



“Emmbi Industries Limited Shareholder's Conference Call”

September 22, 2017



**MANAGEMENT: MR. MAKRAND APPALWAR – MANAGING DIRECTOR,
EMMBI INDUSTRIES
MR. RINKU APPALWAR – CHIEF FINANCIAL OFFICER,
EMMBI INDUSTRIES
MR. KAUSHAL PATVI – COMPANY SECRETARY, EMMBI
INDUSTRIES**



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Moderator: Ladies and gentlemen, good day and welcome to the shareholders conference call of Emmbi Industries. 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. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kaushal Patvi – Company Secretary of Emmbi Industries Limited. Thank you and over to you, sir.

Kaushal Patvi: Thank you. Good afternoon everyone. On behalf of Emmbi, we welcome you all for shareholders conference call of Emmbi Industries Limited. I create this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar – Managing Director and Mrs. Rinku Appalwar – Chief Financial Officer. 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. Over to you sir.

Makrand Appalwar: Good afternoon everybody. Today at this desk, I have been joined with my colleague Rinku who is the CFO and my another colleague, Mr. Sanjay Rathi, who is an Independent Director on the Company. Thank you all very much for joining in this call. As we started this process last AGM, we call this as an AGM or a shareholders con-call. So in order to bring in the essence of connectivity and create Company's whole operation in a more transparent way, we thought it is a great idea to reach all our shareholders under this important day of AGM. This will make all of you possible to talk to us, maybe physically you are not present at the time where the AGM was there. But we still can interact with each other, we can address all your queries. You can ask us something which is relevant to the Company. So this is the reason why the whole efforts have been taken.

Let me tell you regarding this year's annual report, I am sure by now you all must have received the report and you must have went through it. So the main purpose or the main prologue behind it remains the sustainability which is the second strip of Emmbi's operation. Last year you must have already cherished the blue streak, it was all dedication given to our blue collared employees. This year entire dedication of the annual report remains the sustainability which is a green streak of the Emmbi's risk. So at Emmbi we define sustainability little more than just eco-friendliness or green thought. We define sustainability as a sustainable business practice, sustainable manpower management, sustainable business growth and sustainable operations. So this is the core of the year's activity and we would like to continue our efforts to take the company forward in a direction as promised to you. We would like to do all the necessary things which have to be done. In the previous year, we have almost completed all our capital expenditure related things and the two new projects, water conservation and Clean Tech has come up during that period and both the projects have gone



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on the stream and we will be able to reap some fruits during this next two coming quarters in the present years.

All the plans which are informed to you through our presentations given at the end of every quarter remains exactly as they are and company is taking all the necessary efforts to make those plans happen into the reality. You must have seen that slowly Emmbi is getting visibility in the international market also. As a pond liner manufacturing company, some of the important publications have mentioned our names as one of the major players as of pond lining manufacturing all over the world and that is the important thing, that is an important benchmark, landmark I would see in the way. So Company is taking a new shape. All the new products are getting produced or falling in place in right way as what they should be. And as of now, we are doing reasonably well barring the small runway hiccups which we are getting because of the new taxation system. I think everything is in the order. So I thought I have given you all the basic prologue about this call and without spending more time on what I want to say, I would like to hear what everybody wants to ask us or want to understand from us. Now I would like to open the floor for the questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Pankit Shah, who is an Individual Investor. Please go ahead.

Pankit Shah: My question is regarding pond liner business. I want to understand what is the risk in this business, as in what is the risk in pond liner business, as in more and more land is getting into irrigation and they are trying to get canals?

Makrand Appalwar: Okay, you need to understand the business model in order to understand the risk and reward in this particular area. So basically, pond liners are used for making a temporary or permanent water reservoir and now why are people needing those water reservoirs. So in the old irrigation system what we had in India, most of the time we used to use flood irrigation. Flood irrigation is, when there is water which is coming out of the canal or land or reservoirs like let us say, Sardar Sarovar one of those types, that water was driven by a completely flooding pattern to the farms. Now because there is a substantial water shortage and more and more land is coming under irrigation, the requirement of water has increased. So government has changed the rules or norms for many crops like sugarcane and another that no flood irrigation water will be available and an intensive irrigation should be used. Intensive irrigation means either through drip lines or through sprinkler systems or anything which is not wasting the water precise or specialized water supplied through source, something was to be done. So these are the reservoirs required. So if you are using any intensive irrigation system, you need a stagnant source of water or a source of water of your own. So this is a product which is helping farmers to create that stagnant source or a source of water of their own. So what we are exactly doing



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out of this business, we are actually working like an insurance company. We are derisking them from possible in certain uncertainties of rain during that period when they are having particular crop. So this product is more than just a product. It is a complete ecosystem you need. So what we are doing during this, so you asked me the question what are the risk factors connected to this. So this product is not only the product where you produce it from the factory and it is all done because it has to be produced from the factory, it has to be installed on the field in one farmer's risk, it gives a service, the design and advisory relating to, what size of your land parcel is and what is the most viable size of pond you should make for what particular crop. So that intellectual support is needed to be given. So all these things are making a kind of an ecosystem around it. So unless and until the companies or the people who are involved in this business don't give them a proper advisory, it might not really work out the way what we are expecting. Right now, the requirements are good, water stress is very high, you must have experienced like being always talking about this that there is no problem with the rainfall. Now if you see this particular year, we are just -3% of our normal rainfall. We were -5% and in last two days we have almost 2%-2.5% of rainfall. So we are just -3% on our average rainfall. But if you see before 3 days, almost 15 or 17 days were dry period. It was all getting heated, there was no water, there was no humidity. So rainfall has become very scanty and kind of a bungee. It is not falling equally across the rainy season and that is causing massive issues when it comes to water storage because what happens sudden downpour, how it typically happened, last 4 days it rained so much that this particular water was not really usable for the mankind, everything was drained through canals into the sea. So what we are doing through this product, we are derisking people from these kind of situations, like sudden downpour they need to save water and in the lean period they can use it.

Pankit Shah: Sir how many ponds are you making per day and what is our target in that?

Makrand Appalwar: Roughly, we are making around 4 ponds a day in the last 6 months, around 4 ponds and we intent to have like 3 year down the line where we will reach at the peak capacity of this, we have to make around 20 ponds a day.

Pankit Shah: Okay and you are targeting in 3 years?

Makrand Appalwar: Yes, exactly.

Moderator: Thank you. We have the next question from the line of Vivek Singh, who is an individual investor. Please go ahead.

Vivek Singh: Sir, I was just going through the Company's product this things, you have different products, particularly what I liked about more of this pond liner and canal system which is as India we require much more and I just wanted to, this is my view, maybe you share the view because



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you just talked about sustainability kind of part. If you look at our Northern parts, which is Bihar or Assam, every year there is a flood situation which is happening since independence almost you can say. And there are so much water which gets wasted and all the people just go collapse kind of thing and all the infrastructure goes haywire. So as a CSR activity, if we just show one of the pond if you can build in that area and save water and just give, I think example to government, that how it should be saved and how it can be reused and more on infrastructure and everybody who is going completely wiped out. At least if government and with help of your company, does some agreement, at least next after 5 years we should not have this kind of situation.

Makrand Appalwar:

It is a very noble thought. I totally agreed your viewpoint that there is a substantial mismanagement of a water resource which is taking place and we should spend more energy, time and efforts to get those things. I think the river linking project which is already on is one of the best solutions to that. So that areas where there are surplus water and we transport to the areas where there is a deficient of water. We are trying to do that and your second suggestion regarding making of pond on the CSR basis. I totally liked that idea and I think you must know that, and we also have one foundation called Emmbi Foundation which takes care of the various activities. So I will request Emmbi Foundation people to connect with you and if you have some suggestion which is the area where we would like to see some such thing made or something, then with the help of private and government participation we can definitely try this and as you rightly said it is like a money, you must conserve the resources. If the water is just getting wasted, it is not that if we create some situation where we can create storages for the period or a lean period then that can be very interesting part. We will take this up. I will tell people from our side to connect with you in one of these days and they will take your advice and we will like to work on those.

Vivek Singh:

No sir, simple thing I am asking is when this flood happens, you have the Prime Minister who goes on aerial survey, you have a Chief Minister who goes on aerial survey. There are people who are at ground level and they are just surviving one season to another season building up the things and next season once again if the flood situation comes and that comes from Nepal because Nepal doesn't have the storage system. So they just open up the gates and water comes to this side and completely there is a wipeout. So after 70 years also and then government announces, center announces and the state government announces 10,000 crores, 5,000 crores, where that crores goes we really don't know. If we built one of at least pond and show of the government, I mean instead of giving so much money every year and still people are, not sure whether next year they will be able to survive their life or not, it looks really pathetic. I mean, we are going to mars and we are going to have all the good things, but at the ground still the people are mercy to the water and...

Makrand Appalwar:

I completely understand your...



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Vivek Singh: I don't know in which words I describe this situation. Now you see it is like a sea it seems. You can control that sea, it is not by nature.

Makrand Appalwar: So I totally agree to you and I am sure people at the government are also worried for this and they are taking the necessary steps to get this corrected and get this fixed. Actually, I am not really an expert on that side of the topics. So, I would not really like to comment on how to get this done, but I completely understand your concern and I am sure everybody of us should be concerned and we should address this from our own.

Vivek Singh: Can you throw out some light on other businesses which is we are going to and the capacities built and how in future we are going to afford some of that sir?

Makrand Appalwar: Like if you have noted our typical product lines, we have 4 product sectors, Specialty Packaging, Advanced Composites, Water Conservation and Agro Polymer. So Specialty Packaging is the business with which we started our company around 20 years back manufacturing and all these years slowly all those products stayed back that got enlisted into our product portfolio. So recent expansion as you asked is pertaining to the Advanced Composite range and Water Conservation range like we built up a new branch and facility for the water conservation products like canal liners and pond liners and flood control barriers and other things. And another important investment was in the Advanced Composites where we have built up a facility for making food and pharmaceutical certified packaging. Now that facility is not operational for food and pharmaceutical grade packaging. It has just started few months back and it is there in terms of certification. So as soon as it gets certified, we will start offering food and pharmaceutical thing. So what we are trying to do is we are more married to the needs of the people. We have identified certain and we feel that those are the important areas where we would like to engage ourselves and we would like to address those things to our products. So that is the basic focus company has and did you have a chance to run through the annual report?

Vivek Singh: No sir.

Makrand Appalwar: It is also available now, on website also it is available, everywhere and if you have not received any physical copy, we can still send you some physical copies. I will definitely recommend you just go through annual report for once, in that full details is given on how are we going to take it ahead and what are the product lines and what are the important new things which happened during this year and what are going to happen in the coming years. So that would be helpful to you.

Moderator: Thank you. We have the next question from the line of Vinay who is a shareholder. Please go ahead.



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- Vinay:** My first question is if I see the balance sheet, I see that the long-term borrowings have gone up from 5.2 crores to 15.1 crores. So I hope that this is the peak. We are not going to be more leveraged than this. Am I correct sir?
- Makrand Appalwar:** Yes, you are right.
- Vinay:** So this year's balance sheet that is March 18 balance sheet, the loans will be much lesser than this, is it correct sir?
- Makrand Appalwar:** Yes. Whatever repayments are planned or scheduled during this year, they will have exact numbers which can be told, but that is basically it will be in the required cycle and there is no requirement of any phase borrowing during this 18 to 24 months.
- Vinay:** Another thing is as a shareholder, my request is to publish your quarterly results a bit early. I guess you must have done the SAP or enterprise system by now, you must have completely...So the quarter of September 30th, the results I should expect by within the month of October, is it possible sir?
- Makrand Appalwar:** We are trying that. Last particular quarter, these were delayed mainly because of the Ind-AS adoption. They have to do lots and lots of new calculations, cross-checks, whether everything is as per the new standards and that caused little bit of a delay. So as you rightly mentioned, our target also remains that though the statutory lead is allowable to use the certified days, we are also trying our best to get it within those 30 days. So I am sure I will communicate this with our finance team and request them that they should publish it within the first 30 days of the closure of the quarter.
- Vinay:** My last question is in this quarter, have you all entered with any new product as you said earlier that every quarter you are going to introduce the new product into the market. So in this quarter, have you all introduced anything?
- Makrand Appalwar:** Yes, we actually did a couple of things like rather say the entire pond lining activity, I am sure you must have now fully conversant with it that we are doing. So what we created, we created almost 5 accessories like when you buy a car, you also have accessories which goes with it like mud flaps and handles and blah blah blah. So once we are in the market, we understood there is a substantial need of lot of supporting things which are there which needs to be created. So we have created an evaporation tower, we have created a human safety barrier kind of thing which is required because there was one kind of incidence where however some animal fell into the pond and it took lot of effort to rescue that. So there are 4 products which are pertaining to the range as an accessory to the pond liner has been introduced already during this quarter. Trials are over and commercial lots are getting produced. So that is the new thing which happened. We actually publishing that, like every time as we give along with the



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presentation. So even this presentation will come up with those products importance and market survey and how we expect them to behave. I am glad to also tell you that three of them are also being considered for getting patented and we have already filed a preliminary request application with the patent department and we are hoping that within next 2 weeks, we will get a clearance for filing the final patent. So as soon as we get a clearance, we will peep again all of you and informed about those new patent getting filed for the products.

Vinay: So the presentation for these new accessories, you will be informing the stock exchanges individually?

Makrand Appalwar: We will be individually informing the stock exchange once we get with our clearance for registering the patent and we will also inform everybody who is the stakeholder in the company.

Vinay: Last question is what is the status of those patents which have applied earlier in 2016?

Makrand Appalwar: Nothing. There is no change in the status. So we are still waiting in the queue. So I think our government has promised that they are going to expedite the procedure of patent. So as soon as that happens, I am sure we would go ahead.

Vinay: So current expected time sir, at least 3 years it will take more?

Makrand Appalwar: When we filed, it was 5 years. Two years are over and when two years were over, the time went up to 8 years and now they are saying that they will bring it down to 2 years back. So it is a very difficult question to answer that, but I am hopeful that next 3 years we should see something.

Vinay: Next 2 years or 3 years?

Makrand Appalwar: Next 3 years.

Moderator: Thank you. We have the next question from the line of Naveen Sheth, who is an individual investor. Please go ahead.

Naveen Sheth: In the quarter one, there was a capacity expansion. So I wanted to know what is the capacity utilization percentage and how do we plan to move that ahead?

Makrand Appalwar: So if you have noted, last year before the capacity expansion was there, we have reached or thought almost 90% of the capacity and then we added additional 25% that is 6,000 metric tonnes to it and our capacity utilization with the additional capacity came down to around 70%-78% and we expect that every quarter or probably I will not be able to say quarter by



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quarter, but every year we are expecting at least around 8% to 10% again increase in the utilization. So when this year ends, I am hoping that we will be back again somewhere in the range of around 80%.

Naveen Sheth: And my next question is regarding the topline and the bottomline growth prospects. I know this is futuristic. In the last con-call, your view was that the topline will grow at a rate of approximately 20, but the bottom-line will grow at a faster rate as say around 25 to 30. So are we on a right path to achieve that?

Makrand Appalwar: Grossly, we are on the path where we are expecting 18% to 20% increase in the topline and conventionally, we have seen that when that happens, generally bottom-line increases in the range of what you have just discussed 25% to 30%. So right now to answer your question, yes, we are on the right path. Of course, there are certain small hurdles we are facing due to the new taxation system and other things, but I am sure with the time that will get ironed out and we would be able to fix that.

Naveen Sheth: And also in the past years, I have noticed that the first 6 months is like the growth in the second half is always better than the first half. So will this year be the same?

Makrand Appalwar: Yes, that is a typical pattern, typically happens because of the summer season. In the summer, as you know we are having a substantial labor involvement in manufacturing few of our products. So summer has always been a very manufacturing unfriendly era or time. So first quarter always remains the weakest and typically we have seen that it gets build up over this. So historically, if you see it was always like 45-55 kind of a situation where half one is around 42%-45% and half two is the rest of it. So we see very similar pattern also this year because this pattern what you just mentioned or you just noted has been happening almost last 10 years.

Naveen Sheth: And my last question is on the debt levels, how are we planning to reduce our debt every year. What are our plans to reduce the debt? Are we taking on more debt in the coming 2 to 3 years?

Makrand Appalwar: Let me tell you it one by one how are we going to plan our, but one thing I want to I tell you what is the plan to reduce the debt. So the first is by increasing the operating efficiency, we are reducing our basic working capital cycle and the days in which we turn around the business. This is the one thing and you must have seen that year after year, at least 10 days to 12 days per year, we are getting it down and our final ambition is to bring it down to around 90 to 100 days so that there we will get a benefit. Second, all the term debts are get repaid on the yearly or a monthly basis. So I think roughly whatever we borrow, generally we repay it in the year. So what is happening is now the percentage increase which is happening over past 3 years, it is substantially lower than what was percentage increase happened in the 2005 or 2010. In 2010, we are 6,000 tonnes capacity and we added 12,000. So that means we have added 200% of our



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capacity. So everything was more aggressive, more prominent, more difficult. Now last year when we did it, we added 25% of our existing capacity. We already added 18,000 tonnes and we added 6,000. So only 25,000 came in new. So there was a lesser space on entire system, balance sheet, financiers and because the whole 24,000 capacity would be available for repaying that 6,000 tonnes which was being built reusing the debt another thing, so we are continuously seeking that, that we keep on giving this. And secondly, we will be only borrowing those things which are required for the growth. Most of it is a growth capital. So I do not think except the maintenance CAPEX of couple of crores here and there, on the annual basis next 2 years, we do not have any plans for a major expansion. So I guess this is a kind of big debt period what you have seen and slowly it will keep on tapering now.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I now hand the conference over to Mr. Makrand Appalwar for closing comments. Thank you and over to you, sir.

Makrand Appalwar: I will take this. I will on behalf of Emmbi, thank you very much for joining in and I am sure you will appreciate our efforts to reach more and more shareholders during the future also. We tried to answer most of your questions and queries. If you still have any queries, you know our numbers where to reach us, you can please feel free to talk to us, it is your own factory, it is your own people and kindly do visit your factories and industry and once you see this, it is more believable. So I extend my very warm invitation to all the shareholders to visit your own factory and let us make it more better in the coming time. Thanks a lot.

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