



“Emmbi Industries Limited Q2 FY 2017
Earnings Conference Call”

November 17, 2016



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November 17, 2016

Moderator: Ladies and gentlemen, good day and welcome to Emmbi Industries Limited Q2 FY2017 Earnings Conference Call hosted by KR Choksey Shares & Securities Private Limited. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Choksey from K. R. Choksey. Thank you and over to you Sir!

Anuj Choksey: Good day everybody, welcome to this conference call of Emmbi Industries. We would definitely love to give you the brief of the working here and the question and answer can be followed thereafter. We would be pleased to answer all your questions that could be placed by you. I will now hand it over to Mr. Makrand who will take over the conference call. Thank you, good day.

Makrand Appalwar: Ladies and gentlemen welcome again for Emmbi’s conference call and I really appreciate you all being present with us. Let me run through the last half-year, which has already passed and the results almost in line with the expected. We grew our top-line revenue by around 13% while the PAT has increased by around 43%. The spread between export and domestic has remained almost half and half, little bit in the favour of domestic, so 48% in exports and 52% in the domestic. The product share whatever was planned and I am sure you guys had a chance to run through the investor presentation we have uploaded or sent to you through various ways, and the spread what we are planning which is almost in the similar direction we are moving on. Considering the last five years’ CAGR, the revenue has grown by 26%, CAGR averaging around five years. EBITDA has gone up by around 20% CAGR. I am sure you have had a chance to go through the presentation and you have seen a new section in which we have specifically added two slides which are pertaining to the new opportunities that has been created in the polymer processing industry as a whole in general and we have also given a specific slide which talks about the opportunities which are created in the Emmbi. Now, let me update you with the capital expenditure, which we announced at the beginning of this year. The total announcement of expenditure was 22 Crores between which 15 Crores were to be allocated for the clean room project for the FIBC manufacturing and 7 Crores were allocated for the water conservation and agricultural business project. Now I am telling you about the clean room. The clean room Capex is on the perfect track, the RCC structure is completely done, it is around 50,000 sq. ft. building, in which the RCC side is complete and now we are moving towards going inside and putting the boundaries to the building and other things. All the necessary critical equipments, which are going to be required for doing this manufacturing, are already ordered and they are right now being committed to be delivered on time. Project is going on time at this moment and we expect that this particular arm of the capital expenditure would be functional during the last quarter of this financial year. Now, let me tell you about the water conservation and agri business, where we have

earmarked funds of Rs.7 Crores as in Capex. We already identified a readymade building for this particular project and agreement of sale for this building is signed. We already started customizing that building for our use. Relevant machinery is also ordered and we also expect that this would go on stream by the first month of next Q4 and that is also as per the promised time. Both the projects are running on time, I think probably they are running a little bit ahead of time, we should complete it I think in about 15 to 30 days before the committed date of completion. Regarding the total capital expenditure till 30th December we have spent around Rs.10 Crores till now as a part of the 22 Crores budget which was allocated out of which 5 Crores are raised through the bank borrowings and 5 Crores are out of the internal accruals. Now let me tell you about the new project launch. If you remember my last call, I have assured that the company's management and our Emmbi innovation team would work hard to deliver at least one product every quarter for the next six quarters considering last quarter as the first quarter. We have been successful in keeping our promise. The new brand which is pertaining to the crop protection, Krishi Rakshak, has been launched and as a part of that branch a Mulch film has been launched this month, and we will have a normal big bang launch of this particular product in the Kissan exhibition which will be happening in Pune between 14th to 18th of December and I will appreciate and invite all you participants to please visit us in Kissan, so that you can easily make out what are the potentials of this business in the agricultural and water conversation sector. As a part of the activities, which are being taken care apart from our routine B2B business which, we do we have also started full-fledged efforts to promote these two branches which we have launched, that is, Jala Sanchay which is for water conservation and Krishi Rakshak is for crop protection, so part of that we have taken part in the GRAM exhibition, which just happened in Jaipur between 9th and 12th November, next in line which is coming up is a Krishithon which is at Nashik between 24th and 27th of November and Kissan which is one of the largest agriculture-related exhibitions to be held all over Asia between 14th and 18th December at Pune. Emmbi will be taking part in all these three exhibitions and we will be supporting the two B2C brands, Jal Sanchay and Krishi Rakshak. All the results and presentations are uploaded, and I have given you the brief about what happened in this quarter, now I 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. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from Ravi Naredi, an individual investor. Please go ahead.

Ravi Naredi:

Thank you Makrand Ji and Rinku Ji for the nice results you have published. Last time in AGM, I attended and I tried to meet both of you. Sir can you tell me what is your Capex plan in an elaborate way?

Makrand Appalwar: As I narrated, we are planning to spend Rs.22 Crores for building these two particular activities. Number one is a positive pressure clean room based manufacturing facility for producing FIBCs, which is basically a packaging and advance composite product, which is used for food and pharmaceutical grade packaging. It is mainly an export-driven product with the change in US FDA guidelines, the need of packaging material which is produced under the controlled environment as increased globally manifolds, so in order to capture that particular chance we have went ahead with this particular expansion. This will be complete by the end of the next quarter. We already spent as I narrated around Rs.10 Crores out 22 Crores Capex has been already spent till 30th of September, out of which 5 Crores were borrowed and 5 Crores are from the internal accruals. The second expansion is of around Rs.7 Crores in which we will be making dedicated manufacturing facility for the pond liner and water conservation related product manufacturing. Till now we are using a facility which is used by swing, which means sometime we produce advanced composite products on the same machines and other times we go ahead and start producing the water conservation product. So this always kills the efficiency what actually it should deliver, plus the product quality and the business goes down, so in order to take care of and create very superior quality product as I am very proud to announce to you that the pond liner which we will be launching within this Kissan which we will be making under this new expansion plan will be the widest size pond liner ever made in India. So we will get a net edge over other companies or competitive companies during this year. I am sure you must have ran through the presentation, that in the first quarter we have created almost nearing to 50,000 Crores litre equivalent, tanks we have around to be precise 47.74 Crores liters equivalent, we have already made the tanks and this is going in the right direction, so this is about the Capex.

Ravi Naredi: And after this 12 Crores, any new Capex plan at this juncture?

Makrand Appalwar: Not really, it is not taken care of, but considering my experience in the past, I can tell that around 2-3 Crores of maintenance Capex generally for every year.

Ravi Naredi: It is okay, I am not taking about maintenance Capex, if any major...

Makrand Appalwar: Not, at this juncture Sir.

Ravi Naredi: Because your debt level is now at a very high level, so we want the Capex should be now constant here, so you can grow and earn money and repay the debts, so company can grow in the time to come. That is our main worry.

Makrand Appalwar: We have also the similar thoughts, but at this juncture we have not planned any further Capex.

Ravi Naredi: Thank you Makrand Ji, and you and Rinku Ji both and your team is very excellent, I met with all of them and really I wish all the best Sir.



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- Makrand Appalwar:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from Amit Sanghvan, an individual investor. Please go ahead.
- Amit Sanghvan:** Good evening sir, one question is on this demonetization drive, will it have any effect on your business? If any, how you plan to alleviate this?
- Makrand Appalwar:** Amit Ji, as a business we do not have any direct impact because of demonetization because everything we buy or sell is through banks, through cheques, so this direct currency is not going to impact our business as of now, but I do not know what is going to be the impact on the Indian economy because of this, which is unpredictable. I would say I am more excited about this because this would reduce our competition, which is coming from the unorganized sector, so I personally feel that on a whole this would improve. This might have some short time or in beginning there can be some hiccups and realignment of the business activities and other things, it might happen, but in a longer term or you can say, if you take a 60 days or 90 days window, then this demonetization trial should be helpful to us, because the unfair competition will get eliminated, we feel or I think everybody feel these days that interest rates might come down by 50 or 100 basis points, if that happens probably our borrowing cost will further go down. So by and large it looks like, this might be helpful as of now, but you know, it is too much of a crystal ball watching, so I cannot really guarantee you this is going to happen this way, but it is expected that this demonetization might help us.
- Amit Sanghvan:** And one other small question Sir. What additional revenue we can expect after this Capex is done?
- Makrand Appalwar:** This is done in order to achieve a 20% CAGR considering last year as the base year, so every year for the next three years we will be able to achieve a top-line CAGR of 20%.
- Amit Sanghvan:** And the bottom-line will be similar?
- Makrand Appalwar:** It is generally observed, if the top-line is 20% then bottom-line is a little bit better than that.
- Moderator:** Thank you. The next question is from Vinay Pai, an individual investor. Please go ahead. Vinay your line is unmuted, please proceed. As there is no response, we move to the next question from Himanshu Chhajed from Analyze India. Please go ahead.
- Himanshu Chhajed:** My question is regarding whom do you see as a competition in your sector?
- Makrand Appalwar:** I think everybody who is involved into the water conservation activity or water protection or water storage activities are the companies competing with us. When it comes to the water conservation field, Garware or Owen Farming or Excel industries, these are the typical conventional competition

when it comes to water. When it comes to agri protection, there are not many formalized Indian companies, which are doing jobs in agri protection. In packaging and advance composites, typically in a packaging sector I would say that our listed peer like Kanpur Plastipack or Flexituff International, these are the few of the listed competition, and even companies like Uflex, these are also the typical competition I would say.

Himanshu Chhajed: In your last call you said that you are moving away from speciality packaging and will be focusing more on advance composites. So, can you throw some light on that?

Makrand Appalwar: Basically speciality packaging is the packaging products in the specialized sector, but they solve a single purpose, they only do a necessity of packaging as a prime activity. The products, which are lying in the advance composite segment, they are the products, which at least serve more than one purpose. Let me explain you in this way, if you have had a chance to see any tea or coffee packaging, then you must have observed that this serves the purpose of holding one kilogram of tea together plus it also arrests the aroma getting out. It stores the aroma within this so that the customer gets a fresh aromatic tea in 1 kg in particular packaging. So those kinds of packaging are required on the bulk scale also. We do a lot of such things, packaging or nonpackaging activities where there are some kind of properties attached to the polymer into it, like anticorrosive or filtration bags. We have something like safety cushion systems. These are not purely a plastic or not purely a polymer product, these are the products which have one more property attached to it, one at least, sometimes two properties attached to it. They are basically a technology-driven product in the whole segment.

Himanshu Chhajed: My next question is, when we look upon the past year sales also, the sales has been muted, so any reason for that?

Makrand Appalwar: I think we grew by around 13%. If you have seen our past track record of the last three or four years, typically we have always grown in the past by 45:55 ratio, that we grow 45% in our first half and 55% in our second half, that is typically what happens, because summer is always there and because of the heat and unavailability of power, that has been our ratio in the past historic or even five or seven years. Even this year also, we are almost similar to that. We have already grown by 13% to 14%, and we expect that we should grow anywhere between 18% and 20%, so probably we should maintain the growth target which we have created of 20% CAGR. I still feel we are on the similar way.

Moderator: Thank you. We have next question from Akhil Bhandari from Akhil Bhandari CA. Please go ahead.

Akhil Bhandari: Can you throw some light on the Capex, the players are adding in FIBC segment, so I just want a macro view on it, like how many players are adding capacities and what is the outlook for the next couple of years?



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Makrand Appalwar: Let me explain it this way, as one of the coincidences I am also Vice President of Indian FIBC Association, so I can give you some little bit more information or insight about it. As a part of our association, we have around 28 members and 28 members of the association do contribute to close to 80% of the national production. I do not have the figures, which are nonmembers, and comparatively their sizes are quite small, so they are really not making very significant impact on this. In the last three years if you were seeing, the growth in this business is close to around 15% and that is typically happening because this product is actually a widely specialized and a very tailor-made product and also has a large component of manpower involved into it. India, being one of the cheapest sources of manpower as well as specialized source for the alluring manpower, a lot of trade is shifting to us from China. That particular shift of trade from China is getting captured by most of the Indian companies. That is why by and large all the companies are growing at a fixed speed. I have actually no numbers and I cannot tell you which company is doing what Capex, because that is not really available with me, but I would say that by and large sector is growing at a speed of around 15%.

Akhil Bhandari: Sure, my only worry is like every player is adding capacities like each year, so after two years there might not be a situation where the supply is more.

Makrand Appalwar: If you note, every player is adding capacity, but there are new markets getting opened? Typically what is happening everywhere because of the industrial improvements and developments, if you have studies FIBC business in India, almost 98% or 99% of the product is exported. So Indian market is completely untapped, you can say even people hardly sell any FIBC in this country. As an association or as a body all of us are making efforts to create India as a market. There is also a substantial shift in what is happening, from China, Turkey, and Mexico to India. I would rather say the market will have an appetite of around 15% to 20% for even the next 10 years because what is happening is not that at the rate of 20% the global market is growing, but there is a lack of supply due to various reasons because of these three countries, Turkey has been so inconsistent because of their political issues, China because of their financial issues, and Mexico because of their negligence towards some other countries, so effectively India is one of the most Mecca of the FIBC now, many people does not know, but as IT is connected to India, nowadays FIBC is also synonyms to India.

Akhil Bhandari: Sure, between domestic sales and export sales, which segment of yours will grow more?

Makrand Appalwar: Domestic should grow a little quicker than the exports for us because there are a lot of things, especially the water conservation and the agriculture which is highly domestic driven and that is one of the larger focus to us, that would definitely grow bigger to us.

Akhil Bhandari: Sure, and your debtors days are how many days?

Makrand Appalwar: Average is 48 debtors days.



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- Akhil Bhandari:** Is it same for domestic or is it for exports?
- Makrand Appalwar:** It is average for domestic and export markets.
- Akhil Bhandari:** And inventory days?
- Makrand Appalwar:** Inventory days are close to around 110 days.
- Akhil Bhandari:** Your raw material, like if the crude price goes up or down, will your cost increase or will you get benefit from it when the price comes down?
- Makrand Appalwar:** Nothing very substantial because in either way, whether it goes up or down, the direct impact of crude is actually not on the polymer because polymer what we use is almost fourth or fifth generation derivative of crude, so let us say if somebody wants to convert crude into a polyethylene or polypropylene or polystyrene, first they will have to crude, then cracked to naphtha, naphtha becomes propane, propane becomes polypropylene, polypropylene becomes our product, so entire value-addition margin of all these levels is constant. So let us say even crude becomes tomorrow zero, still polypropylene should cost around \$600 and then additional our margin, so that would also cost. The crude directly does not affect either way, and as a company we have nonspeculative strategy, so we maintain the stock or inventory, which is equivalent to our order book. So, I would not see any windfall profits if it goes down substantially or I do not see any major troubles in our operation if it goes out of the roof.
- Akhil Bhandari:** Sure, just a last question on the FIBC front, I have heard many terms like pharma grade FIBC, food grade FIBC. Are there very few players in India for the pharma grade FIBC or most of them are catering to the segment?
- Makrand Appalwar:** It was not a big market a few years back, but with the change of US FDA norm which has impacted, started from this September 2017, I am sure you must have heard a lot of companies upgrading their facilities especially in the pharmaceutical sector, that is because of the same guidelines which has come that all the products which are going for human consumption three generations before that it has to be in the nonmigrant, in a simple language if you see pizza, in the old guidelines, the pizza box used to be food grade, but now as per the new guidelines, the wheat flour bag which is carrying the wheat flour or a wheat bag which is carrying wheat all the three components have to be food grade so that there is no migration of any of the toxins or anything. Their logic is if the wheat flour is contaminated, then definitely pizza will be contaminated whatever good the pizza box is. The same goes with the bulk drugs because many of the Indian companies are generic and bulk drug companies, so they do not actually end up doing the tableting or the last mile medicines, but they create the bulk drugs, if the bulk drugs are contaminated then they will not be able to create a very good quality final

drug. This is the new guideline; this has created a huge market in the global scenario, especially for the companies, which are operating in the United States, or the companies, which are supplying to the United States.

Akhil Bhandari: Sure, so this is like a new market and this is good for you people, right?

Makrand Appalwar: Yes, I like that.

Akhil Bhandari: Sure, and total number of head count?

Makrand Appalwar: We have close to 1400 people working with us.

Akhil Bhandari: Just a question like, you have 1400 people working and your employee cost for this quarter is 1.7 Crores, if I am not wrong?

Makrand Appalwar: I would give it to Rinku, she would be able to throw a better light on this.

Akhil Bhandari: My only question was like you have 1400 people and...

Makrand Appalwar: Average salary cost is in the range of around \$250 per month.

Akhil Bhandari: Because I was just watching the employee cost of one of your competitors like commercials and bags. I think they have reported the same numbers and they have head count of around 800 employees or something.

Makrand Appalwar: I think they are doing some different jobs, because what happens is the bags are very customized, so I do not know exactly what profile they are doing and how they are doing it with those many numbers, but I can tell you about my numbers.

Akhil Bhandari: Sure, great, I appreciate that, thank you so much.

Moderator: Thank you. The next question is from Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Good evening Sir and thanks for taking my question. I just wanted to understand our growth endeavor while I understand the next three to four years in the range of about 20%, do you think you can maintain that for FY17 as well, especially FY17?

Makrand Appalwar: As of now I am pretty confident because nothing is working which would not help or not go that side. So, I do not see any reason not to happen.

- Baidik Sarkar:** In that case our Q2 growth was about 9%, assuming that we end the year FY17 at even say 19%, it means that H2 as a time period should grow at about 70%, is my math wrong somewhere?
- Makrand Appalwar:** I think so; we grow 45:55, so let us say we are at around 115 in H1, which is a 45% of something. So, in that way it would be in the range of 248 to 250 would be the end result figure, so H2 will be in the range of around 135.
- Baidik Sarkar:** So that is the growth rate that would come to, which means about 30% in H2.
- Makrand Appalwar:** That is okay, generally this is what we have observed in the last three years if you see, I am sure you have the numbers, so if you see the three to four years that is the way it works.
- Baidik Sarkar:** Basically about 30% okay, and that will be fairly equally between Q3 and Q4?
- Makrand Appalwar:** Generally.
- Baidik Sarkar:** Okay, and our margin discipline has been terrific, for example we might be aggressive in our marketing of pond liners or new initiatives, so any such initiatives in the coming quarters and its impact on the margins?
- Makrand Appalwar:** Frankly, I did not understand your question correctly.
- Baidik Sarkar:** The products we are trying to launch, for example pond liners and all our water storage equipments, which will find use in rural India, any marketing initiatives, any advertisements?
- Makrand Appalwar:** As promised at the beginning of this year, specific spend of around 1.2 Crores has been allocated and they are on line, in the first half year we almost spent close to Rs.40 to Rs.42 lakhs in marketing. We will give a complete brand support as well as marketing support, and all the necessary things, which are required to be done, are getting done. Right now, our presence is only in two states, Maharashtra and in Rajasthan. The response has been very good and it has been extremely encouraging. I feel we would be continuing our marketing activity to give the necessary support to all the retail activities which we are focused on, and depending on time-to-time what is the call required to be taken or money required to be spent, I think we would take that call and go ahead with that.
- Baidik Sarkar:** Even after busting that you think we can maintain our EBITDA in the range of about 12% to 12.5%.
- Makrand Appalwar:** It is part of that, that was already taken care of into this.
- Baidik Sarkar:** Okay, how much pond liners can you quantify in terms of revenues?

- Makrand Appalwar:** I would not like to tell the numbers because this is a business secret.
- Baidik Sarkar:** What is the market size?
- Makrand Appalwar:** Market size Maharashtra is around 1500 to 2000 Crores for a year and market size for Rajasthan is estimated to be around 800 Crores. 1,11,000 ponds have been sanctioned for Maharashtra, the list district wise is actually available. Close to 80,000 ponds have been sanctioned for Rajasthan. Both the markets put together it is around 2222 Crores of annual report.
- Baidik Sarkar:** That is huge. Who is the largest player in this in India?
- Makrand Appalwar:** As of now, the largest player is Owen Farming, it is an American company.
- Baidik Sarkar:** What kind of market share do you suppose they own?
- Makrand Appalwar:** Nobody has a market of more than 100 Crores till last year. Everybody was below 100 Crores. There are five to six companies, everybody was below 100 Crores. The market has kind of inflated in the last two years. It was not big. Rajasthan has just started in the last two years, and Maharashtra was doing in the last five to six years, so nobody is having a very large market share. This is time where we have entered in one of the best time because where the product is already accepted by the people, so we are not really taking the pains of creating a completely new order and we are getting comparatively almost credited market, frankly we are surfing with somebody else's hard work. We are specifically focussing on good quality. We have created a product, which is way too more superior to any of the domestic product or Indian product or any imported product right now available. So, in Indian product I think Emmbi's product is right now #1 product. That is one of the reasons why we are so aggressively getting into the market.
- Baidik Sarkar:** Is there an unorganized segment in this market?
- Makrand Appalwar:** There is absolutely no unorganized segment in the pond line market.
- Baidik Sarkar:** If the market potentials between Rajasthan and Maharashtra is 2300 Crores, and the top five to six players have got 100 Crores each, so it come to about 600 Crores, which means the balance players would be really fragmented?
- Makrand Appalwar:** Nobody is catering to that market. The whole announcement came during the last six months.
- Baidik Sarkar:** Okay, which means the market was not in existence about two years back.

- Makrand Appalwar:** Yes.
- Baidik Sarkar:** Okay. In terms of our state presence, you are there in Maharashtra today or have you already entered Rajasthan?
- Makrand Appalwar:** We have already entered; we have made more than 50 ponds in Rajasthan.
- Baidik Sarkar:** Okay and how many ponds in Maharashtra?
- Makrand Appalwar:** I am not supposed to say.
- Baidik Sarkar:** Okay, not a problem. Lastly, our Capex of this 12 Crores, is this entirely towards the speciality pharma grade packaging, right?
- Makrand Appalwar:** Total Capex is 22 Crores. 15 Crores is for pharma grade packaging and 7 Crores is for dedicated water pond line facility.
- Baidik Sarkar:** Okay, and just one question for Rinku Ji, our tax rates providing for DTA this year would be in the range of about 24% to 25%, is that a right assumption.
- Makrand Appalwar:** 18% MAT. I think the number people keep on getting confused because of this deferred tax liability, which is it is a liability which is to be computed as per the full tax and then the difference between full tax and MAT has to be provided for in your balance sheet as a deferred tax, so there is no cash outflow, it is a balance sheet.
- Baidik Sarkar:** I definitely appreciate that, I am just trying to understand the provision that we have made for Q1 this year, that run rate would continue right, because we will start getting the benefit of additional depreciation on our R&D?
- Makrand Appalwar:** Yes.
- Baidik Sarkar:** Okay. Can you give some timeline as to when the commercialization will begin?
- Makrand Appalwar:** By the end of next quarter we should finish all the projects and from the first quarter of the next year the things will go on to commissioning with activity. Pond lining might go a month or two little earlier than that.
- Baidik Sarkar:** Okay, and what is the debt portion of this Capex of 22 Crores?
- Makrand Appalwar:** 15 Crores.

- Baidik Sarkar:** Okay, which means the interest cost for the next year would go up on a proportionate basis for these 15 Crores.
- Makrand Appalwar:** But the interest cost might come down and we might stabilize almost on the same level.
- Baidik Sarkar:** Okay. What kind of repayments have we scheduled for this year?
- Makrand Appalwar:** Around 1.8 to 2.5 Crores per annum.
- Baidik Sarkar:** So, after we are done with this Capex, what is the future Capex stream look like?
- Makrand Appalwar:** As of now we have not really chalked out because this particular thing would take us to the top-line of around 360 to 400, we are covered for the next three years of activities, so apart from the maintenance Capex, we have no plans at this moment.
- Baidik Sarkar:** What is your asset turnover on Capex?
- Makrand Appalwar:** Asset turnover on Capex would be I think we will be generating 60 Crores worth of business on the whole thing.
- Baidik Sarkar:** So roughly 3x. Okay, that it is from me Sir. Thank you and all the best, I will be in touch with you offline.
- Moderator:** Thank you. The next question is from Binoy Jariwala from Sunidhi Securities Finance. Please go ahead.
- Binoy Jariwala:** Thank you for the opportunity. You have about 18% of your export revenues coming from UK. Was there any impact due to the pound depreciation and if yes, how much was it?
- Makrand Appalwar:** The figure, which you said, was of March 2016 figure, 18%. I will take it in two pieces like what has happened to the business in UK. In looking at the depreciating pound, we have taken a conscious decision to cut down some business from UK and we have reduced our total contribution from 18% to around 12.7% this last six months. To answer your second question, where that impacts our profitability, the answer is no because whenever we lock the order we generally have overbooking made on that. So whatever is agreed price we get that much of money. We do not have any long-term contracts with any of the companies, all the contracts what we do are the monthly contracts, so there is no major impact because of pound slashing down on our entire profitability.
- Binoy Jariwala:** Okay, thank you so much.

- Moderator:** Thank you. The next question is from Vinay Pai, an individual investor. Please go ahead.
- Vinay Pai:** I got disconnected when the interest part of it was discussed. So my query is the interest at the same rate that was calculated for Q2 will continue for Q3 and Q4?
- Makrand Appalwar:** If we do not expect any further reduction in the lending rates of banks then probably the answer is yes. There can be two things which might happen in the favour of it, one is because the balance sheets and other thing is pretty decent for this year as well as the rating renewal is pending next month. If our rating gets improved or something, then we might get some improvement in reducing the rates. In case because of lot of cash, which is, coming into the banks, if banks decide to reduce the lending rate that might also result in lessening of the borrowing cost. If both the things do not happen, then it will go in line. There will not be any change in the borrowing cost. But if any of these things happen it might reduce our borrowing cost.
- Vinay Pai:** The effect of MAT would have decreased the financing cost to a great extent, am I right or wrong?
- Makrand Appalwar:** Yes, you are right. Because of the MAT, the net cash outgo is low and because of that our interest cost will be go. But if you have observed, that has already taken place, net borrowing is actually reduced, though our top-line has increased by 13%, so that impact is already seen.
- Vinay Pai:** Okay. My next question is in the media there is sort of a panic situation created, saying that people do not have any money to pay and all that, in Emmbi's context now that you have started to sell water conservation product to the farmers and to the rural India, people do not have money on hand, I know many farmers will be having bank accounts, but do you think all will be having bank account because say 50% may not have bank account and they have to rely on cash to pay you?
- Makrand Appalwar:** Let me explain it this way, I really do not have the numbers that how many farmers do have a bank account and do not have, but the people who can afford a pond liner are generally larger farmers, very basic farmers or very smaller farmers anyway cannot afford or they do not put pond liners. It is my assumption that marginally the larger farmers are the people who are having when it comes to farming should have a bank account. If you have recently seen there was another announcement, which came in, yesterday that government has announced 25,000 could be withdrawn by farmers. I am sure this is going to be a problem, I will not say that this will go completely unnoticed and everybody would have all the cash as they wanted. I think this is a temporary thing. What is going to happen is this particular thing, if they do not have money and they cannot buy Emmbi product they cannot buy anybody else's product either, so there is no opportunity lost because of this. The sale can be delayed by 15 days. If they do not have money to buy my product, they will not have money to buy my competitors' product, so what can happen is my sale will be delayed by 15 days.

- Vinay Pai:** What is the ticket size of purchase of pond liners?
- Makrand Appalwar:** The pond cost depends, but roughly a liner you can say required to be made for average 25 lakh liter pond, it is in the range of around 1.25 to 1.5 lakhs.
- Vinay Pai:** And water tank, which we see, mounted on a bicycle, what could be the price of that one?
- Makrand Appalwar:** 50-liter tank costs Rs.400 and 70-liter costs around Rs.620.
- Vinay Pai:** Okay, fine. Such kind of customers I do not think they may be having problem in paying by cash?
- Makrand Appalwar:** As of now no, maybe in the last week they might have had because there was real shortage of cash, but that is not going to stay forever actually.
- Vinay Pai:** Yes, it is temporary, but what I am saying is if I view from the sales for this quarter, in the October through December quarter, and probably the quarter from January to March, it is not going to be more than that.
- Makrand Appalwar:** I do not think this is my personal case, I cannot guarantee this, but I think this is a short-term problem, which might not even extend the month of November, this is my personal feeling that cash availability problem might end within this November month.
- Vinay Pai:** Right Sir, thank you very much, my question is answered.
- Moderator:** Thank you. The next question is from Binoy Jariwala from Sunidhi Securities Finance. Please go ahead.
- Binoy Jariwala:** Thank you once again. Sir I wanted to check is there further scope to reduce the working capital?
- Makrand Appalwar:** There is no further scope, what we are trying is every year we are trying to cut down on our entire process cycle by 10 days. So, we would like to bring down our internal targets somewhere between 90 and 100 days of whole cycle, so we have very less scope to bring down some.
- Binoy Jariwala:** So, right now we are at 120 odd days, so when we say our target is about 90 days, in which major areas would we see a reduction?
- Makrand Appalwar:** I would not say that it will be one particular area we would be reducing the days, because it is fragmented into many numbers, starting from creditors, then working process, raw material stock, people stock, so what will happen is because of the true efficiency of the company and the all the

processes, every part of it, let us say if it is to be broken into 10 pieces right from the supplier payment to the finished good selling and the buyers payment to us, I would say that every segment will improve a little. It will not be one phenomenon where we will get 10 days out of it by any one person or one process, so every process is improving and if you see every year or every quarter we are working, because that is one of our focus areas, to bring it down somewhere between 90 and 100 days which is what our target, and we are working in that direction. So every year cutting it by 10 days is kind of one of the larger issues.

Binoy Jariwala: Okay, but is there scope to improve or delay payments on the creditors front, because they are the large corporations, probably they would be profiting?

Makrand Appalwar: Delaying the payment is not probably the right attitude, but larger focus would be improving my internal efficiencies and probably creating a situation where the suppliers they themselves come up with the situation and they offer larger credit periods. So, I would not say that I would not pay anybody on time, that is not the way to do, but what we will do is we would like to create a situation where we buy more specific and able to buy consistently, so automatically the supplier becomes more geared to a company who is buying continuously some product in a large way, so by that way we would like to cut down our cost or our days.

Binoy Jariwala: Okay, and Sir what would be the peak debt after the Capex of 22 Crores is completely done?

Makrand Appalwar: Peak debt, I think what would happen is, on the 1st April of this year we had a term debt of roughly around 2 Crores, then we added 15 Crores to it, so it became 17 Crores. Then we paid around 3 Crores to it, so it became 14 Crores. I think it should not go beyond around 14 Crores as a peak debt when it comes to term debts.

Binoy Jariwala: And working capital?

Makrand Appalwar: The exact numbers are currently not in front of me, but if you are keen to know this...

Binoy Jariwala: Sure, no problem. Last question is on the FIBC packaging, when did the norms change?

Makrand Appalwar: This declaration came almost nine months ago and they are effective from 1st October 2016.

Binoy Jariwala: Okay, thank you so much.

Moderator: Thank you. The next question is from Vinay Pai, an individual investor. Please go ahead.

- Vinay Pai:** Just one more question was there. In the last teleconference you have said that one of your big clients is going...
- Makrand Appalwar:** It is not a big client, but one of our clients is going.
- Vinay Pai:** I am not saying big client, it adds to the brand value of Emmbi, do you have any sort of other famous clients?
- Makrand Appalwar:** We have absolutely big names on our list, but it would not be appropriate in revealing them in the open forum. I can say that we have almost 15 odd customers, which are present in the Fortune 500 list.
- Vinay Pai:** Oh, that is very good Sir, but so many companies say in their presentation we have clients like this, this, this, they give in their presentation itself. Is it not possible to do that in your case, because we do not know, an ordinary investor does not know Emmbi has got such a big customer list, I mean such famous customers.
- Makrand Appalwar:** I understand, absolutely I would love to do that, but at the same time it attracts unnecessary competition, because a lot of customers have developed with a lot of hard work. So, what happens is you also expose yourself to unfair competition that is the one reason, we generally try to avoid to make it public.
- Vinay Pai:** Okay, that is all from my side.
- Moderator:** Thank you. The next question is from Binoy Jariwala from Sunidhi Securities Finance. Please go ahead.
- Binoy Jariwala:** On the water conservation and agri products, you have mentioned that the EBITDA margins are higher, could you help me in what kind of EBITDA margins do these products enjoy and how much higher from the baselines?
- Makrand Appalwar:** I will appreciate if you can make a small trip to our office then we can iron out all this, because again detailing the margins on the particular product would not be very appropriate.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Anuj Choksey for closing comments.



Emmbi Industries Limited
November 17, 2016

Anuj Choksey: Thank you all participants for having a patient hearing and your questions and answers. We thank the management who has answered all the queries that could be raised. I hope it is satisfactory. Good day to all once again. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of KR Choksey that concludes this conference call for today. Thank you for joining you may now disconnect your lines.