# “Emmbi Industries Limited Q2 FY2022 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited, Q2 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 can thus differ from those projected in any forward-looking statements. 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 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 Ms. Parvati Rai from KR Choksey Research. Thank you and over to you, Madam!

**Parvati Rai:** Thank you. Good evening, everyone. On behalf KR Choksey Research, I welcome you all for the Q2 FY2022 Earnings Conference Call of Emmbi Industries Limited. From the management side we have Mr. Makrand Appalwar – Chairman & Managing Director, Ms. Rinku Appalwar – Executive Director & 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 Ms. Maithili Appalwar for her opening remarks. Thank you and over to you, Maithili!

**Maithili Appalwar:** Thank you so much, Parvati. Thanks everyone and welcome to the Earnings Call for Emmbi Industries for Q2 of FY2022. I am so excited to welcome you all here because this is the strongest quarter by revenue in the history of Emmbi. We did about Rs.132 Crores in revenue in this quarter which is phenomenal.

Speaking on the half yearly level, last year we were at about Rs.124 Crores due to COVID and other issues and so our half yearly has gone up from that Rs.124 Crores to about Rs.254 Crores. Besides this very basic and central financial parameter this quarter has also been extremely strong for our international business vertical where we were able to maintain a full order book throughout the quarter and even up till now which is about a month and a half into the third quarter we are still at a full order book which is much higher than the current industry standards.

I would also like to highlight that our EBITDA levels have gone up. In last year during Q4, we were at about 9.53% and going up from there we went to 10.68% in the first quarter FY2022, and 11.12% in Q2 FY2022. So, the trend is likely to remain the same going ahead in the year and we are expecting a further rise in the EBITDA levels.

While for a change that we have had compared to last year that I would like to highlight is that last year we had a split of about 50:50 between our export and our domestic division, this year we have a split of about 60:40, 58:42 to be exact in the favor of exports. Also, another improvement is that the company has made this year is significant shortening of the working capital cycle. Last year due to some COVID related issues our working capital cycle was at about 174 days and this year it has drastically come down to about 100 days. Also, two other financial parameters where we were very strong on this year were PAT and EPS, PAT doubled, and EPS increased about 4x from 1.28% to 5.3%. I think all of investors will be very happy to note that last year's full earnings of 4.34% have already been crossed by more than 20% this year as we have reached the 5.3% mark.

Just to continue I will give some slight updates as well on the Avana division and Yash will give a little bit more of an expands into the product development as such. With Avana retail, as we have previously spoken about but just to introduce some newer shareholders who might be on the call today is that Agro Polymer is a huge, it is a massive national market but unfortunately there is not even a single organized player within the Agro Polymers market that operates on a national level. So, as we have seen for example Pidilite is a company that came into a very disorganized space which was the adhesive space and being the first organized player in such a space they were able to get that first mover advantage and create a massive brand within the country.

So, that really the part that we are looking at with the consumer goods vertical within Avana is to be the first organized player on a national level for Agro Polymers and of course with our Rs.10 Crores which was our topline goal for this year that we are online to realize that or even cross it, but going into the future we will not only be looking at expanding geographies which has what has been the aim with the Jal Sanchay consumer durables vertical, but we are also going to be looking at launching new products. Within the last year we have launched about seven products and our target will be that within the next five to seven year we should launch about fifty products that should all be developed with the help of contract manufacturers or manufacturing partners which will help us grow in a very asset light manner.

Now, just to give more of a detail on this I will hand over to Yash and if you have any further questions on this as well or any of the financial that I spoke about for Emmbi I am happy to answer that later on the call.

**Yash Punjabi:** I am going to talk a little bit more in detail about what Maithili was mentioning earlier. Just to reiterate with the consumer goods division, we have been growing pretty significantly in these last few quarters. I am happy to announce that in the previous quarter Q2 we are ahead of our mark of five hundred plus dealers, so those are actual retail shops on the ground in rural parts of the country. Last quarter we talked a lot about profit systems that we were developing to keep up with the increased order volume as the consumer goods division has much higher volumes in the consumer durables division and I am happy to report that systems are keeping up fine even hitting five hundred plus dealers we are not having any issues dispatching our products or getting orders in.

Next, I would like to talk about a little bit of specific products that we have launched. Murghas bag was the product that we launched last year. We had done very well last year but as it was initial launching it was little bit limited in terms of geography. This year since it performed very well last year, we decided that we want to spread it out little more geographically and get it more deeper market penetration. To help with this we launched an ad campaign this was both with TV ad campaign mainly on Marathi news channel at prime-time slots as well as an on-ground branding activities and marketing activities along with this we have launched some branding for all five hundred plus dealers such as shop boards and standees for them to keep outside the shops. This is all improving Avana's brand in this sector and it is working towards what Maithili spoke about in terms of becoming the big brand, the big, organized player in the sector.

Talking bit more on new product development, this year we have also launched a new product which was Thread. This the Thread that farmers use to tie creeper crops the product existed in Q1, but it was selling decently but nothing to like home about. We visited a bunch of retailers; we visited a bunch of farmers to do some product research and some user research. We figured out some improvements in the product and once we made those improvements it started selling really well, in fact this season we were sold out on the product. The reason I am mentioning this is because that is the model that we are going after for each of new products we have made. It is the same that happened with Murghas Bags last year and it is the same that is happening with Thread this year is that we make a couple of reiterations, we figure out is a good product that is accepted by the consumers and then once we find that we are able accelerate its growth through marketing activities and through pushing our on-ground sales team. Having several products in the sector is really helping us negate the seasonality of it. So, of course the agricultural markets stay seasonal but given the fact that we are diversifying into so many different products our team on the ground always has some product or the other which is in season, sometimes several products which is in season, they always have plenty of work to be done. With That I will hand it back over to Maithili to open the floor for some questions-and-answers. Thanks.

**Moderator:** Thank you. Fair enough. We will now begin the question-and-answer session. The first question is from the line of Priyank Chheda from Standard Charter Securities. Please go ahead.

**Priyank Chheda:** Great, congratulations for a good set of numbers. Thank you for the opportunity. My first question is with respect what was the capacity utilization and if you can help us update on the additional three thousand tons of capacity expansion that we had planned has that been on boarded?

**Makrand Appalwar:** The capacity utilization was 84% something and initiation of the capacity of three thousand ton has already ahead and we were little delayed on that because of the various COVID related things but now it is on screen, and I am sure by this financial year end we would be operating that capacity also.

**Priyank Chheda:** Thanks. My second question is with respect to other expenses. The current quarter had other expenses of Rs.24 Crores. Last time when we had discussed we saw that Rs/17 Crores was the new normal to give that trajectory we had Rs.14 Crores as an expense in December quarter then for next six months we had Rs.17 Crores as a quarterly run rate of other expenses and now that is inching up Rs.24 Crores. If you can help us on what driving that higher?

**Makrand Appalwar:** Other expenses also comprise of international freight which though paid by the customer it is a part of our other expenses and you know what has happened to the international freight. International freight has gone up by more that Rs.3.5 Crores over the normal payments. That is one of the things which is strongly attributed to the increase in the other expenses column and as you are aware though it is paid by the customer everybody is hoping that it will come back to the normalcy very soon but that major dent in the other expenses is due to the international freight as that is the largest contributor and then because there is substantial increase in the sales, there is automatic proportionate rise in the expense like wages, expenses, other things that is contributing around Rs.2 Crores are going to the wages and the labor cost or labor welfare part of it.

**Priyank Chheda:** I am comparing quarter-on-quarter our net sales has gone up to Rs.113 Crores from Rs.104 Crores which is Rs.10 Crores increment and for Rs.10 Crores increment our other expenses is higher by almost Rs.7 Crores and as you mentioned Rs.3.5 Crores is freight part out of incremental Rs.7 Crores, is that right?

**Makrand Appalwar:** Around Rs.3.5 Crores is out of the Rs.7 Crores incremental, 3.5 Crores is freight. Because you must be reading all across in the newspapers that freights have really gone on a very, very more than territory that is one of the larger contributors to it and other thing is pertaining to the labor cost. Because the export contribution has jumped from 50% to 60% while exports are always more labor intense and more finer things to be done. Thus, the contribution of the sale has shifted in the favor of exports that are why the expenses pertaining to labor and the other things are little bit higher than the regular one.

**Priyank Chheda:** But in that freight part to clarify Rs.3.5 Crores would be paid by the customer that gets stuck in the working capital right now and will be released whatever the subsequent one?

**Makrand Appalwar:** It is a part of the cycle.

**Priyank Chheda:** My third question is on working capital. It would not be fair to compare year-on-year but if we see for last six months and if we go through our cash flow statement around Rs.10 Crores to Rs.11 Crores has been the drag in the cash flow statement while last six months has been fairly normal for the business. If you can help us what can be a release for cash flow from working capital in next six months and I understand that business has been tough in whatever last periods?

**Makrand Appalwar:** Your question is where the working capital is getting stuck?

**Priyank Chheda:** Yes, where it is getting stuck?

**Makrand Appalwar:** Debtors have gone up by Rs.10 Crores from Rs.9.95 Crores to be precise. Actually, inventories have not really gone up in line with that, inventories have been better. Debtors are this and secondly the money is stuck little bit on the refund side and refunds are on the higher, government money is not coming back as smoothly as it used to come previously.

**Priyank Chheda:** Can that be expected to get released in next six months?

**Makrand Appalwar:** I really do not have a very strong comment to make on that because there does not seem to be any reason it is not happening very smoothly, it was happening quite smoothly six months back and then all of a sudden, every now and then we keep on hearing about the technical glitch which is unexplainable that why is that. If the technical glitch gets corrected there should not be any worry on the smooth flow of refunds which are due to the exports. I am hopeful that it would get corrected soon and we should have better flow of refunds soon.

**Priyank Chheda:** Thanks. I have few other questions on the macro part of the company on the operations. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Deepan Sankaranarayanan from Trust line PMS. Please go ahead.

Deepan S Narayanan: Good evening, everyone, and thanks a lot for the opportunity. Congratulations for Emmbi team for a great set of numbers. Firstly, I wanted to understand what has helped us of strong improvement in gross margins quarter-on-quarter we have seen 37% versus 31%?

**Makrand Appalwar:** Multiple things, I would say improved capacity utilization, better results of various technologies and man machine interface or Artificial Intelligence or various other initiatives which we took in past 24 months started paying and overall typically, in our industry there is quite a substantial k-shift curve has happened, certain companies have done good and certain companies could not do as good as they were expected to. That has created a vacuum or place for everyone who was doing better in their time. That gave us a better ability to price probably that is one thing which we could encash on the good quality of buyers as we had and that has helped us to improve on the pricing and the margin. It is all a combination of effort of better improved utilization factor, finer utilization of man machine interface which we created in past 24 months. Good set of customers who understood the importance of products which has been serviced by us in the difficulty time as COVID that now is getting remunerated because now they want to hang up or hang around with us and that last time one of most pivotal was also lot of people strategically decided to also put some eggs in India who were purely buying from China. Certain customers have started moving from China to India that has also given us an edge over other economies. It is cascaded or a combined effect of all these small things put together. I would say this would continue or slightly improve during the second half of the year. This really is really proving to be very helpful. This seems the third quarter is halfway through as Maithili has told, halfway through and order book seems pretty reasonably strong. I would not be surprised if we see improved version of these results during next couple of quarters.

Deepan S Narayanan: Great to hear, why I asked this question is that because our gross margin levels we have almost crossed even the pre-COVID levels. Pre-COVID levels we were 33% to 35% but we have reached 37% still our EBITDA margins are still lower than our best of 14% levels. In future if we able to control cost it will be helpful to makeup that?

**Makrand Appalwar:** We are trying plus when it was 14% there was also support of MEIS in it, now MEIS is not there if you add 4% to this, we have also crossed here the pre-COVID level. This is without any government external support of funding or the benefits what we used to get pre-COVID levels. We are hopeful that they will come through some day or other but as of now these results what you see they are on standalone.

Deepan S Narayanan: This kind of strong export growth and better product mix is here to stay for couple of quarters?

**Makrand Appalwar:** Definitely, this has been earned during the hard work which we put in during the COVID times, this a gift by our customers for the hard work which we did in that time everybody in the company, the way we were back to the normalcy or during the tough time everybody operated, people at Mumbai, people at Silvassa everybody did excellent jobs. You definitely get rewarded for the good job you do at general way of life, so it is definitely going to be with us.

Deepan S Narayanan: In terms of pond liners currently what kind run rate we are doing and what kind of efforts we are making over next two year – three years where we can see that kind of run rate, which are all the states we are planning to enter at a larger level. Those things we wanted to get an update?

**Makrand Appalwar:** I think Maithili is the best person to answer this part of it, so I will let her do the part bit.

**Maithili Appalwar:** The question about pond lining, in terms of states that as we said before, we are currently present in about six odd states now which is Maharashtra, Rajasthan, Karnataka, Punjab, Haryana and in capacity Andhra Pradesh and now we are trying to increase our foothold over Punjab, Haryana, Andhra Pradesh and Telangana and we are also increasing our foothold over Madhya Pradesh. With this we are appointing more sales staff there, we are trying to understand what the more potential areas within these states are, what are the districts that are higher potential etc., along with this we are also exploring exporting pond liners not just the allied states but also to Europe and the African market. I am also pleased to note that we have actually received the first consignment order from US within this quarter that is another growth stream for the pond lining vertical which is looking strong.

Deepan S Narayanan: Just wanted to get that current run rate of pond liners what we are doing and also in terms of shrimp pond liners we were discussing that is a huge opportunity. Any update on that side as such?

**Maithili Appalwar:** With regard shrimp pond liners we have done about five tests to seven test points that we have created, we are facing a few technical issues with that our product team is still working on the product we have not gotten a go ahead from the sales side for this. But we are expecting that anywhere between January and February to get a go ahead on that and since first quarter is really the biggest quarter for pond lining usually given that is the pre-rain quarter. We will be well in time to catch that for the southern states. It is going to be mostly around the AP and Telangana around the Vizag belt that we will be focusing on Shankar.

Deepan S Narayanan: Overall current run rate of pond liners what we are doing?

**Maithili Appalwar:** For this quarter it was a little bit lower than usual but, on the half, yearly mark we should be constant with the last year. Because of the rainy season there was an off-season rain, so it was a little bit lower this quarter.

Deepan S Narayanan: 12 to 14 per day kind of run rate we were doing last year?

**Maithili Appalwar:** We were doing 12 to 14, so we are on a half yearly mark we are still consistent with that and where the working demand pick up now in the third quarter, but second quarter was a little bit lower we did about 9, 10 per day because the rain was very delayed and very sporadic.

Deepan S Narayanan: Thanks a lot, and all the best. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Mahendra Marlecha from Marlecha & Company. Please go ahead.

**Mahendra Marlecha:** Congratulations to CMD & CFO and their team of Emmbi, it is impressive you have tag lined the bounced back year FY2022. Will you explain us regarding that you have described the four verticals, the vertical wise revenue, and the margin of each vertical?

**Makrand Appalwar:** We do not publish vertical wise margins because it is little bit prone for our competition and everything else that which are the businesses which are making us better. This is we are giving the consolidated numbers only and chart is there which is present in our presentation on page No.14 you can see vertical wise revenue split.

**Mahendra Marlecha:** And about the margins?

**Makrand Appalwar:** As I said we are not announcing vertical wise margins.

**Mahendra Marlecha:** My second question on the export side, you have mentioned in the presentation regarding orders in hand are quite impressive orders you have. Can you tell us about where you are going to execute these orders and what is the volume of the orders in terms of rupee and in terms of volume because of container freight is very concerned the volume also?

**Makrand Appalwar:** You need to know our business that most of our international business is B2B export which is a continuous rotating business we have customers who are buying from us again and again and we have an order book of around six weeks to eight weeks right now in the international exports B2B business and to add whatever is the cost freight and container freight is always included separately we sell the material ex-factory and then we add whatever is the cost at actuals to this. There can be some swelling in the billing cycle but that is not the cost which comes on us, it is a cost which is paid by our customer.

**Mahendra Marlecha:** My third and last question regarding the industry and the company that the last four five years data show that you have well set cycle where your margins improve, your profit improves and then after a certain period of time three year or four year or three and a half year your EPS is down, your PAT is down, your margin is down. Do you think that your company belongs to a cyclic industry?

**Makrand Appalwar:** I really do not agree to your comment that there have been some cycles, but if you see in last five years, after three and half year there was a COVID time naturally with the COVID time it has come down. That is one of the things within this and now it is at the pre-COVID level which has already reached and I guess you just made study of last five years in order to decide the cyclability you need to at least go through three cycles or four cycles which I am sure your opinion will change as soon as you look at it for some five years more.

**Mahendra Marlecha:** My little question regarding on the environment, use of plastic in Agri sector do you think that you will have net carbon credit or that zero credit?

**Maithili Appalwar:** To answer your question, I would add a comment to your last question about the cyclical cycle of the company, just to add to Mr. Appalwar's comments also, it is very hard to tie back into one cycle or one sector because we are present across so many different sectors which is why this year even when a consumer goods were hit so badly we were still able to manage our capacities by switching into the exports side. That is one thing which the diversification helped with is that typical sector or cycles do not hit the company. Now, to come to your question about the Agro Polymers sector, within the Agro Polymers currently we are present in a bunch of different products so we were right from product like pond liner which are actually completely carbon neutral products because the pond lining fabric which we lay is fully recyclable and after the five year warranty cycle is over we also offer to take the polymer back from the farmer and in-house reprocess that material for some other products which we create. This is not used back in pond liner because it is a warrantied product with some other shorter lifecycle product is used back, so that is a carbon neutral product which is the biggest product. The other products which are there we do while the market to give one example, with mulch film where the market demands fairly low-cost product. In that cost which they demand it is very hard to create a product which is bio-degradable; however, we do offer a bio-degradable mulch film product which is priced at 4x of the traditional mulch film. Now, obviously when it is priced at 4x it is going to take a little bit of time to create a market for that product but that is something that our field team is really trying to do is to work hard on selling the products and create a market for it so that when like Jabla Bag rule came that overnight the Jabla bags were removed if something like that happens we are ready with all of the bio-degradable products for each product which we offer and if something like that happens we can switch over to it.

**Mahendra Marlecha:** Thank you for answering my questions and best of luck for the future.

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

**Ashok Shah:** Thanks for taking my questions. My first question is regarding how is our debt reduction program and with good results what is going to be debt reduction in current year and second question is regarding what was the capacity utilization for US FDA approved plant which we set up two years ago and any further new plan for new capex or something like that?

**Makrand Appalwar:** To answer your three questions as, capacity utilization is around 84%, debt reduction per year the long-term debt is we plan to reduce every year by around Rs.13 Crores to Rs.14 Crores per year and third about capacity utilization of the Clint Decor food grade facility. We have already crossed 75% utilization of food grade facility and we are expecting to complete 100% utilization of capacity by another around eight months to twelve months and as Priyank asked in the initial comment that what is the plan for new addition of capacity, we would be adding additional three thousand tons by the end of this financial year.

**Ashok Shah:** What is going to be capex for this year?

**Makrand Appalwar:** That is getting done on the low capex cycle which we have now learned, only the bag making side would be installed in Emmbi and there are lot of companies who are our contract manufacturers or job work partners who would be creating fabric for that particular capacity. It would be aroundRs.7 Crores to Rs.8 Crores. The capex will not increase more than Rs.8 Crores to Rs.10 Crores during this year overall apart from this and debottlenecking and all other minor things go here and there capex would be restricted to that.

**Ashok Shah:** Whatever the debt repayments will be taken around Rs.9 Crores and also new capex of Rs.10 Crores, actually debt will increase?

**Makrand Appalwar:** Debt repayment of Rs.14 Crores I said.

**Ashok Shah:** Rs.14 Cores and new capex of Rs.10 Crores, so actual debt reduction will only be Rs.4 Crores is that true?

**Makrand Appalwar:** That is right but on an extended capacity, which will add to the present capacity or additional capacity of three thousand tons.

**Ashok Shah:** Also, there is some increase in raw material basic cost over last one and half month. Are there any parings being clear because we do take a contract based on price?

**Makrand Appalwar:** Those are like re-schedulable or re-priceable on monthly basis. We have that much of head ups and as I told in the past also, we always maintain the inventory which is equivalent to our orders in hand that does not impact us in either way if it goes up it does not help us it does not reduce our profits or if it goes down it does not increase our profits. It is kind of impact neutral activity for us whether it goes up or down because we are maintaining the stocks that might impact a little bit of working capital apart from that nothing major happens.

**Ashok Shah:** Thank you. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Priyank Chheda from Standard Charter Securities. Please go ahead.

**Priyank Chheda:** Thanks for the follow up. Wanted clarify on the previous question, as per our calculation we would be generating around Rs.35 Crores of net cash flow from operations after tax in whole of the financial year 2022 out of which Rs.9 Crores we have already done a capex as we have seen in last six months and the balance that we plan to do is we plan to reduce Rs.13 Crores – Rs.14 Crores of long-term debt, is that correct understanding?

**Makrand Appalwar:** Yes.

**Priyank Chheda:** On the revenue details I wanted how much was B2B business and how much was Avana B2C in terms of rupees Crores in this quarter?

**Makrand Appalwar:** General idea you will get from the presentation. Exact numbers I would tell Kaushal to communicate you.

**Priyank Chheda:** That would be great. Just a suggestion the page 15 of pie chart that we have on the presentation as a vertical break up, it does not give that good information except pictorial impression. If you can add a percentage in that pie chart it would be helpful.

**Makrand Appalwar:** Sure, I noted this point; I will communicate it to you.

**Priyank Chheda:** On the larger part, we are broadly getting the sense of order for FY2022, now moving ahead on FY2023 if you can elaborate more on the outlook for B2B business both on domestic and international front and as well if Maithili can help us on Avana B2C particularly the pond liner business in terms of what is the revenue spill ability that we are looking at ahead in FY2023?

**Makrand Appalwar:** I will take the question first for the international as well as domestic B2B. I guess this year and year end we would see a growth anything between 45% and 50% over the previous year. Last years' growth and this years' growth both are taken care by this year itself so that we do not loose. Next year we are targeting at least for anything between 15% and 20% growth in B2B, though I have taken international B2B this is about the international. And you would like to hear about Avana from Maithili, I will pass it on to Maithili, so I would say company wise it should be anything between 15% and 25% should be the good range of growth expected after this financial year.

**Maithili Appalwar:** Just to continue with regard to Avana and you specifically asked about pond lining, we will be hoping to take it to around Rs.70 Crores – Rs.85 Crores mark this year at the end of year for pond lining specifically and next year we will be hoping to have it between Rs.100 Crores and Rs.110 Crores only for pond lining. Retail this year as promised will be close to Rs.10 Crores above it definitely not lower but we will cross the Rs.10 Crores mark. So, next year we will be looking at about Rs.25 Crores coming in from retail in Maharashtra which is consumer goods and then we will also be looking at about Rs.10 Crores which is coming from outside of Maharashtra so around Rs.45 Crores total in consumer goods.

**Priyank Chheda:** To continue on the Avana side, I understand we have been doing lot of pen impression with respect to state and within the states. At what level particularly we are confident on pond liners but on the consumer goods side at what level we think that after attaining what level of penetration we would see a high scalability of revenues?

**Maithili Appalwar:** That is a good question. Let me explain this in both sides. First of all with regard to there are two types of expansions which you can have within the consumer goods vertical, one side is which geographical expansion. In terms of the geographical expansion currently only consumer goods are present only in Maharashtra and India has about fourteen to fifteen agricultural states which have high production of fruit and vegetable crops. Those are out of the twenty-eight Indian states, those are the biggest agri markets. Luckily for us they are mostly present in western, southern, and northern India which we have some contact with through the pond lining business. In that sense for geographic expansion that is the kind of per-view that we are looking at. The second of expansion that you get here is the expansion in terms of product, currently like we said we have about seven products which are operational now and of course these seven products will be catered into new state as we start expanding like I said next year we will be having two states added into after Maharashtra hopefully doing Rs.5 Crores of business at least in each added states but in addition to that we will also want to do is add new product at least add two to three maybe more than that product per year that are creating some revenues. It will be the long-term goal for retail is within each state to have twenty different products that do Rs.5 Crores of revenue each. Like I mentioned, there are fourteen states if we look at that it will be fourteen multiplied by hundred which is about Rs.1400 Crores to Rs.1500 Crores of retail revenue and each state's Rs.100 Crores is divided between twenty products. The reason that we want to do this is one that within agriculture products are very, very rain dependent, so when you are very heavily invested within one product that can become a problem when the rain is off or when crop cycle is off. Like just to give you one example when there was the whole issue happening with Afghanistan tomato prices fell in India and because tomato prices fell in India all the products which were related to tomato like took a hit. When you are overly invested there are companies like Iris Polymer for example smaller companies but companies which are heavily invested in a single product that product can take a big hit if the crop is hurt and that is not something which is in any company's control. It is a diversified and they are doing the same thing which we have done with our exports where instead of having a few big clients like some of our creditors do we have a lot of small clients spread across sixty countries. That is what we want to do create a lot of small products that are spread across fourteen Indian agricultural states and to answer your question on when the inflexion will come, the inflexion point will be in three years because currently we are learning some big lessons when it comes to holding stocks, like Yash mentioned this a little bit earlier is that with Thread we would not be able to crack the products in April-May season. The product that we had the price point is being worked with the market and in June season we were able to crack the product finally but then we ran out of stock. This year we are still learning the stock maintenance and that with each state which we add it will take a year to learn the stock cycle because you will have to learn the full products lifecycle over a year as to which month have the high demand and which months have low demand. Within three years we will be looking at that high point of inflexion, but the growth still be very high for this vertical. Like if we do Rs.10 Crores this year and Rs.35 Crores next you are still looking at a 300% growth that I understand it on a small base I do get where the concern is coming from. I hope that that answers your question, if you any followup happy to take them.

**Priyank Chheda:** It does. Thanks for the detailed answer so what we are looking at it is as Avana division which is doing a pond liner plus a different consumer goods for farmers the total potential can be more than 250 Crores to 300 Crores say in the next four to five years that is the target that is getting envisioned as you spoke about it, is that understanding correct?

**Maithili Appalwar**: Yes I think that is a conservative side target but I love for you to hold on to that so you can be more in that.

**Priyank Chheda:** Just continuing on the outlook on FY2023 if a company can guide us more on the consolidated margin profile on EBITDA level we understand there is no export benefit schemes and we are continuing with that if we do not have the scheme and as the proportion of revenue of B2C continue to grow exponentially higher what can be margin profile that we should be looking at it as we enter into FY2023?

**Makrand Appalwar**: I see in the longer run like say in about eight quarters you should not be seeing anything below 25 basis points average per quarter roughly you should be able to see that growth without considering any other factors like I am considering is not going to come if at all it comes then it is a bonus but if it does not come also roughly 25 basis points per quarter should be incremental till say around till 14% to 14.5% but these basis points per quarter average, some quarter might be little more some quarter might be little less, but if you spread it over eight quarters roughly 200 basis points we should see.

**Priyank Chheda:** Just a last question on the PLI scheme for technical textile that were announced does any of our product get classified in that and do we plan to invest in any of the PLI scheme?

**Makrand Appalwar**: Our FIBC as a product gets classified under PLI scheme but yet the fine prints of the PLI scheme are not available product wise, there is a larger scheme which is the smallest possible investment scheme starts from 60 Crores in the open area and goes up on this so it will be unfair to comment at this juncture whether we will be participating or not because the clarity is still not there from the government's side.

**Priyank Chheda**: But Sir how do we take it as we get more details on to PLI scheme I understand what would stop Emmbi to not invest in and not participate in PLI schemes or rather on the other side what are the capabilities?

**Makrand Appalwar**: They are expecting you to spent at least 60 Crores minimum to begin or to start participation in the scheme so I was feeling that this could have been on the slightly they should they might have started it on the little lower side because investing 60 Crores with certain calculations or certain benefits expected in mind they need no substantial capex requirement so that is the only one thing which I feel might push us to reconsider because considering the possibility and I would say direction of I would say low capex investment which we have decided that would conflict with our own decision of asset light manufacturing. So maybe that is the one thing which kind of bothers whether that scheme would be really interesting for us or not.

**Priyank Chheda**: I understand your concern Sir but as Emmbi we are moving towards 35 to 40 Crores of cash flow generation per year and investing 60 Crores for the next three to five years would not be issue right for Emmbi?

**Makrand Appalwar**: It is not an issue but it conflicts with the thought that whether we want to remain asset light or let somebody else invest and we market and distribute using our knowledge and I would say know-how on brand or we again invest into the manufacturing. The growth what we have seen when we have started using the I would say the model of partner manufacturers is much better or quicker than the growth what we use to see when we were solely dependent on our manufacturing. So that is one of the question and once the fine print comes and they can tell us that whether that investment can be staggered or how it has to be done and I would say that decisions can be more concretely taken.

**Priyank Chheda**: Sure Sir we would love to hear that Sir as and when it comes through. Thank you for detailed answers.

**Moderator**: Thank you. We have the next question from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

**Deepan S Narayanan**: Thanks a lot for the opportunity again. Question to Makrand Ji Sir in terms of capex so you were referring to for 3000 metric ton capacity so we will be restricting our capex level to 7 Crores to 8 Crores itself and rest will be outsourced so this kind of plan will be applicable for all our future capexes because earlier we used to do two times kind of fixed assets turn but this considering at this level this could five times fixed assets turn that is why we wanted to understand whether this can applicable for all our future capexes also?

**Makrand Appalwar**: This will be applicable to the products which does not have a too much a proprietary technologies or the product which are using the base mark level infrastructure from the outsourced partners and then we can process them to the level where the technology secrecy is maintained or the IP protection is done because in our country you know that there is a zero protection technically. Like if you reach somebody then he is going to copy you. So the product which can be kept without or the copying is not a point there which are sold because you have better understanding or you have better network, those products can be outsourced but the products which are kept or produced because of the technology would not be outsourced. So I guess initial three years I would say would be the same policy because we have enough gamut of the product lines which can be now given out and which can be because they are given out there is a higher space getting created for the technically more superior product can be produced within our manufacturing setup so that kind of a thing. So next two to three years I would say this is going to be the thought. That is what I was answering to the previous question that investing heavily in to PLI scheme might not be our policy in the coming time purely because we want to grow ourselves in a more asset light fashion than very asset heavy because we already have enough assets so we have to now turnaround with lesser assets and give you as you rightly pointed out increase the asset turn ratio quickly to the higher level so all the other parameters of the company becomes more attractive pertaining to all of us as investor as we are the largest investor in Emmbi so it is definitely most important for us also to make this more investor attractive proposition.

**Deepan S Narayanan**: Definitely that was very helpful. Thank you and all the best.

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

**Ashok Shah**: Thanks for taking my followup question. Sir my first question is regarding how many sales staff we have recruited during last quarter?

**Maithili Appalwar**: We have not actually added any sales staff within the B2B verticals; however, within the retail vertical it is a consumable vertical for Avana we added 20% team at the beginning of the year and we have sort of continued with that also now within the third quarter we are adding team for the next two states which we will be entering, consumer durables sometime we have not added any sales staff.

**Ashok Shah**: Does this government state subsidy have started in ponds?

**Maithili Appalwar**: There was a government state subsidy which was stopped due to COVID that has not restarted in Maharashtra. Subsidies are still on in Rajasthan and Karnataka. Maharashtra subsidy is expected anytime either this quarter or in the fourth quarter.

**Ashok Shah**: What is your view on the PP price future over the next one year due to China and international market and everything?

**Makrand Appalwar**: Polypropylene prices you said.

**Ashok Shah**: Yes.

**Makrand Appalwar**: That is a difficult question but I think we should be anything between $1500 and $1800 in the next four quarters. That is what it is. Right now it is $1605 so we should not go down more than $100 and not go down above $200.

**Ashok Shah**: Still there is juice left in market so maybe price can go up and imbalance can be created?

**Makrand Appalwar**: There is a possibility because there is substantial imbalance getting created all over the world because of a multiple reasons one is political, other is trade embargos, other is disparity of supply from China, another is increase in the crude oil supplies and sucking out the larger amount of crude into automobile or heating sectors so there are multiple reasons where you could see some kind of a movement in both sides but market is not super happy even at this price like buyers are kind of resisting the further increase I would say nobody is wanting to keep the stocks and inventories so inventory pipelines are on a lower side. So it should not cross 1800 that is what is my gut feel is but of course this is just I would say prediction this has got no scientific basis or not scientific understanding it is purely speculative what I understand might happen and should be taken in that spirit.

**Ashok Shah**: So we are already almost 18 months in COVID period so how is competition taken place or competition has got reduced from the unorganized sector for new competition has come in, in the export market so what is the current situation?

**Makrand Appalwar**: Typically, if you see the sector which is between start up to say 50 Crores topline companies. They are having a most difficult time and lot of companies has either stop selling or close the shops because of very high increase in raw material prices and less in demand domestic demand has been substantially subdued for a while during last 18 months so those companies are a little bit in trouble that has automatically created a place for slightly bigger peers of them so that is comfortable position. Internationally, as I explained in my previous note that we are seeing some shift from China to India and inherently because certain companies did a good job during the COVID period or actually the first wave and the second wave was peaking the supplies were maintained by certain companies, those companies getting a better customer loyalty and order positions are better with them and customer is more confident. So overall I would say exports are more pragmatic and they seem to be moving better than the domestic packaging segment. Domestic consumer is picking up, water conservation of course as Maithili explained considering the extended rains cycle this year this quarter water conservation was the only deal on the lower side. So by and large I gave we should have comfortable sale through during this financial year and next year you should see anything between 15% and 25% as a topline growth depending on again such a large band, because nobody knows what is going to be the polymer prices fluctuation so considering all that, that is the thing which I look at it in broader picture.

**Ashok Shah**: In local market there is large number of unorganized or small pond manufacturers so are they any competition or hit being felt by this competitor and some explores or something has happened over the last 18 months?

**Maithili Appalwar**: The question are you referring to local manufacturers who are exporting or selling within the domestic market?

**Ashok Shah**: No manufacturer of pond and everything there is a lot of competition are there any closure rates happened or something has happened in relation or something like that?

**Maithili Appalwar**: Actually within the local segment like I mentioned this in the beginning and the start of the speech also the whole agro polymer market is very, very disorganized in the local sector right so of course the majority of the players are unorganized players and of course there is no price competition but something that we have definitely tried to do within pond lining and that is something we are trying to do within all of other smaller ticket items as well is to not get into the price war and actually do a value sale for all of our products so we price our products very comfortably at least 15% above the market rate if not 20% to 25% and we try to target the most progressive and the largest farmers within each district and within each village so we are definitely trying to hit that category of farmers who wants to take the first move the bigger farmer in the village who is ready to spend on a higher product, who is ready to see whether the products has benefits or not and what we see for example is to tell you about like Murghas Bag which was a product we launched last year we were actually competing with second hand bag, second hand FIDC bag while the second hand bags were priced at anywhere between Rs.200 and Rs.250 to the consumer our selling cost will be between Rs.550 to Rs.600. When we started off it was very different thing but we really focused on selling value to the consumer of the fact that the bag was not contaminated, there was no risk, we were able to supply throughout COVID so our supply will not stop because seasonality is very important to the consumer so now with lot of products with Murghas we definitely seen traction also with our CRED product like Yash was mentioning there was a lot of traction to the point where retailers were telling that is that our Thread brand completely from the Avana thread and so retailers are saying that this was the first stance that anybody the farmer is coming and saying okay some "put some the thread? Because thread is typically within one season they have use it three times so after this use the first time when they get good result they are coming back so of course it was good amount of disorganized players in the market but if we get into a price war with them we will never be able to compete because it is one owner and zero managers and they are just selling directly to the retailers so there is no price competition with that kind of a company but we are trying get into value competition and making so that the consumer understands and there is a brand where the consistency of product behind it and I think that approach is really helping so far.

**Ashok Shah**: What is our ad budget for the current year we are doing something on the TV and everything?

**Maithili Appalwar**: The budget currently for marketing is about 2 to 3% of the revenue of Avana. We are planning on ramping it up to about 5% of Avana revenue next year because this year we only had two products that was completely doing well in the market that we wanted to promote through mass communication. It was Pond Line and Murghas Bag but next year we have about five to six products which this year we have tested, we have got very pure market, risk and now we want to get on to a mass communication level for promotion so because the number of products going up too much we have decided to ramp up.

**Ashok Shah**: Thank you. That is all from my side.

**Moderator**: Thank you. Ladies and gentlemen that was the last question for on behalf of Emmbi Industries Limited and KR Choksey Research that concludes this conference. Thank you for joining us. You may now disconnect your lines.