



“Emmbi Industries Limited Q3 FY2019 Results Conference Call

February 08, 2019



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

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Moderator: Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited Q3 FY2019 Earnings Conference Call. As a reminder, all the 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. Neha Raichura. Thank you and over to you Ms. Raichura!

Neha Raichura: Thank you Bharat. Good afternoon everyone. On behalf of KR Choksey, we welcome you all for the Q3 FY2019 earnings conference call of Emmbi Industries Limited. I take this opportunity to welcome the management of Emmbi Industries Limited represented by Mr. Makrand Appalwar, Chairman & Managing Director and Mrs. Rinku Appalwar, Executive Director & CFO. We will begin the call with a brief overview by the management followed by the Q&A session. I now hand over the call to Mr. Makrand Appalwar for his opening remarks. Thank you and over to you Sir!

Makrand Appalwar: Welcome to Emmbi’s earning conference call for Q3 and again I say that I am glad to welcome you for this conference call. Let me begin with typical way of telling you about what happened in last nine months because this is a nine monthly call also and overall revenue growth or the topline growth for the past nine months was around 15%, which we planned somewhere around that and the best part is again we were able to maintain base growth in the EBITDA level margins, but if you all see we have are almost full, the EBITDA level margin by 54 basis points in last nine months and now it is in the range of 14.9% an absolute number and the same way EPS growth has also gone up and we have 16% growth in the earnings in the past nine months and I am excited and I am happy that we are able to keep the promise what exactly we try to deliver and we are somewhere around the targeted numbers.

Now let me brief you about various parts of the Emmbi businesses. So I will start with first and one of very fast growing and interesting part of our business that is water conservation. So I hope I had a chance to go through our quarterly and nine monthly presentation and you might have seen a new launch, so the best part is now the pond lining business is becoming more and more stable and the better variants are also getting added to that, so we have a launched a fish-friendly pond liner in this Kisan exhibition, which is one of the largest agriculture exhibition for the India and apart from a regular pond lining where the water is stored only for the use of agriculture, we could device a kind of a pond lining where the water can be used for both the purposes, like it can be used for agriculture, at the same time the pond line or the pond, which is created or lining is also able to grow fish into them, so like what is the new thing, what has developed, basically we have seen that we were experimenting and trying to grow fishes in the pond liner and we realize that there is a challenge with the growth of the fishes, so what was happening was, there was a lack of the light because the pond lining was black in colour there was a lack of reflection and there was not enough light they were getting and the growth was restricted to particular size, so in order to solve this problem we have changed some



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technology and created a new technology under the name HABI-TEC, it is derived from the habitat matching like the fishes feel that it is almost like a natural environment get created for them and the growth and the reflection of light is clear.

The growth of the fish itself is higher, so that is a new technology we launched, naturally we registered the patent for the sale and we are hopeful that this would be a new chapter or this will be a new vertical in the journey of a pond liner, so now what is going to be different here is that earlier the agriculture is used to be the only customer for Emmbi as a pond liner buyer because the one man who has some land and he want to irrigate his land would create a pond and for that pond you would buy our pond liner, but producing this fish friendly pond liner, what we did is we have created additional reason for somebody to buy a pond, so now there are people or there will be people who will make standalone pond just for making or breeding the fish, so it is like poultry farm, there used to be a independent poultry farms where the people used to only breed the fishes. There can be now independent fish breeding farms and they might not be directly coupled with the farming activity, so that is one of the best part of this product so that it creates an extra avenue probably it creates more opportunities for Indians to win their breed and for us it expands the market to the more level. Of course this promise that we will be doing the consistent improvement in our product lines to our customer this is the next step towards creating wonderful products.

So let me also let you about the food grade side, which is another very exciting part of our busy manufacturing activity. As you all are aware about year-and-a-half back we spent some couple of million dollars to setup this beautiful food and pharmaceutical grade packaging manufacturing facility, so it is getting its own level of manufacturing, we have added couple of customers, I am happy to tell that we have added couple of customers, which are buying food grade bags specifically, which are getting created and that is reflecting in our export growth. You are seeing that export is better than what previous years were and also like what six monthly exports were in the range of around 53%, I guess we are almost similar level of that in even the nine monthly exports, so food grade facility has completely stabilized, certification that I told you are all over and we have all sorts of certificates, which are required to distribute this products in the western economies at present and now we are focusing on the distribution improvement on that particular product. So our consistent efforts will be always on to improve the profitability, which is one of our I would say targeted way of improving this company's operation around 20 to 30 basis points of EBITDA level improvement on the quarterly basis, we remain focused on that and we will keep on with all necessary things for the need of doing this.

We have crossed the landmark figure of 4000 ponds and I am sure you have visited Emmbi Avana website, so on January 31, 2019 we crossed 4120 ponds so that makes almost 25000 people got their storage of water and more than 16.5 million liters of water storage for almost 16500 million liter of



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waters has been created, so that is I think wonderful way this whole journey is progressing. I am sure you also would have a chance to see few of the new impact is, which has been – one of the impacts is very interesting, I strongly recommend kindly go ahead and see where the ponds were made on the slope ground and because it is always very difficult to store water in the, which are sloping ground, so we consider this experiment in one of the villages in Maharashtra and almost 20 plus ponds are made in that village and that village's average income has almost gone more than twice, so that was the interesting thing they could get very new crops, they actually started producing silk using the silkworm and that is one of the important milestones we are getting, so I personally feel that we are doing exactly as what we have planned in the initial days and that is what we want to continue for the coming time and expected a growth of topline what I expect during this year is anything between 2% to 17% end of this annual financial year and I think similar and whatever growth was collected in proportion is in the topline would definitely be visible in the bottomline, which has been classically done, so this was my initial opening comments and I thank you very much for joining us in this call and now I open floor for your questions. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ankit Merchant from SMC Global Securities Limited. Please go ahead.

Ankit Merchant: Good afternoon and congratulations on good set of numbers. Sir there has been no concern on the financial records you have been pretty much in line, which you have been guided to us, but Sir just one concern I had with the other cost what has seen is over the last three quarters the other cost comparatively has gone up, so other cost as a percentage of total sales, so in this particular quarter it was stood at 15.5% and year-on-year if we compares from 13.3% it has gone to 15.5%, so just wanted your view on this and what is the likely trend going forward in the other cost?

Makrand Appalwar: Just a minute, I think Rinku would be a better person to answer this question, wait a minute.

Rinku Appalwar: Good afternoon. The other expenses, the increase in that is the salary and wages cost a little bit and the logistic cost, the container cost, the freight cost for the exports, last year it was the containers, which we are getting were in the range of around \$400 to \$500, which has doubled around \$1000 to \$1200, but that has already passed on to the customers, which is also seen in the increase in the revenue, so the expense has gone up, but it has taken care in the revenue side.

Ankit Merchant: Yes, Madam and I think that is the reason the margins are also, in a way it has also improved?

Rinku Appalwar: Correct, so that is always there, but that is considerably very high amount and there are some Speciality products under the advanced composite range. For that we have asked for some special material and that has also increased the cost under the other expenses, which is also added in the



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revenue cost and moving forward it will remain the same between 11, this percentage will remain the same.

Ankit Merchant: Sure Madam. Thank you so much. Next question is related to interest and finance charges, so now it is near about Rs.3 Crores and in the past we have seen that it used to be at around Rs.2.5 Crores to Rs.2 Crores, but suddenly it has now gone to Rs.3 Crores?

Rinku Appalwar: Yes, once the MCLR rate has increased first of all and there is increase in the turnover as well, so there is a little bit increase comparatively if you see it is not that much. If you see in the comparison of sale it has actually come down.

Ankit Merchant: But what is the current debt right now?

Rinku Appalwar: Total current debt?

Ankit Merchant: Yes.

Rinku Appalwar: It is on the same range as it was there in September.

Ankit Merchant: Near about Rs.92 Crores?

Rinku Appalwar: Yes.

Ankit Merchant: That is it from my side. Thank you.

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

Priyank Chheda: Good afternoon Sir. Good set of numbers, congratulations for that. Sir just wanted to ask on the response from the financial tie up that we had from banks, so how that has flared up in this quarter?

Makrand Appalwar: It is still not really, I would say that has not really impacted grossly within this quarter because the tie up was announced and then the conversion actually going up to probably the village level, so I would not say that it is the biggest of the response because of the banks yes, but it is going in the right direction like we have started getting the numbers up because people are now started getting the bank loans, so I think almost in last one quarter may have got more than 50 odd bank estimates because people got loan through banks, so this is going to be slightly progressive, I think we will have to wait for around two to three quarters, this banking thing impacted very strongly on the activity of Avana, but it is a successful thing, model is working and people are getting now it is a matter of how we



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properly scale it up, how we spread, how we communicate this to more and more people to get this done, but it is happening, which was added to bank that is why I told you the Satara District Cooperative Bank is also added. We gave a declaration on sorted things, so more on more banks are coming and it is going in the right direction where we feel it should have been doing.

Priyank Chheda:

Sir another macro development that has been happening, which would be impacting us, so there has been farm loan waivers been announced in the states, then there was a budget, which had a more focus towards the farmers and then there is an upcoming election, so what we believe is more money would be handed over to the farmers, so how do we see this as a factor playing out for Emmbi based on the demand factors I am asking?

Makrand Appalwar:

So let me breakup it into two pieces, like first question was what does the loan waiver impact our business, so frankly loan waiver thing actually helps us because if the farmers are not having any loan on their book, but their slate becomes more clean front it become easier for them to borrow more and that can result into getting them a pond and because it is a kind of self repaying activity, banks are more excited to do that, so to answer your first question loan waiver kind of transfer business. Secondly regarding this is election time and a lot of announcements are coming up and farmers are likely to have more cash into their hand, so I guess these announcements are coming and we would be able to see them starting from March I feel that is what has been read in the thing, so business would definitely have more positive because of sentiment improvement is felt to be there, like both the major parties they announced the packages for farmers and in any which party comes probably they will have to take care of farming community of the nation as they are one of the most deserving and deprived part of the society, who needs to be taken care, so naturally they have more free cash available or dispensable cash available, this is one of the product, which can actually create a lot of change in their life, so both these announcements would definitely help us, if I need to make or grow our business.

Priyank Chheda:

Fair enough. Particularly on pond liner Sir, we are broadly present in two states, one is Maharashtra and Rajasthan, what I understand, so just wanted to understand the subsidy part, what is the subsidy provided particularly to pond liner, to the farmers from State Government and is there any change in the subsidy allocations for FY2020?

Makrand Appalwar:

Let me answer your first question, what is the subsidy that has been provided, so in Maharashtra, there are two tier subsidy, the first year of subsidy is for excavation or digging a pond, that is Rs.50000, which generally takes care of almost the 100% expenses of excavation like Rs.50000, Rs.60000 somebody can dig a pond and that means government is giving the subsidy and more than that you must know that in Maharashtra it is almost 57000 number of ponds really excavated, may be a scheme of pond excavation and they are ready to be lined and already 22000 ponds are still line since all these years from it has been given, so there are a lot of ponds already there and waiting for



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setting. The subsidy for excavation or money for excavation subsidy or means for lining it and in the second part of the subsidy there is a Rs.75000 subsidy, which is given for lining, so an average size of the pond requires around Rs.150000 to Rs.175000 for lining the pond out of that Rs.75000 is what we get the subsidy to raise his own Rs.1,00,000 and either he raise it from his own means or fund or he uses banks like what we created now as you are aware to fund that Rs.100000 and it can be taken care.

Priyank Chheda: In the state of Rajasthan?

Makrand Appalwar: In the state of Rajasthan there are two schemes happening parallelly, one is under National Horticulture Mission, NHM, in that whatever are the horticulture is area where they are growing the fruits or anybody who is having more than 50% of his land under growth of the fruit, he gets 100% subsidy for digging and lining the pond to the maximum cap of Rs.3,00,000, so they virtually get the pond free and there is another subsidy scheme, which is operated by their local government, which is also again 100% subsidy, but the pond size is little smaller Rs.220000 for the entire pond where they have no restriction, which crop to grow, it can be independent of whatever crop Rajasthan, so effectively Rajasthan offers 100% subsidy to their people for making the ponds.

Priyank Chheda: Anything for liner, particularly they offer subsidy?

Makrand Appalwar: Say it again.

Priyank Chheda: So they offer subsidy for only pond excavation or it includes liner also?

Makrand Appalwar: It is for lining and excavation both.

Priyank Chheda: Okay and has there been any change in the allocation of the subsidy particularly to the liner product?

Makrand Appalwar: Actually Priyank your voice is very bad, I am hardly able to hear you, and you can redial in or something like that.

Priyank Chheda: Alright, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Vinay Pai who is an Individual Investor. Please go ahead.

Vinay Pai: Good afternoon Sir. Nice performance. I have three specific questions, first am I would not like to view your company from the pond liner business because as per the chart it is hardly 5% of your entire business, and am I right Sir?



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Makrand Appalwar: How much you said?

Vinay Pai: 5%?

Makrand Appalwar: If you see our business slate our total water conservation business last year was 20% and our B2C business was 11% for last half year and it is growing, so at least pond liner business has already crossed 10% for the company, which is B2C part and another export pond liner is another additional business, so pond liner as a whole will be somewhere in the range of around 15% to 17%.

Vinay Pai: Sir, okay then basic question, if you go by this chart Emmbi revenues by division the green coloured bar is your pond liner is it am I right or wrong?

Makrand Appalwar: No Sir, it is Agro Polymer the blue colour bar is pond liner, water conservation.

Vinay Pai: My other question is I want to ask more questions about that big bar 42%. Is there any development on that side Sir because that is the major revenue provider for your company?

Makrand Appalwar: Absolutely, I think the food grade part, which I told you is part of that 42%, if you realize, I spoke quite long about what is happening on the new food grade, pharmaceutical grade, packaging, manufacturing, how we added new customers, how we are having growth and how the exports. Last year, our exports the split was less than 47% odd something like 46. Something was the export, which was moved to around 53% this monthly, so that is happening because of that colour bar functioning better that is because of the advanced composite doing this. The advanced composite is the one thing, which is extremely export driven, so if you see that is one of the reasons why exports are going up, exports in first six months growth was also substantial more than 20%, so I guess we had completely committed and focused on that and that is a very steady vertical. The vibrant is not very high, it consistently grow, it create better and even if you see the amount of improvement in the EBITDA level margin in last nine months almost 54 basis points, the advanced composite business gives a substantial contribution to that, so that business is definitely one of the major bread earner for us and as well as it is making us good money and it is stable, so that is what, there were not too much of comments made on that, but that is extremely better and more focused business.

Vinay Pai: If we compare these four business segments as a percentage the profit comes on mostly from this advanced composite business, is it Sir?

Makrand Appalwar: Yes, the highest absolute number of, if you see the amount of rupees earned in the absolute terms.

Vinay Pai: As a percentage?



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Makrand Appalwar: No percentage wise, percentage wise, the absolute number might differ, so when EBITDA level margins of water conservation business or Agro Polymer business are higher than the EBITDA level margins of advanced composite business, but because advanced composite business absolute number is very high, the amount of money earned by the advanced composite business is higher than the water conservation business. If both the businesses are at 40% then water conservation business would earn more money than advanced composite.

Vinay Pai: My next question is if going to the nine monthly results, the corresponding figures of last year nine months and as compared to this year the raw material cost is quite significantly different Sir, this year it is 63% of your sales, last year it was 57% of your sales, I thought this year the crude prices are down actually or am I wrong?

Makrand Appalwar: No I think as per our calculation last year March 2018 if you see 66% was the worth of raw material and the all the inputs they put together to the percentage of net sale and this year it has come down by almost 2.5% I would say.

Vinay Pai: I thought last year it was lower and this year it is higher Sir as my per calculation?

Makrand Appalwar: You have to ignore the absolute numbers, you have to see the percentage to the sale because absolute numbers keep on going up and down depending on what are the raw material prices or crude oil prices and other thing, but if you see the percentage or to the net sales ratio.

Vinay Pai: Percentage to the net sales only I am talking about that only Sir, cost of raw materials consumed as of 2017 it is 57%, now it is 63%, why so much difference?

Makrand Appalwar: What you need to do is add three columns, cost of raw material consumed then percentage of stocks and trade and change in inventory, when you add these three columns and then take a ratio you will get the answer what you like. You just in fact independently cost of raw material all these three points, which I told and then find out the number you will get the same number as what I was telling you.

Vinay Pai: Fine Sir. My next question is from a shareholder point of view Sir, I am also shareholder of your company.

Moderator: Sir I am sorry to interrupt because there are other participants also waiting in the queue, so may I request you to please come down to the queue. Thank you so much Sir. The next question is from the line of Deepan Shankar from TrustLine Portfolio Management Services. Please go ahead.



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Deepan Shankar: Thanks a lot for the opportunity and congrats for good set of numbers. Sir regarding the pond liners business we are seeing there are a lot of importers and unorganized players involved in each and every region or state if we say, so how are we positioned in terms of pricing, of course we can understand the differentiating factors like wide width and then better UV resistance and all we could see, but in terms of pricing how are we positioned and how do farmers finally make a decision, so he is going by pricing or by quality, so how are we convincing farmers on that front?

Makrand Appalwar: Sure. Let me explain you the business model. This is basically whatever it produce in the factory it is not a direct consumable by the farmers, so if somebody is importing also what you can import is a replica of what I produce in the factory, so this is not a commodity sale, this is a service sale, so what we have to go and do is we need anybody who can have imported material to sell. We will need also a team, which can actually go and install them. Now while installing there are lot of other parameters, understanding what kind of data, it is kind of a completely service backup, so our sales proposition to our farmers is not that we are just giving you a piece of plastic film or a plastic fabric, which is going to store you water or you take it to home and do whatever you like. We always go ahead and talk to him that your challenge is to store water and we have solution for that, so apart from giving him a design how to dig a pond, what should be the size of pond, if you have let us say five hectares of land what are your planned crop, what is your future planned crop, cultivating soya bean as cotton then post you have installed a pond you can think about doing pomegranate or you can think about doing grapes or you can think about doing onions, so we give them a suggestion that okay these are the things, which are going to be possible once you do Jalsanchay pond with you. Secondly we tell him what is the most appropriate size, how is the most correct way to design a pond, what is the most safest way and then we have on the field team, which helps him to take decision, right up to making him visit some other successful stories of successful farmers, connecting with some people around him, so this business is more of a business, which is creating a solution for individual need and for that what you need is a field team, which has got the robust understanding about agriculture and irrigation requirements of various crops, various areas and what are the tropical seasons, what we can suggest them, I would again strongly recommend you must see all our impact trends that would help you like how we convince our customers, like how do we talk to them and what is our selling proposition like we do not go and tell him that okay we are a company in India and we do a great kind of a work for designing this pond and why do not you take it, that is our position. We always want to go and tell that okay look at this way and we have created this wide width film, which is actually going to reduce the number of joints you have, so there is a chance that the tenure of your pond is not go down and if you are spending so much of money you must answer that you have a profit, which is more safer for you to handle and that is the reason why you should engage this thing. So our focus or our proposition always remain, which we try to convince the farmer, the other person on the other side that what is good for you because we make our own lining, we know what is the best generic to fill it, what is the best pressure required to yield it, so people who are importing things from China,



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one cannot bring it to a official pond liner because it is high side marked and covered, so both of the imported products is not ISI marked and it is not qualifying from subsidy also, so that is one of the biggest interest what they have. So that is one of the various positives and this product has a complete service supported manufacturing package. It is not just giving him a plastic and asking him okay, go ahead and try to do whatever you like, it cannot work this way.

Deepan Shankar: Okay, understood Sir and also in pond liners overall business, so we have said 10% of B2C, so what kind of this current capacity what we have, so what kind of revenue potential we can do in this pond liner and then the other remaining, other than pond liners water conservation products we have, so what kind of margins they make?

Makrand Appalwar: I would not be able to give you the individual product wise margins because that is against the policy what we work here, but I can you our water conservation sector wise margins like it is one of the highest margin businesses for us, somewhere in the range of 18% to 19% EBITDA level margin. Apart from pond liners there are other process like flexible tanks, canal liners, flexible pipes, which are all covers for various accessories, which go some with the pond liner and pond liners are also exported, which are not part of our B2C excise duty when we export it abroad and give it to the distributors outside the countries we do not justify B2C, so to answer your question what is our capacity we have installed capacity for manufacturing pond liners somewhere around Rs.90 Crores to Rs.100 Crores of the topline, so that would be I would say roughly within next 15 to 24 months, 25% of our total revenue would be coming of this particular side of the business, which can be largely from the B2C that is what our focus is, we are not pushing too many things in the B2B side when it was to pond liner, we are more focused for technical exports or analyzing exports when it comes to water conservation export, but still there is some level of pond liner exports also happens. So I think I answered your both questions.

Deepan Shankar: Current capacity utilization Sir?

Makrand Appalwar: Current capacity utilization is in the range of 25%, 30%.

Deepan Shankar: Also working capital for this pond liner business, is it widely different from our other businesses because other business we have around 100 to 120 days kind of working capital, so higher contribution from these business will reduce our overall working capital?

Makrand Appalwar: Yes and I think you can see that. If you compare to even nine months back, our total cash conversion cycle was in the range of around 120 days, it has come to around 115 days, that is one of the reasons because all the pond liner is sold on the cash and carry business like customers will have to pay 100% first in our bank account and then only we start installing or going ahead with the management of pond liners.



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- Deepan Shankar:** Okay sure Sir. Thank you and all the best. I will come back.
- Moderator:** Thank you. The next question is from the line of Saral Baheti from Unifi Capital Private Limited. Please go ahead.
- Saral Baheti:** Sir. Thank you for the opportunity. My question was regarding volumes, so how much was the volume growth in this quarter and how do you see volume growth going into FY2020?
- Makrand Appalwar:** To answer that the volume growth was in the range of around 12.5% to 13% for this quarter and the topline was in the range of around 14.5% to 15%, for just nine months I am giving the number and we explain that somewhat similar 13%, 14% volume growth and 15% to 17% value growth would be fair and that is how it will be, as I said the better improvement.
- Saral Baheti:** Will FY2020 margins expand or will be in the same?
- Makrand Appalwar:** We are roughly adding around 90 basis points on a quarterly cycle I would say anything give and take 2 basis points, so if you add up those numbers you would get the answer.
- Saral Baheti:** Alright and last question how do you think the effective tax rate will be going forward?
- Makrand Appalwar:** Next three years I think we have started second cycle of R&D from 2019, so 2019-2020 and 2020-2021 we would still remain under the minimum tax rate, there are no changes, as per the present tax we would still remain in this 21% odd tax rate.
- Saral Baheti:** Alright. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Priyank Chheda from Standard Chartered Securities Private Limited. Please go ahead.
- Priyank Chheda:** Sir just wanted to get a sense of how the prices of polypropylene have been during the quarter?
- Makrand Appalwar:** Prices of polypropylene during last quarter?
- Priyank Chheda:** Yes.
- Makrand Appalwar:** I think they were little bit bullish, they did not really go the haywire post last quarter that is beginning of this year it is flat, it has reduced to about \$100, so they are pre range bound like there is nothing very uncomfortable sales happened during the last four months, a little bit on the lower side, beginning of this New Year, but they were on a very similar range give and take \$50.



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Priyank Chheda: Would you like to share any update on the new states that we have ventured apart from Maharashtra and Rajasthan where we are present?

Makrand Appalwar: I think we will announce those new states at next conference call, which was at the end of March because we are already commissioned, in three states we have commissioned more than 20 ponds now, but it is just to about finalize to pickup, so we will be announcing that in the next conference call.

Priyank Chheda: Alright and just last question on the capex requirement what would be for the capex requirement for FY2020 if you can share and are we planning any major capacity for FY2020?

Makrand Appalwar: We are looking for some large scale capacity installations or anything, but the debottlenecking capital it is about anything between Rs.5 to Rs.8 Crores, which is typically heartening to take care of the operations of machines or taking thereof adding the automation in pond lining business. We are now going big way to add the automation because as the numbers of making ponds is increasing, so there is definitely a need that on the field automation has to be increased, so that kind of capex is going to happen, but it would not cross, it would be somewhere between Rs.5 to Rs.8 Crores.

Priyank Chheda: A right. We are not looking any major capacity addition for FY2020?

Makrand Appalwar: No, not right now, FY2020, there is no requirement of major capacity addition, again there would be a requirement of capacity addition post FY2020.

Priyank Chheda: Alright. New competition that has entered or venture into this pond lining business?

Makrand Appalwar: Nothing remarkable like some mom and pop companies keep coming and going, but nothing very incredible.

Priyank Chheda: Quick update on how the Avana venture that you have started has been the success if you would like to just share some update on Avana?

Makrand Appalwar: What is basically the thought process is when Avana was launched, the whole idea was creating a new generation or a new age or new thought process organization or engaging with a newer type of certain products, so Emmbi has been typically expert company for manufacturing as well as B2B distribution while the game of B2C is basically marketing and B2C and the distribution to the last mile connectivity side, so that is a different set of talent on the board you require and the talent pool you need to attract, so the own Avana initiative was created in order to create that separate identity and a focus for the B2C activity because the size of business when Avana was created for B2B was so large that at times you should overshadow B2C activity, so I did not want that to happen in a longer



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run, so we created this separately who actually are the criticist who are taking care of B2C side and you are seeing the result, the growth is quicker, we are growing much faster with more systematic and a robust way of constructing overall I would say situation where the growth can be sustainable, we can replicate now the states with a lot of yields, so these people were required or these people are required to create that steel frame of the distribution and the marketing and sales of the B2C activity, so that has happened very nicely and Avana initiative would probably go ahead and start focusing on that side of the business and take Emmbi to the next level of its marketing and distribution.

Priyank Chheda: Sir just last question, on the utilization, what is the run rate currently for pond liner per day?

Makrand Appalwar: It is large, three months were extraordinary because of the Kisan exhibition we have actually had a run rate of almost eight ponds in last three months, but I would say when this yearend we should be somewhere around 6.5 to 7 that would be the annual run rate for this year.

Priyank Chheda: Alright. Thank you. Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Deepan Shankar from TrustLine Portfolio Management Services. Please go ahead.

Deepan Shankar: Thanks a lot for the opportunity again. Sir regarding advanced composite business, so is there a substantial market opportunity available for us because this is purely an export driven product and what are our advantages in terms of pricing over there?

Makrand Appalwar: Yes, let me answer your questions in two phrases, first question was is the opportunity substantial, so I would say that is one of the largest packaging market of the world and as you are aware packaging is the third largest global industry, they contribute to close to 15% of the total packaging industry in the world, so to answer your first question is the opportunity large enough the answer is very yes and there is no absolute zero limitation for growth as much as you can produce raise and sell or you can distribute. Secondly what are our advantages over the world, so historically I have been telling in many of my calls that advanced composite product are basically most of the products are connected with some kind of intellectual or proprietary formula is attached to it like anticorrosive, antibacterial or antifungal or flameproof packaging or fire retardant things, so what happens was when this packaging started getting moving out of the western brand and let us say in the initial days when we are competing, when I was competing with American manufacturing most of the people in the world had a question whether Indian companies would be able to deliver this, so now what happened is in last 7, 8 years we have proved the point, that we deliver the same quality, we deliver the same level of competent while designing and supplying you the product, to add whatever extra money you are paying to my western competitor is not because its product is superior, but because its operational expenses are much higher than me, so we could definitely create that cost arbitrage between their



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country and our country because of the better operational cost happened in India, cheaper labour cost, cheaper operational cost of the companies, naturally Indian companies, which has got technologically same level, 7, 8 years of track record experience, certification that all has expected that okay fine this product works, there are no failures happened because of this, so this is the time where we are now, so if you see that the consistent improvement in our EBITDA level margins are also one of the reasons come out of that, that we are able to size our product in the advanced composite better than what we used to price it yesterday. Every time we go ahead with renewal of any contract we will go ahead and tell them that we used to pay anyway less than the western figure of mine, but now that Japanese, earlier it is 10% near to me, now currently 9% lower you have, so effectively their stream is consistently moving towards India, so the stream is moving towards company like us, so what would you think and who had a track record of around 8 to 10 years in a successful supplies of advanced composite product and that is how it is working in favour of.

Deepan Shankar: Okay sure and Sir is there any kind of client concentration out there, so like top 10 customers, what kind of contribution they will make and also what kind of growth we can assume over here, so will it be 10% or 15% plus?

Makrand Appalwar: Let me answer your two questions separately. First question has answer that there is no severe client concentration. As a policy we do not like anybody buying more than 3% as individual company from us and we try to restrict ourselves to any company for more than 3% and try to restrict sale of more than 5% to any country, the extension is to an extent because United State is quite a large market and if you really diverse the country as a one country, but then there are a lot of separate customers in United States, I have a very concentrated buyer huge buying say anything more than 3.5% or 4%, nobody who is buying more than 5% for all favouring done. Your second question was relating to the growth, so our target like we like to setup a growth run rate in the range of around 15% to 18% on the annualized basis and we feel that is one of the more suitable rate in next probably two years because that is the time the B2C and other thing are settling down and we are expecting that once first I would say first level of operation get completed by say 2020-2021 that is the time where we will be adding a substantial improvement in our manufacturing and effectively the growth feed would probably jump after that, that is the thing because then we would have already our B2C settled in couple of areas and the growth in the B2C businesses are much quicker and much remunerative and because the product, which we are handling water, the shortage of water is extremely challenging and also extremely, extremely demanding, so we are looking at in next two years of run rate somewhere around 15% to 18% and post that it should be higher than that.

Deepan Shankar: Okay, sure Sir and what about the new launches what we are talking about like the packaging wool products, aroma lock or poultry curtains is any of them are started and what kind of growth we can achieve from there Sir?



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Makrand Appalwar: Most of them are really started and monetized, even the newest launch is of fish friendly pond liner, we have already distributed more than 25 ponds in the fish friendly design, so unless and until we do not have a commercial launch possible, you do not announce that product because almost year-and-a-half before commercially launch happen and once the commercial launch happen immediately product was given to sales team for monetisation, so all the products in last six to eight quarters, which we have announced are the new innovation of this particular quarter the product get designed and tried and tested and this has happened much before that, there is no question or there is no problem in monetisation. To answer your question all the products, which are being launched in last six to eight quarters have been monetized, of course, the percentage and the success ratios keep on changing and gives us product, we can separately talk about that in case you need more information, but most of them are monetized and going ahead is a part of Emmbi sale profile.

Moderator: Thank you. The next question is from the line of Saral Baheti from Unifi Capital Private Limited. Please go ahead.

Saral Baheti: Thank you for the opportunity again Sir, so do you see debt levels rising in the immediate future or they do remain same?

Makrand Appalwar: Debt level will not disproportionately rise, but if you see the working capital requirement is that going to increase, so the answer would be yes, is the topline are increasing, proportionate working capital requirements might increase, but it would not be towards the capital expenses or the factories as of now, so it can like, it is very difficult to answer this in one line, it is a kind of a balance of how much sale is increased and appropriately how much the working capital is required and how much repayment has happened, so if you see in past probably four quarters the kind of increase what you see in topline and the kind of increase what you have seen borrowings it will be disproportionate, the topline increase is much higher than the borrowing increase, so that it will not be exactly replicating that whatever is new debt will be consistently taken, but there can be some increasing debt because in case the topline is substantially increased.

Saral Baheti: Understood Sir. The last question, obviously depreciation will also remain stable since we do not have any capex?

Makrand Appalwar: Yes, it would be in the similar range.

Saral Baheti: Just confirming the volume growth numbers it was 7.5% and to?

Makrand Appalwar: 12.5% of the volume growth and I guess nearing to 15% value growth.

Saral Baheti: Alright. Thank you so much Sir.



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Moderator: Thank you. The next question is from the line of Shanu Bansal who is an Individual Investor. Please go ahead.

Shanu Bansal: Congratulations on a good set of numbers. I just following up from what an earlier participant asked regarding your export market, what exactly is the time cycle between let us say from the time we get the orders to the time of fulfillment, does it take a few months or is it less?

Makrand Appalwar: The order books are seven to eight weeks like if you place the order today the goods delivered roughly between seven to eight weeks.

Shanu Bansal: Given that there has been a lot of turmoil in quite a few of the markets because of let us say the trade was in case of the US, Europe and UK are being affected by this Brexit and other things, are we seeing any nervousness or concern from our clients, the good thing is we do not have concentration of client, but are we seeing anything or hearing anything from our customers, which in the short-term may be a little disruptive for us?

Makrand Appalwar: Well, I would not say that we are completely interrelated, but thankfully most of the trade war issues are in favour of India that is one of the good highlight world is considering, India is one of the ultimate manufacturing hub to China, so substantial amount of probably these have started releasing towards India, who were not really very India I would say India focused or India like or especially in United States there was one class it was more pro China, so that class moved towards India because they were looking at India as another possible alternative manufacturing hub to China, so that is not really extremely got us back, but yes in Europe there was some concern, we have been looking for something, there is some kind of a worry what actually even the Brexit thing. Brexit is kind of a very, very tricky thing to happen and these understanding was really going to be impact, I guess including the people in the Britain are getting their fingers crossed, so what is helping us in this is we are not dependent on any particular country or economy to a very large extent. The thing is very easily possible plus because the kind of product, which they are buying from us, they do not have too many options that they decided to move ahead and start buying in like instead of buying and importing it from India I want to now decide that go and start manufacturing in UK itself, so it does not go to happen like because only the operating cost arbitrage is so high that is the threat of that localization of probably product buying, which many of us would have especially in a very sophisticated like economies like softwares or other things where there is a lot of things being taught that there can be a localization there, so that is not going to happen because frankly Europeans or Americans or Western world has virtually forgotten the middle class, the middle level manufacturing, so we have to decide that they want to go ahead and start engaging in the middle scale manufacturing, it is going to take substantial amount of time for them to rebuild the things and move on, so I am not too much worried, of course, there is a higher hard work we will have to do, we will have to keep our eyes open, we will have to keep our ears on, keep on speaking to them probably better, so teams are traveling more



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frequently, people are meeting each other trying to get more and more feedback at what been taught about and we are keeping our eyes very open and marking or watching the things closely that we told to get caught any surprise.

Shanu Bansal: My concern was actually less to do with the fact that Emmbi or we would lose market share, it was like a client order because of let us say on the packaging material front it had more to do with the fact that the client business itself or the customer business itself may get disrupted say for example there is this talk about farmers in the US not being able to export into China and so on, just as one example though we may not necessarily be supplying to them, but it was more about their businesses?

Makrand Appalwar: As you gave a very nice example about the farmers in the China, so I would just like to carry the same example, so soya bean was one of the biggest affected, so if you read the soya bean that are exported to India from US in last one year we are almost double the import of soya bean to India, so both China is not, China has a kind of duty and there is a reverse trade happening, there is a substantial soya bean oil extraction as well as bean oil export back to United States, which happens to India, even the smaller Indian companies are now importing soya beans from overseas and producing them and selling it back, so I have seen that there can be a net-net challenge for some few months, but trade or businesses generally find their way from one country or one economies are not revealing or not able to buy because of certain expense reasons, if we will do find out, go ahead and find out some alternatives and find out their I would say ways and that is mostly happening in the commodity sector, what you are referred is, so we have not really in a very commoditized packaging activity and more of a specialized packaging where still there is no major duty concerns or duty war is going on where we could export highly specialized chemical whether this country or that country that is so surprise there is less number of technologically sophisticated people who can handle those things comparatively taken peers. Till now we are not seeing any kind of a slowdown, like we are in almost beginning of February and my eight weeks order book still in the first week of April is already taken care, so at least this year I can guarantee you that there is not going to be any shocker.

Shanu Bansal: Very reassuring. Thank you so much.

Moderator: Thank you so much. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Mr. Makrand Appalwar for closing comments.

Makrand Appalwar: Thank you so much all the people on the call from all parts of the world, I can see that they are from every part of the world and thank you, extremely excited about talking to you always, you are most welcome anytime to visit us as a manufacturing company or our office for getting any further details, we will be happy to answer most of your calls and most of your information to the best of our ability. Thanks a lot to KR Choksey also for holding this call and giving us this opportunity to interact with an eminent people across the world. Thank you very much.



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