



“Emmbi Industries Limited”
Q4 FY2018 Earnings Conference Call
May 30, 2018



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Emmbi Industries Limited
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Moderator: Good day ladies and gentlemen and a very warm welcome to Emmbi Industries Limited Earnings Conference Call for Q4 of FY2018 hosted by KR Choksey Shares and Securities Private Limited. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode. 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 Mr. Raghav Garg, Research Analyst from KR Choksey Shares And Securities Limited. Thank you and over to you Sir!

Raghav Garg: Thank you Ali. Good afternoon everyone. On behalf of KR Choksey, we welcome you all for the Q4 FY2018 conference call of Emmbi Industries Limited. I take this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar, Chairman & Managing Director, Mrs. Rinku Appalwar, Executive Director & CFO. We will begin the call with a brief overview by the management followed by the Q&A. I now hand over the call to Mr. Makrand Ji for his opening remarks. Thank you and over to you Sir!

Makrand Appalwar: Thank you Kaushal and thank you Yashesh. Thank you Mr. Garg for the kind introduction. Good day gentlemen from every part of the world and I am Makrand Appalwar, Managing Director and Chairman of Emmbi Industries Limited. This year was full of a lot of action and excitement within the country and within our company. New capacities were build, new product lines were developed like food grade and water conservation. New taxation system was implemented like GST and a various action on various fronts, so it was an interesting year and it was also a very challenging year and I am happy and quite satisfied that the year was quite



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fruitful and whatever efforts the entire Emmbi team from all sorts of areas, all sorts of space, stakeholders, from our customers to shareholders to suppliers and buyers, everybody has done a great job and I thank them all through you.

So let me take you through various things, which happened during this year, few of the main important things were regarding the topline, so we had a topline growth of around 16% and EPS or a PAT growth of around 23% during this year, which was quite as expected during our previous years. As the year sets in that is the coming year this is the time of consolidation, so Emmbi has been very, very focused on bringing in new technologies such as internet of things or machine learning or our specialized focus on improving our productivity and efficiencies within the companies operations and various operational efficiency has been very, very successful, you can definitely see the results ultimately translated into the financial performance of the company, so that was one of the good thing to happen during this year.

As last couple of years company has been doing a lot of capital expenditure to set up the new plants and facilities and the new various you can say the growth related initiatives, things are going to be paying well in the next couple of years. We are going to consider the next two financial year that is year 2019 and year 2020 as the years of consolidation, so I am sure you can hope that capex would remain within the control or within on the subdued side, but whatever existing capex we did this is the time we would be actually reaping the fruits of, so I can expect a decent turn in the entire ratios, which have been very constantly improving for us. There was a consistent improvement on the EBITDA side, we were expecting of around 100 BPS of EBITDA level improvement, we could almost go up to 90 BPS of improvement during this year and I guess to continue the very similar pattern in coming next six to eight quarters, so that would remain as a very standard thing.

Another initiative, which was a B2C initiative has been greatly supported by a very strong will of existing government through the micro irrigation, so let me explain you that pond or one of the major water conservation product what Emmbi

produces these days and markets into the rural India is the first building block of the micro irrigation chain, so whenever there is going to be a sprinkler system or a drip line or any micro irrigation thing happening in the country the stagnant source of water would be definitely required and we are going to be creating that and I am sure you would be happy to know that we have created one of the cheapest water reservoir system in the world, so this reservoir system or the ponds what we make is if you consider an average size of pond of around 2.5 to 4 million liters the cost of pond only translate to 1 paise per liter per year or 5 paise per liter for the entire duty cycle of the pond, so as of now there is not any other alternative, which is as economical or as viable of, so this is one of the very interesting thing.

Another very challenging thing happened during this year was a development of robotics for sealing the pond. As you are aware that while we create the water reservoir our team has actually go on the site and fabricate the pond to the exact size, so that was initially when we started the business was getting done through the manual operation, so during this year we can develop an automatic robotic machine, which actually now able to competently go on the site actually seals the pond to the exact required size, this had changed the complete dynamics, this has improved the scalability of the whole business, so now we are not going to be human dependent while making a very good quality ponds, which were in the earlier stage, so if you remember my earlier concalls I was always talking about the initial two to three years or around three years of learning of this business, which company is going to need, so these are the fine points actually I was focusing on, so I am very happy to announce about the new robotic machine, which has been developed, machine would be able to for a presentation during the AGM at our factory, so that you can easily run through it or understand more details about it.

Right now we are running at the run rate of around almost four ponds in a day average basis, so that has come up in a very good way and we intent to continue the same thing in the coming time. Our focus would always remain on the B2C activities in both water as well as crop protection during the next coming two years. On the investment side we have definitely marked the various investment

what we are doing and these two years would be specifically focus to sweat out the assets, which has already been created and we will ensure that the debt equity ratio would always remain below 1, so that there is a comfortable cushion taking care of everything. The initial hiccups of the GST to the exporting community has been taken care substantially by the government and by the system, so as of now the things are much better than what they were couple of quarters before and I am sure that during the coming time GST would be one of the very interesting tax system for India as well as our company and we would be able to translate the benefit of GST during this setting year of the operation. With this I will stop my initial remarks and open the floor for the questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Good afternoon Sir. On the capacity of 24200 metric tonnes what was the sales volume for this year FY2018?

Makrand Appalwar: The capacity utilization was in the tune of around 75%.

Shashank Kanodia: So that is the ending, we have reached towards the end of March or for the full year basis you are saying 75%?

Makrand Appalwar: No I am saying full year average of 75%.

Shashank Kanodia: When we mean years of consolidation, so does it mean largely that the growth going to be absent, it is going to be less capex?

Makrand Appalwar: Capex is going to be substantially absent. The growth would come out of the capex, which is already being made, so whatever capex has been already done, this is the time that next 24 months would be the time to use those assets to the benefit of the company and growth would continue in the range of around 15% to 18%, but the capital expenditure will halt. It would have a normal capex of whatever

maintenance capex what we need that would be continuing, but the project capex will not be there for next 24 months.

Shashank Kanodia: Sir have you overspend in this financial year on capex front because as per the initial estimates we were supposed to spend something like Rs.15 odd Crores, so our capex in FY2018 is close to Rs.30 odd Crores?

Makrand Appalwar: No actually our initial expenditure of the total capex was 22 point some Crores and then there were more opportunities to us because of the R&D purpose required in the pond lining and this robotics and some IOT things, which I spoke about, which is going to be operationally more efficient during or that would improve the efficiency, so I would say that some part of it because R&D expense has been substantial almost Rs.5 Crores has been spend towards the R&D because of this new robotic development, which was not completely envisaged in the overall plus if you see that there is almost Rs.4 Crores equivalent, which has gone towards the brand development and intangible asset development part, so if you see the capex as of a creating brick and mortar assets that is somewhat similar to what we have planned, but these two things, which has come up as a new opportunities and there was a possibility this year, so we decided because that would augment our efforts whatever we did by putting a brick and mortar asset, this brand building and creating robotic sealing activities would help us to encash those assets better, so we thought it necessary and we went ahead with that.

Shashank Kanodia: On the quarterly front, we have always been projecting high growth for a site, so first quarter we had some 10% growth on the topline, are there any specific reason for this?

Makrand Appalwar: Actually the European market was a little bit subdued, so the exports were not the greatest one and the water shortage, both the things were kind of put together did not let us allow because actually the season moved little earlier, this time the Holi came in March itself, so if you connect it with because Holi is very important one because that is where the cropping and sowing thing, everything get connected to

that, so comparatively we were almost 21 to 30 days ahead of the normal rainy or heat season and that changed a little bit of dynamics and that is why this was one of I would say that less growth prone quarter.

Shashank Kanodia: Sir going forward on the export market front, so how are things shaping up now?

Makrand Appalwar: Now the food grade is completely on, it is certified, so we have already started doing the human consumption bags, which we are initially doing it more for the animal feed and other thing, so now we are already on the human consumption bags, so we are hoping that this year would be very good for exports.

Shashank Kanodia: We are projecting to be growing in the range of 50% to 80% the topline front right?

Makrand Appalwar: Yes, that is right.

Shashank Kanodia: Sir margin front, we are going to maintain our trajectory of 50 to 100 basis point improvement?

Makrand Appalwar: I am quite bullish about at least around 15 to 20 BPS of EBITDA level improvement on the quarterly basis.

Shashank Kanodia: Every quarter-on-quarter?

Makrand Appalwar: Yes.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Investments. Please go ahead.

Saurabh Shroff: Hi, thank you for taking my questions, couple of questions, one is on the water business, so we are currently in two states, what is our plan to expand across other states and in the two states where we have now been active for a couple of years, what kind of traction are we seeing?

Moderator: Let us move to the next question from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: Good afternoon. Sir mainly on the capex front we had 2000 metric tonnes for water and 4400 was for FIBC, am I right?

Makrand Appalwar: 3600 and 2400.

Ankit Merchant: How much is the capacity utilization in each of the capacity right now?

Makrand Appalwar: I think for food grade it is too new to say and so it is barely anything for food grade side, overall capacity utilization can be higher, but we should not bother too much because the food utilization is very low because we just started in the March month, the food certification is just only happened then, so that would come. I am targeting or I am expecting that at least 50% of the food grade capacity would be used for food grade purpose during this year's time and when it comes to pond lining side we are at around 40% of the capacity utilization during this year.

Ankit Merchant: So for the next year if we have to assume for FY2019, so at current juncture your total capacity utilization is 75%?

Makrand Appalwar: Yes.

Ankit Merchant: And incremental would be 5% utilization more which in 2019?

Makrand Appalwar: May be 8% to 10%, I am expecting anything between 10% to 12%, anything between like that.

Ankit Merchant: Sure and also what I have seen is that the realization per metric tonne has actually dropped in this year, so it has dropped by 1.97%, so that is basically 2%, so what is that because of product mix has it changed?

Makrand Appalwar: Yes like water conservation the product is not as expensive as the FIBC product because lot of hand sewing and making is there, so you can say that average

realization has gone down, the profitability in the water conservation is more. It is like difference of setting a readymade suit and a suit length like kind of a difference. When you do the FIBC you change it into particular type foam, so lot of manual labour goes, the cost goes up. While when you sell the fabric, which is just you can say human intervention is less, so there product cost is little less, but you earn a bit of money.

Ankit Merchant: Sure, so Sir now that we expect FIBC to do well now you have said that the FIBC food, for human food has now started, so realization was also improved that well?

Makrand Appalwar: Realization I think we should not be too much bothered about the realization improvement or not improvement because ultimately we have to bother about what is our bottomline improvement, at times realization improves, but it take so many inputs and so many human labour or your labour cost that does not translate into your net gain, so our focus is basically focusing more on what is net income or a net gain after doing all sorts of things, so that is the principal thought behind this scalability, which is giving us the highest net gain because realization is a factor of many variables like crude prices, raw material prices, how the changes happens, dollar and rupee change, so it has got a multiple dimension, which is kind of not in our control, we cannot really control it, so our larger focus remains on instead of focusing on what is the realization per kg or how many rupees per kg you got because we are not in that commodity business where rupees per kg is directly connected to the prices of raw material and other, so that is very important for the people who are in a very commoditized class.

Ankit Merchant: Sure and Sir it is great that you have met the projections for FY2018 and you have shown a slide where you have compared your projections and your achievement, so for this particular year what are your projections?

Makrand Appalwar: I think we would have something in line with that, 15% to 18% topline growth has been projected by us and we are going to work hard to achieve that and historically we have seen that whatever is our topline growth generally 1.4 to 1.5 times is our

bottomline growth that has been historically envisaged, so other things being equal we look somewhat similar. Our larger focus would remain these two years to actually go ahead, adopt all the new technologies, make the factory compliant for the rest of the years because sustainability of the business is one of the very important event and important thought in our mind during this year, the things are changing very fast. So our focus would remain to create this sustainable business model of around 15%, 18% consistent growth and around 20% consistent EPS growth for time to come, so that the people who are invested in company would always have a reason to stay invested or for another who want to invest in company should have a reason to come in as a fresh investor and stay invested with us for a longer time and that has been always our focus where we have been meeting very often and we have been always talking to each other on this, so that focus would definitely remain with us.

Ankit Merchant: Sure and just one last question. We have seen crude now moving up, so what are you saying on field when it comes to your particular products, so is the prices impacting you, are you being able to pass on the prices or is it leading to some delay in demand?

Makrand Appalwar: As you are aware that we have this pass through mechanism and we have been very successfully able to do it in both the times. When the crude was falling, we have not had impact on substantial increase of our profitability. We did not have any windfall profits, now when crude is going up we do not have any impact because you know we manage it through the inventory stableness. We have a typical policy this is the reason why we always like to maintain the inventory what we maintain of the size of our order book because this inventory maintenance helps or protect us from this kind of speculative shocks, which goes up and down because of the crude and because of the dollar and because of various things, so we are always covered for a particular amount of period or a time using that inventory. So our philosophy of maintaining slightly because people have been questioning me over the inventory cycle and why are the inventories little longish in our company, but if you see that the longish inventory helps us to debottleneck or we

can say insulate ourself from these external shocks of crude oil prices, dollar prices and various other things.

Moderator: Thank you. The next question is from the line of Devansh Lakhani, Individual Investor. Please go ahead.

Devansh Lakhani: Good evening Sir. I actually joined a late on the call. I just wanted to know why there has been only 5% to 6% growth on the revenue front, is it because of less volumes that we have done in the various verticals or the realizations have been less in this quarter I am talking about year-on-year growth?

Makrand Appalwar: I think year-on-year growth, topline growth is 16% and if you see the net growth without payment of taxes because this was the year the numbers are very difficult to compare between the two years because previous year numbers are excise plus VAT while this year's numbers are initial three months or four months, three months I think excise plus VAT and nine months only GST. So the representational thing is a little bit difficult to say I do not think we have 5%, 6% growth by any way either if you consider topline was a topline it is around 16% growth and if you consider net of any taxes that is net of excise and net of VAT while net of GST then it is around 13%.

Devansh Lakhani: What has been volume growth?

Makrand Appalwar: Volume growth is in the range of around 11% and 11.5%.

Devansh Lakhani: And Sir any particular guidance that you would like to give on that volume growth?

Makrand Appalwar: Actually we would like to give guidance for the next year I just say that we are expecting to grow in the range of around 15% to 18% on the topline side, the volumes are slightly difficult to mention here because they are not necessarily proportionate to the topline growth because different product contribute to different number of volumes, so I would not really predict that.

Devansh Lakhani: Thank you Sir.

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

Vinay Pai: Good evening Makrand Ji. My first question is the company has done well for the past couple of years, three years invested, but still your dividend has only been 5%, any reason because I was thinking as the company does well the dividend also to the shareholders should also improve any specific reason Sir?

Makrand Appalwar: Vinay Ji you have been seeing that past three years has been very important milestone years for us and we have been making lot of investments you must have seen the gross block improvement has been almost disproportionately higher than the borrowings almost 125 times let us say Rs.100 of debt and then Rs.125 is improvement in our gross block, so lot of money has been used for ploughing back and keeping the company or making the company ready for the next level of growth that is why just as a part of the commitment in the last couple of years we have maintained dividend policy and we maintained the level, but I am sure in the coming years because I just was talking in the beginning you are present in the beginning part of the...

Vinay Pai: No, I missed it actually first five minutes I was not there.

Makrand Appalwar: So I was just telling everybody that this is the time where we are going to sweat the assets, which we made so I am sure in the coming years whatever money we have spend, company has spend over creating this asset base and creating this wonderful set of activities and the factories would be now realizable in the next 24 months and I am sure in the coming years you would see the improving trend of the payment of dividends also.

Vinay Pai: My next question is any reason why the total debt has increased substantially is it due to the higher petrochemical input prices?

Makrand Appalwar: There are a couple of reasons. What has happened that with GST there was one time that we had almost more than Rs.10 Crores, which were locked in with the government because there were no refunds coming out and still around a lead or a lag between the payment, which we make and payment government makes us back is close to five-and-a-half months, so like let us say in a month of whatever expenses or taxes we pay in the month of January we get the refunds somewhere in the end of May or beginning of June something like that, so one that particular block is now stuck up with government that is one net addition. Secondly petrochemical prices have gone little up, so that ultimately warrants higher working capital. So this couple of things put together plus whatever capex, which went during last year, so those three things put together has increased the debt level to something more, but this years of consolidation what I was speaking that we have completely taken care that the debt equity ratio of the company never crosses one, we are ensure that we have to stay within that even with this much we are still very much within the level of 1:1 debt equity ratio, so that there is always enough safety factor available with management and people who are invested in the company. So these are the predominantly three reasons why debts are little bit higher than the previous year.

Vinay Pai: My second question is the market that you focus on at present is Maharashtra and Rajasthan, so is there any further plan to cover states here on?

Makrand Appalwar: We have already started test marketing in Madhya Pradesh and Karnataka so we made few ponds on the border district like Belgaum and Hubli in your state or in Madhya Pradesh near Indore we made a few ponds. So we are just now test marketing those areas seeing the possibility, seeing the reception of how people are feeling it, how the response of the people are. We also actually made one pond in Haryana, one pond in Punjab in last two months. So we are trying our test marketing in four, five different states and at least one definitely would get added soon on the list of the states what we are already active in.

Vinay Pai: Right Sir. Thanks.

Moderator: Thank you. The next question is from the line of Shanu Bansal from SB Equities. Please go ahead.

Shanu Bansal: Good evening Sir. I had one clarification and two questions. So the clarification you were telling in earlier participant that the reason revenues have been soft in this quarter is because of the Holi season delay of or whatever preponement of 20 to 30 days. I did not exactly understand?

Makrand Appalwar: No, you have to see the Indian calendar if you see typically. Our calendar is connected with the lunar cycle and the heat waves or the winter or sowing seasons are connected not with the Gregorian or English calendar, but with the Indian calendar, so this particular year with whole things have been preponed a little bit because of the weather pattern. So lot of our sale, which is pertaining to the rural side gets connected with the Indian calendar that is what I was trying to connect with so in the March sales, which has been historically generally 15 to 20 days has come then the whole April sale will get captured more strongly in the month of March, so generally Q4 is one of our strongest quarter historically if you see and that is what I was trying to.

Shanu Bansal: More of a timing issue where instead of Q4 the sales will then come in Q1 is that?

Makrand Appalwar: Yes, exactly that is what I was answering.

Shanu Bansal: Understood. My two questions, one is regarding I was seeing a revenue breakdown that you have in your presentation, so water conservation is with regard to these pond liners if I am not mistaken?

Makrand Appalwar: No, it is water conservation, we have multiple products, pond liner is one of them, so water conservation is the combination of B2B and B2C put together, so we have pond liners, canal liners, flexitanks, pipes, then check dams almost half a dozen products and they are sold within India and globally, so if you see the total contribution of water conservation that does not mean that the contribution of pond lines.

Shanu Bansal: So the reason I asked that is because the B2C segment, which is specifically the pond liners is a focus area for us as a company and we are looking to like you said you are doing four ponds a day, the potential of course eventually is to do may be 24 ponds a day is what your presentation says, so are we happy with this growth rate of increasing the contribution from 20% currently to just about 30% in three years given that we are in two states, we are planning to increase the states we have a B2C focus. So is not that a little soft of a projection or is it like you know?

Makrand Appalwar: The total pie will also keep on growing; it is not the pie is not going to stay stagnated.

Shanu Bansal: I understand that yes and I did do the math a little bit quick math around it, but I am just wondering that I mean is this like the projection you have internally as well or would you be more aggressive in your plans or is it that you are looking at?

Makrand Appalwar: Initial five years I think this is what is the things, which we would like to because this is the time where we are learning lot of new things, so we have been speaking about this for a while now and people have been asking me this question that when there is so much of potential why are we not growing it a little bit more quickly, but we need to understand that whole business of creating a artificial water reservoirs itself is a new to this country, new to this world. So there is a settling time we need to understand few things, we are setting up own ecosystem, we must also run through I am sure the ecosystem part of that, so all that things once get built that is the next level of growth what we are expected from 2020 onwards where we would see that that part of the business would work as probably a growth engine for the company and it will be then much quicker because at this juncture unless and until we do not have a complete overview couple of seasons or maybe I think three, four, five seasons or go on we understand seasonality of this business we understand how do we counter the manufacturing impact of those seasonalities, the inventory impact of those seasonalities will not really like to go ahead and go aggressively on that and still if you see a 30% size that would still cross Rs.100 Crores business, so I personally feel that is a pretty decent size of business.

Shanu Bansal: So basically what you are saying, I absolutely agree I mean it is a good size, but more in terms of the potential, so what you are saying is right now it is more of an incubation stage and there will be a step change to how fast we can grow this business, but that will happen only after 2020 and from the learnings we have in the next two, three years.

Makrand Appalwar: Exactly that is the thought because we have been debating this on various platforms and various concalls when people have been asking me this question that there is a substantial demand is a shortage of water has gone through the roof, so why are we not quickly putting it. So it is very easy for me to scale at factory level, but from the whole ecosystem growth improvement and satisfactory to maintaining my bottomline, maintaining my quality standards then there is many time a question mark comes there.

Shanu Bansal: The reason I think people are interested is because clearly it is your foray into B2C, it is a new area and the potential is immense what we can make out which is why?

Makrand Appalwar: That is totally correct, but our thought at Emmbi is never go back like we have always been consistently growing, we have not been very pulsating company or very spiky company. If you see our 14, 20, 30 quarters of track record, we have been growing at a very consistent speed. In last 20 years every year we have grown a little, every year we have increased our topline and bottomline a little. So we like that maintenance of consistency or sustainability in our growth that is one of the very important concepts or factors where we feel, so that kind of distresses the system overall.

Shanu Bansal: Sir just one followup on this. Is this the seasonal business this water lining, pond lining business, is it like you do it in a few months in a year of course monsoon you cannot do it?

Makrand Appalwar: Around 8 to 10 months a year we are able to do it now, so we are now selected and why the combination of Rajasthan and Maharashtra is very important that you can say lull season of Maharashtra or one of the peak season in Rajasthan.

Shanu Bansal: My last question is on this EBITDA improvement that you are doing every quarter, which is about 15, 20 BPS is that coming more from a better product mix and sort of focusing on high margin areas or is that more to do with cost improvement, what exactly is driving it?

Makrand Appalwar: Couple of things. If you see our advance composite profile there we are focused on the cost improvement that is the area where the cost improvement is driving us better profits, but if you see the contribution change in water conservation, the declining trend in specialty packaging and improvement in the water conservation that is another reason why that combination is happening, so between the total result what we get say 15 to 20 BPS every quarter, it is a combination of this couple of things putting together. So in the advance composite range because it is a very technology driven activity and India has now at least Emmbi has now responsibly and reasonably been accepted by the world that we are doing good job and we are giving the products, which perform, so now we are able to get a better pricing because we are typically competing with America or Germany or Canada like this kind of a developed country manufacturing companies for those products. So initially those who are getting paid much higher than us purely because they were produced in certain sophisticated environments and countries while India was not looked at as a technology powerhouse at that point of time, but in the last five years we could convince the world that whatever extra money you are paying to the western are purely because of their operational cost and not because of the products to priority. So that has now we are slowly capturing that and improving our margins on those profiles so that is giving one part and second the change in the profile itself, the water conservation or the crop protection is one of our highest paying areas and now slowly they are going up and up every quarter by quarter, so that is also improving.

Shanu Bansal: It is a fantastic outcome despite the fact that you are in investment mode, investment phase, you are investing in people, investing in capex, so that is still a great outcome. Sorry one last question if I can squeeze, looking at the business quarter-on-quarter thing, which we troubled you and everything, but given FY2018

and looking at FY2019 now was the biggest challenge, what are the two biggest challenges for you I mean is it for you, is it going to be more on the execution side, more on sort of regarding customers what exactly it will be?

Makrand Appalwar: Let me address it in two points. First, you really do not bother me, I really wait for this day, so I am always very excited on all concalls, I would love to tell you about Emmbi because this is like bring up a generation entrepreneur, it is always very exciting for people like us to led the whole world know what we are doing and I am glad that you are listening thank you so much. So let me take the second part. What happened was earlier part B2B they have been fairly very stable like we have been doing that business for now almost down these years, so we know every small and big thing happening over there even in the midnight if somebody wakes me up I can tell okay this needs to be done this way, so that look and fix it, but for us now this B2C is a new animal altogether, we are learning lot of things, advertising especially rural marketing, wall painting that we are putting big bonga on the rickshaws and moving them around and shouting peoples hears that okay by our pond liner, so these are a new concepts, these are the new things interacting with local marketing companies taking parts in the local jatheras and creating awareness about the product, making people available with the fonts like we went up to the level, we went and started canvassing now, we have started canvassing government, we have started telling banks that how this is helpful. I am sure with the presentation there is a link of impact film I would definitely recommend you to run through that film that tells you about the impact this product has created and we are circulating some more film. So right now my larger challenge is taking people's attention towards the product and let them invest in that not only the investors, but more of consumers letting them understand about the importance of this product even the crop protection side, which is agro-polymer side. It is very important that consistently people have been doing chemical crop protection in this country. Weedicides and fungicides and pesticides and other things and consistently losing over the health, so all our products, which are crop protection or yield improvement products they are very, very focused on the nonchemical use, so

that is extremely health connected, people can remain more healthy, they can remain more active and that is within the cost, that is the most important part. We have always maintained that, we have identified that we are a company, which is going to cater to the bottom of the pyramid people, we are not the company, which is going to cater, so we have a much larger base to come and work with us in the coming area or coming time, so there is a complete new thought process even the thought process itself for the new business that is the new pond lining or water conservation business we need to figure it out that is a new, so we are considering a new vertical like where is when you would hear something from us that how we are going to operate the new vertical it is a new process, we have to attract lot of millennial talent, we have to bring in lot of new people who are going to make this big, so what brings me right now most of the time I am spending is developing this new business, new thought processes, new system, so that they are capable of handling that Rs.500 Crores, Rs.700 Crores business on their own.

Shanu Bansal: Understood. Very helpful. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Thanks for a followup opportunity. Do we have any tax benefits given that in the recent budget there were some benefits from MSME Rs.250 Crores of turnover?

Makrand Appalwar: But we have more than Rs.250 Crores turnover.

Shashank Kanodia: That was for FY2017 right?

Makrand Appalwar: No, we are already under MAT because of the R&D, so there is no change in the MAT rate structure that was the change for the cap rate structure.

Shashank Kanodia: Okay.

Makrand Appalwar: We are already in the MAT, so that stays as it is.

Shashank Kanodia: Any guidance for the tax rate for us going forward?

Makrand Appalwar: Right now we are in MAT and I think the amount of money we spend on the R&D would generally probably warrant us a similar kind of tax treatment in the coming years also.

Shashank Kanodia: Secondly Sir what is going to be debt trajectory going forward?

Makrand Appalwar: What is going to be?

Shashank Kanodia: The debt trajectory, so can we see some good amount of debt repayment in FY2019 and FY2020?

Makrand Appalwar: I do not know how do you define good amount, but I would definitely see some improvement in the debt profile because whatever money we have now ploughed in or the capex has been already made that is going to start recovering on and repaying back, and whatever improvements or increase debt what we are going to need probably will only be pertaining to the working capital side. So yes to answer your question there would be debt repayments happening during these two years. Now the question is good and bad is a very subjective, so I think there would be a good debt recovery or good debt payments. I can ensure you that we would never cross debt equity of 1:1 that is our internal guideline we will ensure that 1:1 is never crossed.

Shashank Kanodia: Lastly if you can guide us what were the polypropylene prices for this quarter on Y-on-Y basis?

Makrand Appalwar: We were polypropylene in our grade or extrusion coating grade, we were somewhere between \$1250 to \$1290 all these three months.

Shashank Kanodia: What was the price for coating period last year?

Makrand Appalwar: Last year was also similar I think about \$100 softer last year. It was about \$100 I would say.

Shashank Kanodia: Prevailing prices as we stand today?

Makrand Appalwar: Prevailing is in the range of around 1300.

Shashank Kanodia: Thank you Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: Thank you for taking my question again. Sir it was related to this European markets leading to slowdown, so can you share what was the impact on the revenue if the slowdown would not have happen?

Makrand Appalwar: No I would not be able to quantify that, it is a very difficult question to answer, what would have been impact on the sale because Europe has slowdown it is slightly cumulative thing to answer so I do not have exact number Ankit to connect to it.

Ankit Merchant: Let me just put it other way. How much is the European market contribution to your business?

Makrand Appalwar: Export 25%.

Ankit Merchant: Out of the total export it is 25%?

Makrand Appalwar: Yes.

Ankit Merchant: Thank you.

Moderator: Thank you. The next question is from the line of Saravanan Balakrishnan from Lead India. Please go ahead.

Saravanan B: My question is related to Emmbi's performance over the past 10 years like I have observed the financial metrics from March 2008 till March 2018, so I have seen

that debt had actually gone up like four times, but the sales have also gone up six times, so like you had mentioned that there will not be any major capex till 2020, so having said that can you tell us if the company will actually rely only on internal accruals for any future capex after 2020 and not relying on any external borrowings and that is question one and question two is with respect to the ISO certification that you had mentioned in Q2 2017, so has the certification come for food grade products?

Makrand Appalwar: I will just answer so quickly because that has come, I do not have to tell you the long story it has come. Secondly last 10 years of comparison frankly it is difficult to take it on this concall, but I would tell you about the future questions, which you have asked that whether our growth post 2020 would be derived purely from our internal accruals, so I think the answer is no. It might not or I do not have any exact numbers put to what is going to be required for growing post 2020, so that answer only I would be able to give you once we decide what exactly is because like we have entered or we have forayed into a new area of business, which is pertaining to water conservation and crop protection so that might I have been consistently answering the queries about why are we not growing little bit more quickly than what we should have or what we can, so we are restricting ourselves I told even the other number that we will ensure that our debt equity always remain within one, so that there is a enough comfort zone created for all of us, being an investors in the company to see that this happens, but till next two years your answer can be answered easily because I have outlook, which is available that probably we did not require major capex for growing for next couple of years, but henceforth whether we need any outside debts or we do not need it is difficult for me to answer I would not really commit anything like that.

Saravanan B: And also like have the commercial production of poultry curtain started?

Makrand Appalwar: Yes, it has started.

Saravanan B: Coming back to the working capital cycle, so initially we have planned to cut down by 10 to 12 days per year, so can we expect the working capital cycle to come down around 80 to 90 days by 2019 or 2020?

Makrand Appalwar: Actually if you see even this year it could have been around 15 days, but it has been only seven days purely because of the GST impact, the money, which is locked with the government, so we have exactly what we committed last year, we have still the efforts going in line and we would be trying to cut down our inventory and overall operating cycle by around 10 days per year and we expect it to stabilize somewhere around 100 days in next couple of years.

Saravanan B: And also like one quick question, so what would be B2 level business that we are expecting to take by 2019 and 2020, so currently like in the presentation it was mentioned 10%, so are we aiming for 20%, 25% of the total revenue?

Makrand Appalwar: No, I did not understand your question, B2?

Saravanan B: The B2C business.

Makrand Appalwar: You want to ask me how much would be contribution of B2C business in next two years?

Saravanan B: Yes.

Makrand Appalwar: I am targeting somewhere between 15% to 20% in next couple of years that is what we are, if you see the trend what we are maintaining I think we should be able to reach somewhere around there.

Saravanan B: Thank you.

Moderator: Thank you. The next question is from Devansh Lakhani, Individual Investor. Please go ahead. The next question is from Vinay Pai, Individual Investor. Please go ahead.



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Vinay Pai: My question is based on that 11 patent applications that you have made couple of years ago I think in 2015 or 2016, any update on when those patents could be got?

Makrand Appalwar: Frankly government does not give any like, no news is a good news, till that time nobody has created any objection you can expect that they are going to be accepted, so till today we have not received any objection note on anything, but at the same time we have not also got the patent as an approval, so to answer your question in one line frankly no update right now available as and when we get update we will immediately post it.

Vinay Pai: My next question is that you have closed down your European office, is there any alternate plan as to have Middle East or some other office to increase the business?

Makrand Appalwar: You have to see it the whole reason why we did we started it and why we stopped it, so when we started exporting the acceptance of Indian material or the Indian technology was limited, so we had kind of a route got created through that vehicle and we went into the market, but once we were in the market and everybody was aware about Emmbi and Emmbi's ability to perform. The brand already got created and then there was no need for us to remain connected with the European operation because the cost of operation itself is so high that it can never make any systematic or you can say any profitable reason to remain connected to it that is why once the brand got build up we had no reason to stay connected so we decided that okay this is the good time to dealing with them, connected with keep the Emmbi itself as a focus, so that is the reason just to cut the expenses, and focus more on our core activities we stopped it. We are going to do the same in the Middle East because this was not the reason so probably if we are to do something like this we might have to do in certain in the water conservation business to spread it in countries like Africa or where there is a need, but no awareness, so we might be looking at some partners or some I would say collaborators in one of those areas where there is a steep need of water conservation or taking care of the water and they have not yet understood because developed countries like America they understood the need of water, we do not have to go and convince them that okay you need to line your

pond, they already know that they want to come and buy from me, so that is another easier option, but we might consider something in these kind of areas. So these kind of initiatives are primarily to cut through into the market, get ourselves established there and then once the need is over we can either do it on our own or market is going to take care of itself so this was the basically thought behind it.

Vinay Pai: Right Sir. Thank you.

Moderator: Thank you. The next question is from the line of Shrinath Shridhar from ICICI Securities. Please go ahead.

Shrinath Shridhar: Good evening Sir. My question was regarding the constant increase in promoter stake, any guidance on that?

Makrand Appalwar: I still find there is a substantial value in my company, so whatever money I left with I go ahead and buy Emmbi shares, in the future also that I did not feel remain same whatever is my saving would be parked in Emmbi shares.

Shrinath Shridhar: So this year also you continue to do the same route?

Makrand Appalwar: I do not know I cannot say that how much, that I am frankly not having that outline, but if I have surplus cash and if I had invested somewhere I will invest it in Emmbi.

Shrinath Shridhar: Okay Sir. Thank you.

Moderator: Thank you. We will take the last question from the line of Devansh Lakhani, Individual Investor. Please go ahead.

Devansh Lakhani: Thank you. Sir what is the free cash flow that we have generated in FY2018?

Makrand Appalwar: I think the total operating cash flow is to the tune of around Rs.33 Crores and free cash flow after everything was around Rs.2.5 Crores.

Devansh Lakhani: Okay, so that means we have done approximately a capex or investment or something around of Rs.31 Crores or 30.5 Crores about that much?

Makrand Appalwar: Yes.

Devansh Lakhani: So basically in the next one, two years, what is the amount of free cash flow that we are expecting to generate?

Makrand Appalwar: I would say that there is no substantial capex plans in the coming two years, so I feel apart barring some Rs.5 Crores, Rs.7 Crores of maintenance capex, which is required that would happen, so I think balance everything would remain in the capex, so that is how debt reconstruction and other thing what we were talking about that might happen through that.

Devansh Lakhani: Okay, so basically we can have a fair assumption of say around Rs.25 Crores to Rs.30 Crores of free cash flow in FY2019 and may be a little bit plus in FY2020?

Makrand Appalwar: I am not a greatest of the finance guy as you know, but that looks similar to me.

Devansh Lakhani: Okay Sir. Thank you.

Moderator: Thank you. We will take the next question from Saravanan Balakrishnan from Lead India. Please go ahead.

Saravanan B: My question is with respect to the revenue breakdown, so if I see the revenue breakdown the projects for 2020 and 2021, the advance composite remains constant as well as the agro-polymer also remains constant is that the level that we are expecting to consolidate?

Makrand Appalwar: Actually agro-polymer has little bit gone down and advance composite has remained constant on the larger pie, so it would probably grow, but I would see if the time and the situation permits I would like to see the advance composite further going up and specialty packaging further going down, so there is a complete swap possible between these two products, so depending on the opportunity to sale

advance composite would be those are the two boys who are competing against each other I would say, so they have a shared manufacturing and everything and there is a swap possibility so more and more ability to sell the advance composite and cut down on specialty packaging that kind of activity would keep on happening, so slowly you would see specialty packaging little bit diminishing or just basically on the absolute level maintaining itself, but on percentage level might be diminishing and advance composite will be increasing.

Saravanan B: And also like we have seen like PAT growth of 23% this year, so could you please throw some light on like if there is any substantial increment in the managerial remuneration for the current year?

Makrand Appalwar: No, I have not yet proposed it.

Saravanan B: Thank you.

Moderator: Thank you very much. That was the last question. I now hand the conference over to Mr. Raghav Garg for closing comments.

Raghav Garg: Thank you Ali. Thank you ladies and gentlemen for participating on the concall of Emmbi Industries hosted by KR Choksey.

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