidak Sarkar: Yes, 12.3, okay.

Makrand Appalwar: So we should be in the… no, it is not 12.3 I think it is 12.8. So we should be in the range of around 14 in the coming year.

Baidak Sarkar: I think it is 12.3 excluding other income, excluding other income it is about 12.3 but anyway that is…

Makrand Appalwar: Other income is more of it is comprising of the foreign exchange earnings which probably I feel it is kind of a similar because government gives always a slightly conservative rate at the time of billing and actual money what you are offering gets is generally higher. So we are expecting… So on a top-line level, kind of a steady income thought it falls in the other income.

Baidak Sarkar: Right. So on a top-line level sir, what would be the risk to these 20% CAGR assumption that we have what could be a possible risk to that?

Makrand Appalwar: On the top-line side, if crude goes really haywire and that causes a global slow down or something that can be one of the thing. If rain in India does not really work and that can challenge some top-line like basically top-line challenge will be more irrelevance, in not direct control of us within the control of the company we do not see any major challenges when it comes to top-line but the external characters which are beyond our control can hurt our top-line and may be instead of growing between within three years might push it to four years, so it can slow down it by say a year on the three-year basis scale.

Baidak Sarkar: Okay. Is there any B2C component in your India business?

Makrand Appalwar: There is now there is getting I mean this 17% water and agri about 2.8% water what you see part of it gets retail because this tanks now start get retailing, we are doing the retailing and this as I mentioned in my small introduction that we have engaged PWC to chock a exact go to market plan for this flexible tanks and pond liners. So that will create a larger contribution of the B2C segment so, that will also improve our basically visibility as well as profitability both.

Baidak Sarkar: Right. So as of now the 19% which is a part of your agri in water conservation I mean that is largely B2C in India, right?

Makrand Appalwar: You can say half and half.

Baidak Sarkar: Okay. So our….

Makrand Appalwar: There is also a lot institutional sell of those things in India.

Baidak Sarkar: Okay, interesting. Okay, sir, if you can just draw your attention to your cost of borrowings what will be your blended average cost of borrowing?

Makrand Appalwar: I think we are in the range of around 8%-8.5%.

Baidak Sarkar: I mean if I simplistically divide about interest outlay for the year by total debt outstanding as of Q4 I get a much higher number in fact I almost get double the number.

Makrand Appalwar: I think, you need to maybe we can give this details in a more personalized this but definitely it is not 16%.

Moderator: Thank you. We have the next question from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

Siddharth Bhattacharya: I have a couple of questions, if you could help me understand your business better. What is the visibility in terms of revenues, when you say that you will grow by 20% for at least the next three years? I just wanted to understand, how will that be brought about? Will it be by going deeper with the same clients, doing more volumes with the same clients or is it that you are expecting a client base to sort of increase over the next three years how are you sort of going to target that?

Makrand Appalwar: Well it is different in different segment, if you talk about export we have very categorical policy, that no verticular territory, we do not want to expand more than 3% barring America. America is a different case; it is a very large economy itself. But non-America if we are talking to everybody, we restrict ourselves to three. So right now we are present in 52 countries and we are expanding it, we have identified another 12 countries this year so that one every month we add. So there is exports will be added by way of adding the geographies apart from the addition in the customers because we have typically seen that in the past whenever there is recessionary trends. Adding the number of geographies are the best way to improve your top-line or your total volumes because one individual customers gets restricted because of the limitation of their areas and other thing. So exports will come through that. Regarding water and agri we are going B2C so it will be additional number of people and number of channels, earlier we were just distributing tanks say through bulk distributors but now we have also engaged it with micro finance company, we have done it through the Krishi Udyog Centers, there is something called Krushi Seva Kendra, so tanks are getting distributed through Krushi Seva Kendra. So there are different self-channels been actually installed in position in order to add that then regarding the advance composites it is more of a change in application. In last two years, there is one very interesting application which we developed something Air Cushion Protection.

Siddharth Bhattacharya: Air Cushion, okay.

Makrand Appalwar: Yes, so when people are working at very high altitudes on very sophisticated objects Air Planes like Boeing, like Boeing is one of our buyers for that thing. So you cannot hang a sling on that and the tails of some of the Air Planes specially the new generation 380s and all they are almost as tall as 40 meters. So if somebody falls from there, he is going to definitely get a huge impact which can even be fatal. So in that case we have developed a kind of you can say air protected mattress kind of thing on the floor which reduces the impact of fall and slowly burst itself and get the guy to the rest without hurting himself. So these kinds of things are completely new addition of products in the whole thing. It is a composite activity of adding territories, adding distribution channels and adding products. So the top-line growth will come in a composite way.

Siddharth Bhattacharya: Got that, so related to this I just wanted to understand your customer profile in terms of what segments are they in? And also wanted to understand, do you have a select list of like customers that featuring your top 10 customers by revenues or is it that it keeps on changing because there are so many customers. So how is that set-up?

Makrand Appalwar: No, generally, we do not have customers which change every now and then comparatively it is more of re-order businesses and we need some time to earn our customers. Of course this statement does not go through when it goes to retailing, I am not addressing retailing right now. Non-retail we do not have to look for, it is more of repeat order businesses it is more of a relationship based business and it is more of a solution providing business people come to us with the problems like one of the buyers in Jordan came to us with a problem that they want to export their product to Israel and they need something which can control the tempering. So we created a temper proof packaging for them of course we patented it and started supplying. So they can now ensure that whatever is getting produced in Jordan going to Israel only the material is going no bombs, no guns. So those kind of things a lot of things are also solution driven people came to us.

Siddharth Bhattacharya: They come a adhoc basis effectively.

Makrand Appalwar: Absolutely.

Siddharth Bhattacharya: Okay. So what would your top 10 customers, what percentage of revenues would they…

Makrand Appalwar: We manage to keep them below 5% for anyone, there is nobody who is above 5%.

Siddharth Bhattacharya: Okay. So it would not be more than 50% for your top 10 customers?

Makrand Appalwar: No, it would not be. Everybody means I think top 10 would not account more than even probably 30%-35%.

Siddharth Bhattacharya: 30%-35%, okay. Another related question is I wanted to understand in terms of your presence with the existing customer. So there is a requirement for the customer which is getting fulfilled by you as well as some other players so, there is a scope for us to sort of increase our market share within these customers or is it that based on new products and new applications the requirement keeps on coming, how is…..

Makrand Appalwar: It is both way because we one of the you can say most organized companies, we generally get preferred in most of the places wherever we are present we are in the place to get larger share of the business and we could increase our shares on the year-on-year basis depending on what is how lucrative that business is, how big our focus is on that business also sometime discuss or tells us whether we want to be on that or we do not want to. So that is the answer is yes and no both in some cases yes, there is scope that we can increase within keeping the same numbers we can increase the quantity in those particular customers more and sometime no, it is too risky to have one customer too large if he crosses that barrier of safety for us then we hold on to his number and we move to the next customer so that we have more equal or you can say registration proof spread of buyers across the economies.

Siddharth Bhattacharya: Got that, got it. So for let us say Boeing you told one of the applications you made for them so what percentage of places is being Boeing sort of utilizing this or is it like you are doing

Makrand Appalwar: You know like there is always in most of the countries there is work centers like wherever there are more than 200 aircrafts plied in any countries, India do have, in near Nagpur there is place called Mihan where Boeing has a work place center. So anyway wherever there are the work centers they are deploying it there.

Siddharth Bhattacharya: Okay, got that. My next question is on the raw material side of it, you said the basic raw material is crude linked, right?

Makrand Appalwar: Yes.

Siddharth Bhattacharya: So how do you sort of do the inventory management part of it because so for how long do you need to keep inventory, what is your conversion cycle effectively?

Makrand Appalwar: More than conversion cycle we have a very you can specific policy, as we do like to operate in a non-speculative way of business so whatever is our order pipeline generally eight weeks we like to cover up with the inventory. So whenever we book the order, we book the raw material, so that there is no speculative impact of change of prices of crude and then because of that derivatives. Though there is no direct linkage there, that if the crude goes up by $10 this goes up by $10 or like that because if you see it is a very-very derivative I mean multi step derived product because it is crude then it gets derived by Naphtha then it gets derived by principle polymer monomer like Polyurethane, Propane, something like them then it get Polypropylene and then it gets to our product. So the share of the crude to our product is not even 15%-20%. But our policy is to retain the raw material with us whatever is our length of our pipeline which is in the range of around eight weeks.

Moderator: Thank you. We have the next question from the line of Lokesh Gavda as an Individual Investor. Please go ahead.

Lokesh Gavda: Sir, I wanted to know apart from the tax benefit in R&D center what are the benefits you are looking, we can see in that. And the other second question of mine is what guidance and revenue you are giving for the, revenue and guidance you are giving for the future?

Makrand Appalwar: Right. So Lokesh, let me tell you two things, the first thing which you ask apart from tax; frankly, tax is just a reflection of what you get out of R&D center. So when you are a government approved R&D center what you get is you can have an accelerated write off your equipments and revenue cost which ultimately results. So that accelerated write-off actually unable you a better spend. You can spend more money on R&D. But when you can more money on R&D you can develop more and then you can have much better products to your line up increasing your top-line, increasing your profitability. So tax savings is kind of reflection activity, not the principle activity. Secondly, whatever is produced, this is very important part. Whatever is produced in your R&D center or developed in your R&D center and then it is being patented for initial three years there is no excise and there is no VAT or Sales Tax. So that is around 13% odd or a 15% on the finished product. Thirdly, whenever you are doing any government supplies let us say I am selling something which is flexible tanks to Indian Army and some another company comes and they also want to sell the tank. So then if there is a R&D center status company is available, if I quote let us say both of us quote a tank, I quote for Rs. 109 and there is another gentleman who quotes it for Rs. 100 so, I am 9% dearer then him or I am 9% more expensive them him. But because of the R&D center, I get net 10% benefit. So I will be treated as I am 99. So I get a better ability to price my product you know it is a completely different domain. My ability to price the product has changes that gets company a much stronger potential. Thirdly, whatever government delegations and government platforms and government you can say museums and places are there all the companies which has got R&D centers status can go and display their products over there. So all this international people who are visiting up and down, you get a clear visibility of your product to those guys. So there are enormous benefits attached to it not many what best of my knowledge in last two years only 32 companies in India got certified but this is my understanding I cannot really vouch for it. So that is pretty interesting to be and this also gives huge support to those guys who are doing the R&D, that recognition it is a big pat on the back.

Regarding the top-line, I think I addressed it couple of times so, I will move ahead with that question. Thanks.

Moderator: Thank you. We have the next question from the line of Vishal Kothari, as an Investor. Please go ahead.

Vishal Kothari: Sir, I had a question, that in yesterday presentation you have mentioned that one of the main reason for FY'16 was strong brand equity and first mover advantage. So which segment or a product we are talking about this?

Makrand Appalwar: Many of them, strong brand entity if you see brand helps you in a different way, brand helps you for borrowing, brand helps you for appointing people. Today probably we are one of the most sought after company in our domain to go and work to do jobs that helps us to attract the most talent man power. Brand also helps us to position ourselves good with the banks. Brand also helps us to go and tell it to say a buyer that okay I Emmbi I am already working with 180 customers in 52 countries in six continents all the geographies out of that almost out of fortune 500 probably high service to more than 10 customers. So that helps you to get a trust for anybody, when I tell you the story, you just likely to believe that okay, this guys might be good, so let them give a chance, you know like today the quality is the most paramount thing when you are selling it anybody at the right cost. So the statement helps a very specific attribution to this that the doors open comparatively easily when you are a kind of having the stronger brand equity. Secondly, first more advantage when we talked about flexi tank we are completely new, there is nobody else who makes flexi tank, so there is no comparative thing. Cannel liner Emmbi is the only company which has got the specific cannel liner which is the cattle safe and the way we produce there are another couple of companies but they don't do the same thing as what we do then prop covers this is first mover when it comes to Indian, we are only and first Indian company to provide crop covers in India which are actually used for protection of grapes or pomegranates or sitaphal, this was not a problem few years back but now it is a problem and then silage incubators that is a completely new thing because Emmbi has also presence in Europe through a joint venture company. We were doing the silage incubation in Europe because of the lesser sun light historically they were incubating in silage. In India it was not present and now that has become a tradition to incubate the silage also in India. So a lot of such products we have been first time in Indian market. So that gives you an ability to price your product better because there is no comparative pricing.

Vishal Kothari: Yes. Sir, how many products we have filed for patent in last two years?

Makrand Appalwar: We have filed six products and five processes.

Vishal Kothari: Six products and five processes?

Makrand Appalwar: Yes.

Vishal Kothari: Processes means?

Makrand Appalwar: Processes means the way you do it. Product is let us say the product is shirt and the way you stitch a button to a shirt is process, so I can say that okay, I will put a button in a such a way that when you wear a tie you get some little bit sag in top button so that you do not get your neck like you would not feel like smothering and still you are very happy. So that is a process of stitching a button because button is not new, collar is not new, neck is not new, tie is not new, but the process of putting button is new. So that is the process so I can patent also process it is like this. I hope you got it, I hate wearing tie.

Vishal Kothari: How much incremental revenue we have received from this patent?

Makrand Appalwar: We have got around you can say 10 times the R&D what we spend last year we spend around Rs. 3 crores on R&D and close to Rs. 25 crores to Rs. 30 crores we got through incremental revenue through this, all the newly developed products.

Vishal Kothari: Okay. And how much is in the pipeline?

Makrand Appalwar: Well there are four patents in the pipeline, I cannot assure you how much revenue is in pipeline.

Vishal Kothari: And this four will be done in FY'17?

Makrand Appalwar: Hopefully, yes.

Vishal Kothari: Okay. And sir, what is the progress of our subsidiary in Edinburgh?

Makrand Appalwar: It is still in the nascent stage. I think we have sold some almost €100,000 or €150,000 worth material through that. But still I think it is too early to really talk something good about it. It is going to take some time.

Moderator: Thank you. Our next question is from the line of Gaurav Bissa from LKP Securities. Please go ahead.

Gaurav Bissa: I would like to ask a couple of questions, first of one would how is Emmbi is specialty product company? And second would be what is the growth headroom to the polymer processing center?

Makrand Appalwar: Well you know specialty polymer processing is a basically thought or a way you must have seen so many of our product which you have not seen in the past. So that kind of creates that niche. So products or the needs are always there. Needs are always in the latent stage, people have some needs, system have, functions have, companies do have some needs and there are some companies they go and tap that need and address them and that becomes a specialty manufacturing in every sector. There was a need of transportation, people use to go with buffalo cart, then people go with automobile, then they go from airplane, so slowly-slowly specialty sectors of transportation have moved away from buffalo cart to airplane. So that will keep on changing so the companies which has got a set-up procedure or you can say a chalked down procedure to identify the social or economic or commercial need and address that, I would say those are the specialty producing companies and being we are in the polymer sector, we call ourselves a specialty polymer processing company. Your second question was regarding growth headroom. Okay, now let me tell you some very interesting facts. If you see in last 20-odd years, there has been a development of I think one or two new metals but there are being some 46 polymers developed in last 20 years. So what is going to happen? When they are going to increase of new polymer there are going to be new needs getting applied. 20 years back if I would have told you that your Ambassador we will put plastic bumper, you would not like it. Today if I see on your Honda City or let us say Mercedes or on your BMW we will put metal bumper so you will not like it. That means a bumper as a product has completely moved from metal to polymer. So if you see the growth or the need of per capita usage of polymer in the developed economies is much higher. U.S. uses close to 100 kg per person per year while Europe uses something close to 80 kg per person per year even the slightly lesser developed economies or similar economies like India Brazil they are almost 30 kgs while India is 10 kg and the global average is 30 kg. So our point is whenever there are this new application, see 10 years back we never use to use geotextile in the road. Not that the plastic which the visible plastic we have like buckets, tumblers, it will not be like Indian will bath in two bucket or with four tumblers they will, the need or the growth will be through addition of these specialty products or the new product which are coming into the section. So that is the major growth headroom. So if I have to give you the numbers almost the present day manufacturing of polymer which is there is actually there is a graph in the presentation, in 2010 it was 365 million tonnes per annum which is moving 2020 at 540. So the entire sector is almost doubling within these 10 years so naturally companies which are geared and already in the sector will have exponential ability to grow in this sector.

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

Shashank Kanodia: Sir firstly, on the working capital front, you have improved your working capital drastically for 170-odd days to 130 days largely on account of increasing creditor days. So is this trend sustainable and how do you see planning it out?

Makrand Appalwar: I think it is not only sustainable, it is very or probably I will leave it to our CFO, she is the best person to give this information.

Rinku Appalwar: Yes, this trend is very much sustainable and we are trying to improve on this by reducing the debtor days and increasing the creditor days.

Shashank Kanodia: Okay. So ma'am how do you see it in FY'17 or FY'18, so it like 10 days annual improvement can we…

Rinku Appalwar: Yes, 10 days annual improvement we are targeting, 10 days to 15 days I mean, but let us keep it pessimistically 10 days.

Shashank Kanodia: 10 days at least.

Rinku Appalwar: Yes, at least, Yes.

Shashank Kanodia: If that is the case so in absolute terms will our debt reduce going forward in FY'17 and FY'18?

Rinku Appalwar: No, as top-line will increase the debt will not reduce but comparatively if you see the percentile it will reduce.

Shashank Kanodia: So debt to equity ratios might improve?

Rinku Appalwar: Correct.

Shashank Kanodia: Okay. And ma'am lastly, since we have been upgraded our credit rating by CARE so what kind of intrascore savings do we foresee in terms of rate of interest initially it was like 8%-8.5% so now what is the rate of interest for us?

Rinku Appalwar: 50 basis points we are actually feeling that the banks will improve on the because of the CARE rating improvement.

Shashank Kanodia: Okay. But have anything plan out yet on this front?

Rinku Appalwar: Yes, it has just come before I think 10 days - 15 days so, we are just talking to banks and you know how the banks, you are from bank, so I do not have to tell you that.

Shashank Kanodia: Fine. And lastly, one question to Mr. Makrand Appalwar, sir. Sir, you are saying a 20% kind of growth we are targeting for next two years to three years so, it is going to be largely export-led growth or domestic led growth?

Makrand Appalwar: No, it is going to be a combination, probably, domestic sector would like to have combined growth profile because my idea is to have a very unanimous growth across the sectors so it will be a combination certain thing will grow in exports and certain definitely in domestic.

Shashank Kanodia: Okay. So this export to domestic ratio which is in favor of domestic now at 51%, how do you see it panning out in FY'18?

Makrand Appalwar: Should be in the similar range.

Shashank Kanodia: Should be in the similar range, okay. And sir, just one last question, regarding EBITDA margin so, in the base case specialty packaging command what kind of EBITDA margins?

Makrand Appalwar: Specialty is in the range of 10.

Shashank Kanodia: Around 10%.

Makrand Appalwar: Yes.

Moderator: Thank you. Our next question is from the line of Umesh Patel from IDBI Capital. Please go ahead.

Umesh Patel: My first question is that we are into four segments, so I would like to know which of the segment is more promising and why is that so? What are the future growth prospects in that segment?

Makrand Appalwar: Well you know it is an interesting question, let me answer it this way. All the four segments are extremely promising because they are addressing different needs. Certain segments like specialty packaging thought it is paying a little less on the EBIT but it also filling in it is like more of a you can be filling in section it gives you better volumes. The advance composite section is highly technology driven so it gives you a very wonderful protection from your competition. People cannot replicate this very easily because there is a lot of knowledge and technology goes into it. And the water conservation and agri are typically high EBIT margin business but comparatively their share in our business is presently at a lower level. So that are taking us higher efforts to put into it. So each segment you can say has certain good things and certain not so good things. So I would say that our conscious efforts will be to move or to stabilize on specialty packaging in the range of around 30% and which you must have seen on those graphs also that will move up the other segments which are giving us slightly better margins that is how we are targeting better EBIT in time to come.

Umesh Patel: Yes, thank you, sir. And next one is that now we are seeing increase in the sale of the value added products so, how much contribution of these products can be seen in the revenue by 2018?

Makrand Appalwar: I think we are targeting around 20% of water conservation and 5% of agri in the 2018 and advance composites and specialty will be in the range of 43% for advance and 32% for the specialty packaging and this is the targeted figures for 2018.

Umesh Patel: Thank you, sir. And the major raw material is from crude oil sir, so if what will be the impact on the EBITDA margins even when the crude oil prices increase more than $60 per barrel?

Makrand Appalwar: As I explained you in the past also there is no direct impact of crude oil on our pricing because we maintain the inventory close to eight weeks so that whenever there is a change at the time we get the order we buy the raw material so there is no specific impact on every order to order basis. But you know there is small indirect impact as we have much stronger ability to pass over the shocks either it goes up or down it goes to customer or end user in the crude oil side. Of course there is a small change in this because let us say if crude oil goes at above 60 so a bit of working capital will be used more so a little increase in the working capital cost but that is not a substantial that does not impact the product pricing or EBITDA. So we have you can say a very good ability to pass all the pluses or minuses in the crude oil directly to our customer.

Moderator: Thank you. Our next question is from the line of Vaibhav Bith from Motilal Oswal. Please go ahead.

Vaibhav Bith: Sir, on the flexi tank sir how big will be the opportunity in that space and do we only target domestic or…

Makrand Appalwar: No, we do not actually target domestic we are operating already in the international rather than product has been Indianized. The product was first sold in Spain for carrying wine from Spain to Russia. So it is actually a product which is brought to India by us after distributing in the international market. So that but that is more of an institutional selling and more of a commercialized activity. Here in India it is getting into the domestic market, the revenue or the estimated market size of the flexible tank has been mapped at around Rs. 3,200 crore PWC who is working and helping us this go-to-market activity.

Vaibhav Bith: Okay. And sir, how much I mean what would be the timeline when actually things start working on the ground for this thing?

Makrand Appalwar: We are rolling off the first distribution campaign in the month of July for Maharashtra distribution.

Vaibhav Bith: Maharashtra.

Makrand Appalwar: Yes, first, we are only going ahead in the Maharashtra in the nine distribution centers 33 districts will be covered.

Vaibhav Bith: 33 districts and sir, what would be the per unit cost of a flexi tank?

Makrand Appalwar: Generally, in the tank business it is counted in the rupees per liter because it is of different size so telling you one number like it is made of Rs. 1,000 it would not make you impactful conversation. So let us say of rigids like a PVC tank cost around Rs. 8 a liter so we are pricing it in the range of around Rs. 3.50 a liter to Rs. 4 a liter.

Vaibhav Bith: Rs. 3.50 a liter to Rs. 4 a liter.

Makrand Appalwar: But this does not include cycle or carry tank, cycle carry tank is slightly a different animal so it is price little more expensive than normal squarical or cubical tanks.

Vaibhav Bith: Okay. And sir, do we target this through distributor the normal trade route distributor?

Makrand Appalwar: We are considering three pronged distribution route, one through our classical sales channel of the sanitary ware and tank stores. Second through a non-classical channel of grocers and other thing because this tank does not need any fittings and typical piping which other rigid tanks need. So we are also focusing it through Big Bazaar's and super markets and other thing to launch this tank. And third is through the Krishi Seva Kendra which actually reaches up to the smallest of the rural areas also in the country, these are the three principle selling routes apart from that we are also going to launch it through the microfinance companies as either supporting distribution equipment.

Vaibhav Bith: And sir, how much do we target to archive in say the next two years for this?

Makrand Appalwar: Well I will not be able to give you this number here because of the commercial reasons which I would like to…

Vaibhav Bith: Okay. And sir, what could be the biggest risk for suppose this product not working in Indian market any particular reason that you can think of or it is surely going to work?

Makrand Appalwar: I feel, it can surely, it should surely work but to address you what is risk because as you asked there is nothing which is completely risk-free. There is definitely going to be some risk we are going to spend more than Rs. 1 crores and Rs. 1.5 crores for setting up a distribution network, adverting and other thing so that money comes into question because those monies will impact on other things. But definitely, I feel because there is growth in other things also that might not hamper directly our profitability, but one opportunity we might have to redo think I do not think there will not be need of tank because water is so scarce no one of us need to convince each other that water is getting scarce and it needs a storage so there some more Indianization can happen because we have designed it up to certain level but after distributing it actually in method we will feel that no, we have to do something more in this. So that can happen but not in terms of whole I am not coming out some new idea it is not a new product I am just coming up with water tank and they have been used in product from market for ages.

Vaibhav Bith: Yes, okay. And sir, on the EBITDA margin for this product any particular number that you could share?

Makrand Appalwar: Then like almost you can say around 400 bps higher than our existing conventional EBITDA.

Vaibhav Bith: And sir, would it possible for a plant visit anytime soon?

Makrand Appalwar: Most welcome sir.

Vaibhav Bith: Okay. So sir, I will contact probably with your finance team for this?

Makrand Appalwar: Yes, our Secretarial team, Mr. Kaushal Patvi, our CS.

Vaibhav Bith: Okay. We would be interested in having a plant visit, that will be great.

Makrand Appalwar: You are most welcome to the plant.

Moderator: Thank you. Next question is from the line of Nitin Khandkar as an Individual Investor. Please go ahead.

Nitin Khandkar: Is just wanted to understand how much is the operating cash flows for the last year 2015-2016?

Makrand Appalwar: Operating cash flows.

Nitin Khandkar: Yes, for the full year. And you said CAPEX incremental CAPEX will be Rs. 10 crores so I am just trying to figure how much expected FCF, free cash flows?

Rinku Appalwar: Yes, operating cash flows was positive in the FY2015-FY2016 and the CAPEX we have done currently through our internal accruals only the debt portion will come in 2016-2017.

Nitin Khandkar: Okay. All right, just a couple of follow-up questions for Mr. Makrand. Mr. Makrand, from the earlier discussions during the call it seems that you have got a lot of logos as your customers over last 10 years or so. So what would be the policy for getting hold of more bigger logos in future so that the revenue growth is accelerated in line with your CAPEX plans?

Makrand Appalwar: There is a very specific reasons why big logos get align to you, simply like now days there is a new ERP you can say ERP seamless connect of ERP so a lot of Indian companies does not operate on ERP programs. So now we are on the seamless connect ERP, that if say let us say XYZ companies is using SAP and plays a direct purchase order on us we can process and my ERP can put my invoice into his system. So that reduces the whole transaction inefficiency to a lot of level, so that is one thing. We are trying to make electronically seamless operatable systems at company which is a very prominent focus when it comes to attracting a larger clients then offering them an international R&D center, 24 hours tracking and support system like we have a sales team or a support team which operates virtually 24 hours because we have customers who are spread all across the globe so they are working all the time when we are setting in India and all seven days, giving them that offer. Our presence in multi-location also helps them to identify us more closely to them. Let us say there is one company which is an American company but also manufactures in Europe and also in let us say Malaysia and also in Dubai so, once they prepare one specification and say that okay we want a product like this all across our locations, it becomes easier for them we can say we can do that for you, we have the all the positions possible at all part of the world. So that helps. So this is the main thing which is basically why global companies get attracted to the companies which has got a so seamlessness probably we understood is the mantra because everybody at that level are trying to cut down on man power, trying to cut down on the losses or delays happening due to the inefficiency of the value chain. So creating a seamless value chain is one of the important factor or aspect what we notice.

Nitin Khandkar: Okay. Coming to the financial side, over the last few years the difference between gross margin and EBITDA margin is a substantial 20%-odd even during FY'16 you know in access of 20% so obviously being manufacturing in this sector I understand that the overheads are huge but one item which really stands out is the freight so at what levels of revenues would you able to consider setting up plants closer to your customer so that may be you are able to kind of reduce the overheads?

Makrand Appalwar: No, I think we already started this activity. We already started this activity through a Global Bag s.r.o. which was in Czech Republic which is actually a manufacturing company it is not trading company so, what we do is we partially produce the material in India in a you can say knock down or semi-knock down condition send it there and then they take care of the rest. So that activity has been envisaged and done. so it will depend on what kind of volumes we are cranking in those area and how unreliable and expensive is the distribution or the shipping network which is available. So more we are able to reach up to the people we are able to give you... And another thing is the freight cost and the labor cost it is so disproportion because in our product there is a lot of labor cost involved so labor cost in those countries is so much higher that it can easily take care of a little bit of a freight. Freight is not a big deal when it comes to the overall product pricing.

Nitin Khandkar: Okay. And on the payout side, the dividend payout of the company has been very conservative all these years it is 10%-12% only. So what is the view on you know may be increasing the dividend?

Makrand Appalwar: So what we are thinking is it is continuously growing, so it is continuously needing a CAPEX so in case we are feeling that we have to create a value for all the shareholder just giving you some extra dividend – we were thinking that it might just only add certain thousands in your kitty but if we perform well, create nicer products, improve EPS and get better share prices for you it will probably add in lakhs for you.

Nitin Khandkar: Yes, fair enough, I note the improvement in ROE, ROC particularly in FY'15-FY'16 so congratulations for that.

Makrand Appalwar: Thanks and you know like we have to really take care of the CAPEX because it is a continuous process, it is innovating the new product, so some amount we have to save for CAPEX also.

Moderator: Thank you. Next question is from the line of Pratik Singhaniya from Param Capital. Please go ahead.

Pratik Singhaniya: Can you give me the breakup vertical wise in the export and domestic market?

Makrand Appalwar: 50-50 almost.

Pratik Singhaniya: No, vertical wise.

Makrand Appalwar: No, I would not be really able to do that because we do not really cut it like that because all these verticals are cut in order to have some understanding because the teams which are there in the company which are oriented because of the knowledge or the knowledge of manufacturing, type of manufacturing or instrument of manufacturing as well as knowledge of distribution, so most of these verticals are cut on the knowledge side but not the territory side so this figure I cannot give you right away here but if you want we can work on it and come back to you at an appropriate time.

Pratik Singhaniya: Okay. And sir my next question is, is this capacity that we have is it fungible across the product line or we have a dedicated capacity for each of the verticals?

Makrand Appalwar: It has got basically you can say in a staged manner so what we do is we draw threads, we view, so up to this is a common facility. So because it is like just imagine a company which makes clothe, you can make tent from the clothe, you can make shirt from the clothe, you can make turban out of the clothe, and you can make bag, you can also make pouch out of the clothe, so it is like this we have a common facility up to weaving section but post weaving when it comes to adding application then coating comes where the advance composites come into place so then coating system change. Then when it comes to the taking shapes when we are making let us say Air Cushion Protection, it has got a different you can say physical appearances so that changes so up to you can say 70% of the value chain of manufacturing it is a common thing and after that it is dedicated.

Pratik Singhaniya: Okay. Sir, and lastly, sir, whenever you sell your product the EBITDA that you do is on at a percentage of revenues or is it per kg or per tonne basis?

Makrand Appalwar: No, it is more on the percentage of what is the revenue because per kg and per tonne will not suit because all our expenses are in percentage of our revenue so let us say I am selling something at Rs. 100 and Rs. 60 is the cost of raw material then that Rs. 40 is my cost of other things which remains constant. If Rs. 60 turns to Rs. 50 then top-line will be Rs. 90, if Rs. 60 turns to Rs. 70 then it will be Rs. 110 like this. My cost or my contribution is constant or depend on what percentage we fix because my expenses are constant they are not related to raw material or top-line. They are related to my expenses so whatever your expenses and profits are there they remain as it is and the changes in raw material impacts actually the cost model of the price of the product.

Pratik Singhaniya: Right. So suppose when the prices in the raw material goes to Rs. 90 and Rs. 50 respectively would you increase the margin?

Makrand Appalwar: We would, Yes, to certain extent we would increase our margin because that improves, but that is not a very big increase it is a slight point probably it is just a moment point 25 bps just to take care of the increased expenses indirect expenses because of the higher cost of raw material largely we pass on benefit as well as loss to our customer.

Moderator: Thank you. Our next question is from the line of Kalpesh Gothi from Veda Investment Managers. Please go ahead.

Kalpesh Gothi: Sir, thank you for arranging a call, almost after four years.

Makrand Appalwar: Yes, four years, Yes, I understand, it is a longer time. We would have come up a little bit early but the things were not really great as much to come and tell you to the earlier level. We were trying and learning things. We were more engaged in getting the capacities utilized, completing the promises, we thought the best time is when we complete the promise which we gave you in IPO that we have committed this capacity, when we have completed this, we have completed all the promises, then we thought that is the best time to come and say you hello, again, so that you are more comfortable with whatever we said because we being coming from a first generation entrepreneurship that was a lot of apprehension there six year back. So we thought let us first complete all the things so that we can go ahead with more stronger thing, that is all I can say.

Kalpesh Gothi: Yes. Sir, you spoke about some of the products like flexi tank or the cannel liner where you have the only presence so out of current Rs. 200 crores of turnover how much percentage of share contributed by this kind of product?

Makrand Appalwar: Say around 10% to 12%.

Kalpesh Gothi: Okay. And sir, during the con-call you have discussed about your competitor I think you are the only company who is present in this across the four segments. So can throw some light on your competitors segment wise?

Makrand Appalwar: Well I do not know but in specialty packaging there are companies like Flexituff or Kanpur Plastipack, who are listed peers and Advanced Composites, there are companies like Garware who is our one of the Garware both Polyester and Garware Wall Ropes they are in the some of the things which we do then in water conservation also they are there, agri products are companies like Supreme who are doing few things like what we do. So it is a combination of people who are dong multiple things. This is one the application side I am talking the base is unique we are only company who are using the woven polymer as a base while others are mostly in the film side base.

Kalpesh Gothi: Thank you for giving a brief on competitor. Sir, there is a FY'16 I think we have benefited because of the drop in the raw material prices and also we have moved from increase our share of value added product. Can you share how much basis EBITDA margin we have gain because of the raw material fall?

Makrand Appalwar: Well I have to divide it, I will divide it 10-90. 10% is benefited because of the raw material fall and 90% is attributed to the change in the product profile.

Kalpesh Gothi: Sir, one more question, what is the average execution period for your order?

Makrand Appalwar: Eight weeks.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to Mr. Anuj Choksey for their closing comments. Thank you and over to you, sir.

Anuj Choksey: Thank you. Thank you, everybody for participating in this con-call and we are grateful to Mr. Makrand and Ms. Rinku to having addressed most of the questions that have been raised. We will definitely come up with some more inputs as and when possible. Thank you. Good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of K. R. Choksey, that concludes this conference. Thank you for joining us and you may now disconnect your lines.