



“Emmbi Industries Limited Q1 FY2022 Earnings Conference Call”

August 12, 2021



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

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Ms. Maithili Appalwar - CEO, Avana

Mr. Yash Punjabi - COO, Avana

Moderator: Ms. Parvati Rai – KR Choksey Research



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Moderator: Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited Q1 FY2022 Earnings Conference Call. This conference call may contain certain 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 assumes no responsibility to publically 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, 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 Ms. Parvati Rai from KR Choksey Research. Thank you and over to Madam!

Parvati Rai: Thank you. Good evening everyone. On behalf of KR Choksey Research, I welcome you all for the Q1 FY2022 Earnings Conference Call of Emmbi Industries Limited. From the management side we have Mr. Makrand Appalwar- Chairman and Managing Director, Mrs. Rinku Appalwar - Executive Director and CFO, Ms. Maithili Appalwar - CEO of Avana and Mr. Yash Punjabi - COO of 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 to Mr. Maithili Appalwar for his opening remarks. Thank you and over to you, Maithili!

Maithili Appalwar: Thanks, Parvati. Thank you everyone for being on the call. I am really excited to welcome you this time. We had a phenomenon quarter where our revenue grew by almost 112% and EPS grew by 322% compared to the COVID year, however, even if we look from pre-COVID number, the year before last year our revenue grew by 66% so it is a great, great growth for the company regardless of what base we are comparing it on. I am happy to announce and congratulations to all shareholders because this is the largest quarter in our company's history, we made about 122 Crores in revenue. There was 46% growth in EPS from the Q4 of last year as well. So these were the kind of the big numbers that we are very happy to announce.

In addition to this, I would like to explain the reasons behind this growth and why we were able to do this. Firstly, it is that necessity is the mother of invention and last year we had very, very little labour and with that labour we had to do something to join up the revenue and this resulted in a lot of different innovations that helped improve our production efficiency by a lot and now even with the added labour, we are still continuing with those measures that we had so we have a production efficiency and now we have the manpower which is one big catalysts for growth. In addition the US and European markets have grown pretty significantly which has led to a very strong export order books for us.



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Finally, on Avana side we have had a relaxation in a lot of the detailed restrictions that we had and because of these relaxed restrictions we are seeing that is a pickup in demand that we saw drop a little bit last year similar to a lot of other retail company. I would like to announce next that we are doing a little bit of a reclassification of our vertical, which is something you may have noticed if you look through the presentation. Earlier we used to have split between advanced composite, water conservation, etc., but now we have decided that instead of splitting it on the basis of the product and the manufacturing type we will be splitting on the basis of the sales or distribution system.

So, we now split our verticals between B2B and B2C. Within B2B we have them split between international business and domestic business and within B2C Avana vertical we have a split between consumer durables and consumer goods. Consumer durables includes pond lining, canal lining basically all of the product which are the large ticket items, larger products size of Rs.1 lakhs and consumer goods is the retail vertical which we launched recently which has a lot of smaller ticket item where the median size of the order is between Rs.500 and 1000. The reason for doing this reclassification basically what we wanted whether there should be an improved transparency for external stakeholders, shareholders included because when we split it by the type of sales system and by the type of business is very easy for people to see and understand which vertical are driving growth which is once the company seeing a growth driver which is one that a little bit more relaxed.

Secondly, we wanted to also on an internal side the distribution system effect how we create, how we market, now we produce the products so that was something that we wanted to pay a lot of attention to so if even there are some products which we sell in two different size for example, we have lenobag which we sell through Avana and we also sell them through our international business, but the way the product is made and the way market is, is very different on these two sides. We wanted to make sure that we are defining it in the correct way. Another very good thing that happened this quarter was that our capacity utilization was up to 87%, pre-COVID our capacity utilization was at about 76% and we are looking at 11% growth.

The reason this is great is because it will help us grow without any major capital expenditure and when there is capex it will also make sure that the utilization is maximum. Now I just like to talk a little bit about the growth drivers for the different businesses, so the international business we are looking at very decent growth in the next couple of quarter, the reasons are mainly that manpower availability is excellent in India right now, we added a lot of products and regions, so earlier we were spread across 57 countries, now we are present 66 countries the latest addition is Madagascar we just last added and also adding product so for the same customers were cross selling and up selling which is also helping the business growth.



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In terms of the consumer durable Jalasanchay franchise this was a very strong quarter and the first quarter typically because it is the pre-monsoon quarter, however, one thing that was different this year compared to other year was that normally the other years, our business seems to be very restricted to Maharashtra, a little bit in Rajasthan and little bit in Karnataka, however, at this time we saw a diversified across five states and the split was very significant this means that if there is a monsoon issue in one area or another our risk is much more divided and so the business is a lot stronger from that perspective.

We are also seeing that after running the TV ads two times we have seen a massive improvement in the brand value of the product and that has helped us lodge us on the consumer end but also on the channel partner and to add more dealers and distributor. Finally, I would like to give an update on the consumer good segment which is the latest segment that we have launched. To explain that a little bit, this year we only launched that segment in Maharashtra and we started with six products namely Murghas bag and Avana bag and this quarter we made a revenue of 3 Crores, which was great. We are all set to achieve the annual targeted revenue of 10 Crores this year and I am pretty sure we will hit the target.

Another update for that vertical is that for example with the Murghas bag the season is now coming up and just pre-season we already have our product placed across 400 retail stores in Maharashtra and the liquidation of the product will be supported by not just offline campaigning, supported by 20 plus sales people in Maharashtra, we were also launching a TV ad for the product which will help us improve pick up and help us improve recognition across the state.

Now just I like to spend a little bit of time explaining why the consumer good segment of Avana will scale a lot faster than anything else we seen within the company. First of all the system is extremely asset light and it is supported by partner manufacturers so all of these products we have a part of the manufacturing done inhouse, but a large part of the manufacturing is outsourced and we were doing the designing as well as the quality control, so this helps grow quicker without major capex that we mentioned. Secondly, the market is massive for agro polymer, there are almost 17 states in India which are horticulture that are vegetable and fruit producing states and so each of those states have a very, very large market size for all of these product and because we are not just entering in a single product since we are contracting it out we are not tied to a single product, we are able to do a lot of different products so the seasonality is balancing, we do not have to stick to one product or one season, as every single time in the year one or the other product is working.

The market is also not niche, it is not similar to pond lining, where pond lining is a consumer durable, the market is slightly niche markets, in the non niche market it work everywhere so the time which we have to spend in market development or market understanding in pond lining is



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virtually non present here and any market which has a high vegetable or fruit crop production is a great market for the product. Once the retail system that we have is ready it is not going to need any setup similar to pond lining, so basically if you look at companies like Chobani which achieved like a billion dollar turnover in 10 years the reason that happened was because they were entering a set retail system so they enter the retail system of basically grocery stores like cool pool, etc.

Now what we are doing here is that by saying that there are hardware and there are agro polymer stores spread across states that the system that we want to enter versus in pond lining is more similar to car dealerships, a tractor dealership where we have to go and create a distribution system which takes a lot more time as well as investment from our channel partners. Also once our distribution system is setup it will be very easy to add revenue by adding products, for example, Murghas bag was something we had done for the last season as well but this season we also launched thread which I mentioned as a new product so while we had about 200 retailer setup for Murghas bags we also linked up our thread product which helped us to add revenue and once we have a large retail system similar to what JSW did with paint last year, it will be easy to keep adding revenue by adding product.

Finally, as you see our management has a very strong understanding now building agri details with joint centers which we did not have five years before when we actually started Avana because we were still learning at that point, but now I think we have learnt a lot out of the system and we are ready to implement it as well to our consumer goods vertical. Thanks so much for listening. With that, I will hand over to Yash who will get the technology and the system update for the company.

Yash Punjabi:

Thanks, Maithili. So I am going to talk about some upgraded systems that were operating across both B2B divisions and the Avana B2C division. I will be focusing on Avana for now since last we were doing some brand new systems and there is a bit more to talk about, but I will also touch on some points about the B2B vertical as well. So starting off with the consumer durable which has Maithili mentioned was mainly the pond lining products, we have incorporated a lead management system, we spoke about that in the last call as well, but now that we have had it running for a few months we can see some numbers and we reduced our lead fallout by two-thirds for appeal tail tap is able to keep up with lead much better now.

Another big help that we have had from this lead management system has been during ad, since we have run ad twice now we have seen the amount of calling that come to a toll free numbers in huge and so having a system by which we can manage those leads and pass it out to the correct sales person has been instrumental in making sure we can actually convert the money spent on the ads into sale so one success story from here is that if farmers call the toll free number and



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they have a ready pond which is already dug up and waiting to be lined we have been able to get our sales person out and visit the pond within a day of calling.

Touching on consumer goods now this has been a major factor where systems have been instrumental in making sure we can scale the business and move forward with it so with consumer durable as Maithili mentioned that big ticket purchases which means we have been defined that is larger than one lakh and an order size so with durable we used to doing a couple of big dispatches per day and that is similar to B2B as well where within a day we have just a couple of big dispatches, but now with consumer goods were doing maybe ten times as many dispatchers per day but in smaller quantities.

Along with the number of dispatches increasing the number of cues has also increased and durable we have less than ten cues across different lines of pond line and accessory but now in consumer goods we have had around 80 plus cues and they are growing pretty rapidly. So in understanding the inventory we have on hand and understanding in which warehouses and where all of that inventory is kept has been very helpful for us and in addition to that, we have to maintain packaging and marketing materials for all these products which also we need to keep track of inventory. So in the last quarter when we just launched this segment we were falling behind and struggling a little bit with dispatches, but because of these new systems that we have implemented we have been able to keep up and grow the vertical much faster than we expected.

The new systems take into account everything from accounts, production planning, inventory, invoice generation all the way to arranging for dispatch and sending info automatically to the customer with the tacking information. Another big part about the system is that it automatically searches for abnormalities and alert management when it finds it such as may be if we are running low on stock on a product or if we have sales staff they are not hitting the target on time. We have been using the system to allow us to scale rapidly because now that we can increase sales up and still manage them through automation and now that we can increase the number of customers, geographies and products and still be able to manage all of it, it has been helping us add on these different things and still keep up with everything.

Similarly, we have been doing this kind of digitization in the B2B segment as well and we have been putting similar automation in the existing ERP system, so these automations will check through reports for abnormalities and report up and we do not have to do this manually anymore, so the benefit of this is that with same amount of management were able to increase our manufacturing capacity as well as our sales capacity without having to hire anymore and example of this for manufacturing is that we implemented a loom management system where when we need a certain amount of fabric for an order once the loom hit that fabric it automatically stops and we are not relying on the operators to be measuring that constantly and manually stopping



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the machine so that has been reducing the wastage significantly. With that, I will hand the meeting back to you. Thanks.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.

Priyank Chheda: Hi, team congratulations for the great set of financials. So, my first question is with respect to the reclassification of the verticals that we have done, it would be great if you mention the percentage breakup in the revenue or the absolute revenues every quarter so that the transformation that from the previous quarters to this quarter it would be easy for us to compare it?

Maithili Appalwar: Priyank, we understand the concern, we do have pie chart which we have in the investor presentation that you can see which shows that the international business in B2B is a little bit higher than 50% and the rest of them are split, I have also pretty clearly told you that the Avana consumer goods revenue is 3 Crores for this quarter, the reason why we are not doing very clear percentages and very clear revenue figures because for confidentiality reasons and because we have a lot of other people other than the shareholders who are listening to the call we do not want to give out exact number, but I think the pie chart will give you a very, very clear estimation if you just look at it and as we update the pie chart from the next quarter we will also show you the changes that you see from one vertical to another growing or declining quarter to quarter.

Priyank Chheda: That is fine, that gives an indication not a clear cut idea about how much is the Avana division contribution any ways Avana so consumer durables what was the revenue for the quarter if you can share that?

Maithili Appalwar: Priyank, I am just waiting on that number if you have another question I will answer that while somebody from the team will pull that number.

Priyank Chheda: Sure, my broader question on the capacity utilization which has moved onto 87% so what would be the percentage capacity at which we can optimize and after what revenue we shall be looking at additional capacity expansion?

Maithili Appalwar: You know we can actually move up 100% capacity utilization, however, the end of the third quarter this year we are planning an additional unit which we had mentioned this CI unit we were actually planning earlier in the year, however, we saw that we were able to drive up the capacity utilization within the company through a lot of manufacturing initiative which ended up being more cost efficient from a capex perspective so we have delayed the creation of that unit to the



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third quarter, but we will still be doing it because we are planning on adding that capacity in this year itself.

Priyank Chheda: So that would be within our premises and would be fungible across the segments that we are there?

Maithili Appalwar: Absolutely, it will be fungible across the segment it will be an addition of 3000 tonnes of capacity and it will be within the same factory complexes.

Priyank Chheda: So, on the other expense part last conversation in Q4 we had one off which were highlighted which led to other expenses at around 17 Crores per quarter, right and that was being guided that it would come down to 15 Crores but that has not come so any deviation on that or one off that you would like to highlight?

Maithili Appalwar: Just a second, I just be handing over to Rinku.

Rinku Appalwar: How are you?

Priyank Chheda: All good, Madam.

Rinku Appalwar: So, other expenses include labour costs and all and that has not been able to go down, but the revenue is up, the percentage wise the cost has come down.

Priyank Chheda: Yes, I understand, Madam, so this would be the sort of 17 Crores quarterly run rate should we assume that it would be new normal now, right?

Rinku Appalwar: Yes, that will be new normal, but it will vary with the percentage of the sales

Priyank Chheda: That I understand that would be an operating leverage that would peak in?

Rinku Appalwar: Correct.

Priyank Chheda: Any luck on the export incentives for our product I believe that was reinstated?

Rinku Appalwar: Nothing till now, we are also waiting, which you can push it from your side I will be very happy.

Maithili Appalwar: Priyank, it was about 20 Crores odd for the Jalasanchay segment and 3 Crores in hydro supplies making about 23 Crores for Avana totally.

Priyank Chheda: So that would be roughly 20% or 19% kind of a total revenues?



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Maithili Appalwar: Correct.

Priyank Chheda: And how much do you plan to scale because we had an earlier guidance across the segments where we would like to scale up Avana to a percentage revenue by FY2024-FY2025 we have discontinued that but then if you could help us reinstate that guidance us how much percentage of the Avana would be by 2024-2025?

Maithili Appalwar: So, by 2024-2025 that is two years from now, so this year currently we are looking at it is at about 19% and I think we ended the year with also a similar sort of division because by looking at the vertical being anywhere between 90 Crores and 95 Crores at the end of the year with is sort of consistent with what the numbers that we have right now if you just multiply by 4 that is the number we are looking at in four quarters, however, in 2024-2025 I think we will see it go up to 40%.

Priyank Chheda: I am sorry a bit confused on to my part if we are saying that it is into four on the current quarterly revenue we would not be touching that 100 Crores mark right?

Maithili Appalwar: No, like I said it would be between 90 and 95 and this would put as 92 Crores.

Priyank Chheda: And in general on the guidance if you can allow me, so in general on the B2B segment and B2C international segment we roughly had an understanding that that would grow at a nominal GDP rate anywhere between 10% to 13% in FY2022 that is point number one, the point number two is the other division which is B2C which is Avana which you said would be 92 Crores kind of a revenue is my broader understanding is correct for me as to picture as to how FY2022 would fare out?

Maithili Appalwar: I mean honestly the B2B segment is looking at a very strong growth this year you can expect all of the other quarters to be inline with this quarter in terms of revenue so we are expecting fairly strong quarter, B2B has seen a very good growth because like I said our major territory has grown in business, US and Europe we are seeing a very, very strong order book from those and because last year we had a lot of time to sort of think and realign the business we were also able to add territories and add products for both the B2B and the B2C business. B2C obviously the retail segment took a more major hit during COVID than B2B did so it is taking a little bit of time to come back up and I understand that the guidance was originally 100 Crores but I think we still be pretty pleased to have a 95 Crores turnover this year because it is coming out the COVID year.



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- Priyank Chheda:** Sure, that is great to hear about B2B the revenue momentum that is picking up so B2B and B2C which domestic and international combined we will be looking at more than 375 Crores to 400 Crores kind of a mark given the 100 Crores revenue in the current quarter, right?
- Maithili Appalwar:** Yes, very easily we are looking to cross that.
- Priyank Chheda:** Just if you can highlight on the margins front, we had an earlier guidance of 100 Crores to 200 Crores this kind of margin expansion for the full year is that intact or we can see some incremental gains given the operating leverage that we are looking at it?
- Maithili Appalwar:** So, currently if you saw that last June we were at about 11.67% in terms of EBITDA and this March we were down to 9.53% so now we have almost picked that up again by about 100 bps from the last quarter so there is a 10.68%, so annually if we look at I feel like we will be significantly stronger than last year at least 100 bps growth should be expected on a year-on-year basis.
- Priyank Chheda:** Would it be 100 or 200 that is what my question was whether it would cross the 100, 150 bps kind of a previous margin given the top line visibility that we have?
- Maithili Appalwar:** I think the hope will definitely be to make it 200 like you ours as well because you are the biggest shareholders in the company but I am going to go ahead and say that 100 for sure right now.
- Priyank Chheda:** Sure, alright. Thanks a lot and I will come back if I have any other questions.
- Moderator:** Thank you. We have the next question from the line of Deepan Shankar from TrustLine PMS. Please go ahead.
- Deepan Shankar:** Good evening everyone and thanks a lot for the opportunity and congratulations for the whole team of Emmbi for great set of numbers. Firstly, I want to check we are doing substantially better numbers in terms of sales but still I think we need to catch up on margin terms, so wanted to understand from the team what is our plan towards improving gross margin terms which is almost a 1000 bps lower than our last year numbers, so are we working towards increasing contribution from our high margin products or passing on the price of increase of raw material to customers, so what is our plan on that front?
- Maithili Appalwar:** There are multiple things that we were looking at in the segment in terms of the margin improvement, one firstly is that because of COVID there were a lot of margin losses that happened as you know to get the manpower back as well as things like that which affected us



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also this quarter, and those will be reduced in the coming quarter, in addition like I said we are focusing on higher margin products as I mentioned even in exports we have now added different product is that we are looking at which are higher margin product lines, we are also in terms of the capacity utilization like I highlighted in the beginning we are looking at high operational efficiency which will definitely also improve the margins in the coming quarters, so those are the major initiatives that we are targeting.

Deepan Shankar: So, definitely this higher utilization is helping in terms of EBITDA margin, but in terms of gross margin there seems to be not much improvement that is why we are wondering whether the product mix has been changing a lot?

Maithili Appalwar: So, the product mix has been changing and I will also just hand over Mr. Makrand Appalwar to give a more clear update.

Makrand Appalwar: See, Deepan what is changing is basically the time has been extremely turbulent as you are aware and our focus this time was getting a higher operating efficiency and you must have seen there are also a lot of reclassification, realignment of activities so in order to achieve further top line, bottom line will automatically follow because we know how to get the bottom line up but in this difficult time it was difficult to get the top line up, so probably you would see at the end of this year both the parameters sitting in a better position,

Deepan Shankar: Polymer price increase has not been able to pass onto customers so is that a lag?

Makrand Appalwar: Yes, there is a lag, there is a lag of around 30 to 45 days.

Deepan Shankar: So that means coming quarters we can see improvement in gross margins?

Makrand Appalwar: Absolutely.

Deepan Shankar: And secondly we have also seen increase in finance cost, is it due to increase in working capital because you are doing now more exports kind of?

Makrand Appalwar: Like that is one of the things that export cycle is slightly larger than the domestic cycle, so that is one of the reason what you are seeing that, but I guess you see the cost in totality the absolute number has gone up but per unit cost has not gone up, cost per unit if you see it has actually reduced, if you see the overall working capital days in the last year it was 149 days, it has come down to 109 days, it is a substantial improvement in the overall working capital days both debtor days, creditor days everything has improved.



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- Deepan Shankar:** So, in terms of this incremental capacity expansion, so what kind capex are we planning to do?
- Makrand Appalwar:** Around 5 Crores to 6 Crores is what we were expecting during this year so the new thought process is to remain as it like to focus more on de-bottlenecking the existing capacities and moving upwards so we are not expecting any major capex during next 18 to 24 months.
- Deepan Shankar:** And lastly in the margin front earlier we used to do 14% kind of margins and our ideal target used to be 16%, so are we on right track over next two to three years we will reach those levels?
- Makrand Appalwar:** Definitely, I think during this year at least you should say anything more than 100 basis happening this year itself and during probably 24 to 30 months you should be able to reach in that direction.
- Deepan Shankar:** Sure, thanks a lot and all the best.
- Moderator:** Thank you. As there are no further questions, I would like to hand the floor back to Mr. Makrand Appalwar for closing comments. Please go ahead, Sir.
- Makrand Appalwar:** Thanks for the opportunity to interact with you one more time and as our management was saying I would separately promise you that we would continue our good performance during the year and will report growth geography wise in the coming months, so if you have any more questions or any other details which you require please feel free to contact us.
- Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Emmbi Industries Limited and KR Choksey Research, we conclude this conference. Thank you for joining us. You may now disconnect your lines.