



# “Emmbi Industries Limited Q2 FY2018 Earnings Conference Call”

November 15, 2017



**ANALYST: MR. UDIT GAJIWALA – RESEARCH ASSOCIATE – KR  
CHOKSEY**

**MANAGEMENT: MR. MAKRAND APPALWAR – CHAIRMAN AND MANAGING  
DIRECTOR – EMMBI INDUSTRIES LIMITED  
MRS. RINKU APPALWAR – CHIEF FINANCIAL OFFICER –  
EMMBI INDUSTRIES LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY2018 Earnings Conference Call of Emmbi Industries Limited, hosted by KR Choksey. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Udit Gajiwala, Research Associate from KR Choksey. Thank you and over to you Sir!

**Udit Gajiwala:** Thank you. Good afternoon everyone. On behalf of KR Choksey, we welcome you all to Q2 FY2018 Earnings Conference Call of Emmbi Industries Limited. I take this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar, Chairman and Managing Director and Mrs. Rinku Appalwar, Chief Financial Officer. We will begin the call with a brief overview of the company by the management followed by the Q&A session. I now hand over the call to Mr. Makrand Appalwar for his opening remarks. Thank you and over to you Sir!

**Makrand Appalwar:** Thank you very much Udit and good afternoon and good evening gentlemen. Welcome to the Emmbi’s Conference Call. Thanks a lot for joining in and giving us your very precious time to listen. I am sure we all know that this was a quarter quite eagerly awaited by all of us, which way it is going to vest because we had a major transformation on our accessing system in India. Lot of things went very well. Some small hiccups here and there, but by and large I think things are falling in shape now.

Initially, I would like to tell a little about the revenue. The revenues, which are subdued because initial 10 to 15 days were extremely inoperative because of the new taxation system and the things were not really moving fast, but I am so glad about the point that despite all these things, we were able to get the targeted EBITDA levels up by almost 70 basis points.

We have a kept consistent target of around 25 basis points EBITDA improvement on the quarter-to-quarter basis and we were successful in doing that. The PAT is under a little bit of a strain purely because being an exporting company substantial amount of money has been locked in with the government in the form of the GST, which needs to be refunded, which is still not refunded and hence you must have seen that the finance cost has gone up by around Rs.20 lakh and that has caused some pressure on PAT and also because we have started two new product verticals with the capex, which we did in the past year resulted in appointment and induction of new people and that has brought some extra cost to the labor and wages cost, but the result as because they are not come to the fullest of their operations, so little bit of an extra labor cost has been seen, which also brought our PAT little bit down, but still I am very happy and confident that these are very temporary issues, which would be taken care very soon by us and by the government on the respective levels and we would be able to continue with our normal speed of operation in time to come.



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Now regarding the new product of the quarter, as we promised some five or six quarters back that every quarter, we would be launching new or innovative product within the table of one of our new product profile, so this quarter's product is the poultry curtain. It is basically a light polarizer. I am not an expert in Veterinary Science, but what I understood from the veterinary people that if the chicks get a certain kind of morning blow or dawn blow around them during the whole day, the process of them growing them fast is always there and they have accelerated growth without any kind of any external boosters such as the injections or anything else and they become naturally more stronger and quicker, so this particular product has the ability to create light of a certain frequency, I am not able to mention here for the reason of my business secrecy and that is frequency light, which passes through creates an environment, which is friendly for chicken to grow and that helps.

Previously, people used to use any yellow colored sheets or tarpaulin, which had sometimes worked and sometimes did not, but with the precision understanding about the product, I think we can assure that anybody who is using this would be able to control that particular frequency of light and would reap the growth. Another thing, right now we are just going to launch this product in Maharashtra and at a later date we would go ahead with Rajasthan and the subsidizing states. Maharashtra being one of the biggest poultry area and we already have reached through our online network on the village level, so this is a synergy, so we are expecting a business potential of around Rs.20 Crores in only Maharashtra itself. I think with other states getting added and product getting more and more popular amongst this, this would be. This product did not need any specific capex because the machinery and setup, which is there available for the pond liner can produce this product also and so no separate capex has to be done for this, so that was one of the good breakthrough for us because this will help us to quickly improve the capacity utilization of 3600 tonne water conservation capacity, which we set up last year.

Regarding the innovative things in my concall I told you that we are almost about to file three new patents, so what is the thought behind this on new patents is basically creating an ecosystem an additional revenue screen like when you buy a car, you buy a lot of accessories. So we are working on the same thing like mud slabs or the seat covers and other things, so when we are now selling the pond liner, we have also created a range of accessories, which goes along with this, so this would add our revenue stream plus this particular product can also be sold to the people who have not bought Emmbi's pond liners and decided to go ahead and have some of our competitions pond liners, so we have a chance to get an inroad there to those competition because no other competition does offer any of these products. So that is going to be another interesting part of the activity.

We are also connected with a lot of other people, which are pertaining to the first level of operation when pond has to be made, the first level of operation is excavation, so during the last three to six months, we have connected almost more than 15 excavation partners who owned earthmoving equipment and helped the people who intend to or decided to buy Emmbi pond liner to dig the pit and

set up the things, so we as decided or agreed in the previous time we are very vest on glued on to the thought process. There is no change or anything what was planed. Of course there are some fine-tuning and improvement in the productivity regimes, which would keep on happening, but principle plan remains the same.

Our last year-end utilization or breakup of B2B and B2C was in the favor of B2B around 97% and around 3.5% roughly in the B2C. That we are now able to increase up to 7% on a half-yearly basis on an extended topline and we are still hopeful because this was the quarter, which was under the monsoon, not largest of the ponds were made during this quarter, so during the next six months, which are going to happen, we are still quite optimistic that we should be able to reach our targeted level of around 8% to 10% of the topline coming out from B2C domain and all our actions and our activities are focused on that.

We are going ahead with our branding and advertising campaign, especially our advertising campaign that is focused in the villages. We are engaging ourselves with the rural people with the rural artists, we are painting the walls, we are creating an awareness programs in the schools and agriculture colleges, so that the farmers of tomorrow are also educated about our product. I would say reasonably successful in doing what we are doing and trying to do and we would continue to go ahead with the same logic and with the thought in our mind that we should be able to reach around 20% to 22% of our topline through the B2C route in the next couple of years to come.

Regarding the adoption of GST we have the system from the company side has been completely adopted, of course there is substantial amount of work needs to done in order to file the retails and other thing which I am sure, all of us are hearing lot in the newspapers and our government as per the new stand what they are taking. We are following that and going ahead, but in the larger way I would say that we have done an impact analysis and we are almost positive on all the fronts considering the impact of GST, so most of our inputs, which were previously under the CST or interest rate tax would get covered from time-to-time and that would improve the yield or the profitability of the company.

Another good news I would like to share initially when government came up with the first draft of GST rates the pond liner was classified as a luxury good and it was in the rate of 28%. Now in the last change, which came from the Guwahati conference on November 10, 2017 has reduced the pond liner GST rate from 28% to 18% and that has again helped us because it is being a B2C product and getting sold on the MRP basis. This is the big benefit to the organization and this would definitely improve the spread.

This is the by and large about the year as whole, I hope or I believe that you had a chance to run through the new presentation and we have given you some pictures of the new CleanTech facility, which is the contamination free production system, so you can see that has been put to use now and

that has gone on stream and that is doing alright I would not say that it has reached the level where it should, but during the next couple of quarters it should reach the level where it is designed to go.

So by and large everything is as planned except a few hiccups up and down relating to this taxation system changes, but company is stable and doing well. I would like to revise our future projections for this year from the previous 18% to 20% what we are talking to around 15% to 17%. We still feel that we would be able to achieve this 15% to 17% annual growth because most of the time, Emmbi's second quarter has been always more stronger than our first quarter, so considering the same trend which happened in the past say so many years or more than 10 years of operation, I believe that we would still be able to get anything between 15% to 17% growth on our topline. I would like to hand over or open the floor for the questions. Would you please go ahead with the questions?

**Moderator:** Ladies and gentleman, we will now begin with a question and answer session. We will take the first question from the line of Ankit Merchant from SMC Global. Please go ahead.

**Ankit Merchant:** Sir, good afternoon. Basically, I like to understand about the GST refund, which has been stuck and secondly I would like to know about your plans for FY2019 as such considering that the FY2018 our numbers have been to expectation, so what are your expectations for FY2019 and thirdly I will like to know about your FIBC packaging. As far I know as in the month of October you are supposed to start the commercial production as such, so how it has been going?

**Makrand Appalwar:** I will take it one by one. Regarding the GST refund. Frankly speaking government has come up with the announcement that they will be going ahead and doing it ASAP, but frankly it is beyond my control to promise you on a date or any indicative because in the past so many dates have been changed because they themselves are realigning the system and making it most possibly helpful to the assesses and sooner or later, but I am feeling that it might take this quarter and they might be able to finish the whole operation and the refund should be there somewhere around December or around that. That is what it looks like. Second question was regarding, could you just remind me what are the second thing, regarding the FIBC business. Regarding the 2018 topline I just give you my answer that we still believe that we would have a topline growth somewhere in the range of around 15% to 17% for 2018 and as for the plan has been made and the resources has been created to create a topline growth of around 18% to 20% in the subsequent two years. Your third question was regarding the FIBC business. I think you wanted to ask regarding the food grade business if I correctly understand because we are in the FIBC business since 2005.

**Ankit Merchant:** Yes, food grade.

**Makrand Appalwar:** So food grade operation has already started, but the food grade sales has not yet started because we are right now making the bags or the FIBCs, which are non-food grade in the good grade operation because that it has to go under the certification process, which is a process of around six months, so

by end of December we are likely to get our certifications of BRC and ISO 22000 food grade certification, so once that happen then only we can say certified food grade operation, so any food grade start initial six months the bodies observe or conduct the way operate the factory, the way we adjust, right now we are producing the product in that as per the guidelines of food grade, but we are selling them mostly to the companies like cattle feed and other thing, where there is no restriction, but they need a cleaner bag, but there is no restriction of certified food grade bag, so this is the situation.

**Ankit Merchant:** But it was supposed to start from October onwards, so now?

**Makrand Appalwar:** It has already started. It is meeting for the further certification.

**Ankit Merchant:** How much is refund value, which you are looking forward from GST?

**Makrand Appalwar:** Refund I think we are locked in by around 6 Crores are locked in till now.

**Ankit Merchant:** 6 Crores.

**Makrand Appalwar:** I am not talking of November, and we have not yet not decided.

**Ankit Merchant:** Sure and about this 18% GST that is very good for you, but is it applicable for all of your products or it is just the pond liner?

**Makrand Appalwar:** No, pond liner was the only product, which was in 28%. It came down to 18% and FIBC is actually in 5%.

**Ankit Merchant:** And what is the run rate for your pond liner business right now per day basis?

**Makrand Appalwar:** We are making around three ponds roughly in a day. We have crossed the 1000 pond mark already, so around roughly 3 to 4 ponds we are on there.

**Ankit Merchant:** Do not you think it is little slow right now?

**Makrand Appalwar:** Yes, it is slow that is what I saying. It was all of sudden because this 28% earlier in the excise regime, excise was 12% around 10% all of a sudden it went to 28%, so it became slow, but now thankfully, it has come down to 18%, so it will again pickup its own speed plus there was also a monsoon season this particular quarter also pertaining to June-July season. June-July is a rainy season in Maharashtra, so during the rains the work of the ponds will be very slow always.

**Ankit Merchant:** What is the utilization right now for the complete capacity?



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**Makrand Appalwar:** We have come down to around 85% when we installed this, I think this year we would be anything between 80% and 85%, I think it should not be more than 80% this year.

**Ankit Merchant:** Any comments on the debt because I think because of this GST your working capital have been skewed?

**Makrand Appalwar:** Yes, so we are hopeful that we will get our refund back and that would correct the increase in working capital whatever it has seen, but till then we cannot stop the operation so we are taking the help of banks and going ahead with that.

**Ankit Merchant:** Thank you so much. I will come back in the queue. Thanks.

**Moderator:** Thank you. We will take the next question from the line of Joshua Zhang from Hidden Champions Fund. Please go ahead.

**Joshua Zhang:** Good afternoon, Sir. The question is regarding the poultry curtain that you have recently launched just want to check if what is Venky the largest chicken supplier in India is using now and you are likely to look to them together to adopt in these products and so the question will be if this through direct sales or is it through distribute route?

**Makrand Appalwar:** I think frankly they were very instrumental because they are our existing buyer for the poultry feed packaging activity, so we have been in contact with them for this product and they were very helpful also in giving us the suggestions and another things, so yes they would be one of our probable customers, which we would like to and within India we would probably because considering the size which Venkys have and we already have a relationship with them at the packaging side, so we are planning to go ahead and have a direct relationship with them for this particular product, but general distribution, which we will see which are the village based poultries, which are not as large as Venkys and the spread is very deep rooted across the state we would like to use the distribution model from our rural entrepreneurship model what we call and that would be a larger sales driver for this product.

**Joshua Zhang:** Are there any other major customers that you are looking to push this product to?

**Makrand Appalwar:** Frankly, we are talking to lots, I would not be able to name whom, but most of the organized poultry we have already sent the samples and our team have already visited organize, but that is not the only thing we are talking to both organized as well as like the company poultries as well as small individual companies, which will be looking into this and which will look into the possibility of selling it to him, so to answer your question, yes we are talking to many people and both organized as well as unorganized sector of poultry we would be talking.

**Joshua Zhang:** That is all the question I had. Thank you.



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**Moderator:** Thank you. We will take the next question from the line of Vinay Pai from Individual Investor. Please go ahead.

**Vinay Pai:** Good evening, Sir. I note that the topline for this quarter was flat, but was it due to polymer price is coming down or what was the reason for being such an absolutely flat number?

**Makrand Appalwar:** I do not think the reason was polymer to do anything to polymer prices, the reason is lot to do with the overall domestic slow down. I think initial first 10 to 12 days there was almost no sale in domestic market because that was the time where we started GST first July, so sale was very, very low or almost no there. So that has a kind of got some pressure there and overall domestic, which actually revived in the last month to one and a half was quite flat on all the things even the FMCG was slow and quiet, so it was the more of challenge from the buying community or the buyer or the sentiment of buyer was very low, because everybody was trying to exhaust their pipeline stocks and the evaluations and other things, so I would probably attribute this flatness this particular quarter though the half yearly it is around 13% growth, but this particular quarter seems flat purely because of this all new system of operation.

**Vinay Pai:** My second query is regarding the poultry grade kiln are you addressing only the Maharashtra market because I feel this is a great product and it could have very significant export market advantages I feel, is that your in your radar?

**Makrand Appalwar:** We would be first in the March 31, 2017, this year we would be first looking for Maharashtra market because that is the market which is comparatively very developed and if we can get sold and accepted in this market then it becomes comparatively easier for us to replicate that, so our learning, product understandings everything will come from this market, so right now we are focusing on Maharashtra, but in the coming probably six to nine months we would go ahead and start associating ourselves with larger period across the nation or even overseas because been a very acceptable phenomenon especially in the countries is to understand the product correctly, what it does is even in very bloomy are let us in New Zealand or in the United Kingdom where the light outside is very poor and you feel very gloomy so this polarizes the light and light inside the film is more warmer and like a sunlight, so that creates an artificial feel to those chicken that it is more brighter and sunny day, so that is going to be very, very helpful in also distributing this across the world, but I think as a standard practice whenever we launch the product we will first like to learning breakthrough and once we are assured about what we are doing and once we are knowing that we need go ahead and do what then only we go ahead and launch our process. So the same theory will be applied and move ahead.

**Vinay Pai:** Right, my third query is regarding the food grade polymer product. Now that the commercial production has started originally and these are we were given to understand that this product was for

the American market right, right now only the Indian markets are catered so when are you going to go there?

**Makrand Appalwar:** Right now we are producing the bag for Indian market. We have already started producing it for an export market, but we are not producing the product which for the human consumption. We are mostly doing right now for the animal feed and other things or fish feed, so it has already getting used for export market only, but the application is not for the human consumption, but for the non-human consumption.

**Vinay Pai:** So, the human consumption per product you are having more margin right?

**Makrand Appalwar:** Yes, that should start somewhere by the December I would say.

**Vinay Pai:** This December right?

**Makrand Appalwar:** Yes, this December.

**Vinay Pai:** My last query is just a very general sort of a thing, since this company manufactures such very wide range of very highly specialized technical product, I was shareholder also I would like to request the management that you vetted we should change the name of the company say something Emmbi Technical Polymer or some such things because Emmbi Industries does not capture the uniqueness of the product that you make that is just my suggestion and it is up to the management to decide.

**Makrand Appalwar:** Sure. I really appreciate probably we will have to talk to one of your brand people like may be specialty polymers or something like that. It is not off my cuff, but yes I noted your suggestion and I will definitely flow through this idea to our people and if that is going to address or going to introduce us more clearly to everybody who is connected in our ecosystem they may be a shareholders or customers or suppliers if that is going to add the value we love to take your suggestion and take it ahead from there.

**Vinay Pai:** Thank you, Sir. That is all from side.

**Moderator:** Thank you. We will take the next question from the line of Udit Gajiwala from KR Choksey. Please go ahead.

**Udit Gajiwala:** Good evening Sir. So my first question is that company has just finished the 22 Crores of capex in building the 6000 metric tonnes capacity so what is the total revenue contribution expected from this capex and has the company received any orders for this new capacity?



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- Makrand Appalwar:** In this 22 Crores capex what we have finished we had a split of two, one was 3600 metric tonnes of pond lining or water conservation dedicated facility and another was 2400 metric tonnes of food grade facility, so I think with all the discussion you must have heard what is happening in the food grade area that we have already started producing and we would be producing non-human consumption right now and from December we would go ahead with probably human consumption this is one side of it and roughly the topline, which is likely to be created out of this 2400 Crores is in the range of around Rs.35 Crores to Rs.40 Crores and now another, which is water conservation, which has already initiated the process and this particular 3600 metric tonnes of water conservation product which we able to convert into rupees probably they would be somewhere between Rs.50 Crores and Rs.60 Crores of the material when it is sold to the market, so that is the topline we would be able to generate, when they are used or they are put to use at the time, but probably it might take around six to eight quarters to reach to that level. It is not going to happen overnight because they both are very niche products and lot of things are happening and a lot of things needs to be convinced so that part of it is in the process though it is going in a right direction it will have its own settlement time and as the plan that by March 2020 we should have this water conservation or our retail business in the range of around 180 to 100 Crores where we would be using this capability to the fullest and then probably going ahead for the next level expansion depending on the learning what we do during this position.
- Udit Gajiwala:** Thank you so much. That was helpful and the next question is that what is the next leg of capex expected, when is it?
- Makrand Appalwar:** I do not think we need in 2020 any planned expenditure for the factories, but there are going to be a debottlenecking and maintenance capexes or probably something that also gets attributed to the R&D capex in the range of around 4 to 5 Crores per year then we achieve.
- Udit Gajiwala:** The last question is that do we have any other patents in the pipeline right now?
- Makrand Appalwar:** Well, I cannot name them because as a part of secrecy, there are some more projects going on here. I am sorry, but I would not be able to name what and how, as soon as we file them next subsequently we will immediately inform you.
- Udit Gajiwala:** Thank you Sir. That will be helpful.
- Moderator:** Thank you. We will take the question from the line of Keval Shah an Individual Investor. Please go ahead.
- Keval Shah:** Thank you. Just wanted to ask that as you have just mentioned that we would not have any major capex in 2020, so can we see any debt reduction in the next one or two years?



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- Makrand Appalwar:** Probably yes. That would automatically because whatever cash company would generate and if there is not going to be any capex naturally it would adjust itself in plus the repayment will happen automatically because banks are getting repaid on the monthly basis, so roughly I think we are repaying around Rs.3 Crores to Rs.4 Crores per every year when it comes to the repayment of the capex so that would naturally happen plus whatever is the extra cash available that would be put through the working capital so working capital will automatically come down because of that.
- Keval Shah:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant:** Sir! Just one last question on debt what was the total debt right now on the books?
- Makrand Appalwar:** I am probably you know I am not greatest of the man to remember things, but if you want just hold on that we will run through it. Around 70 Crores of working capital and around 16 Crores term debt in the range of around 86 Crores.
- Ankit Merchant:** Any improvement you have seen in the inventory days?
- Makrand Appalwar:** Yes, it is happening. If you see considering like last numbers, like the speed, which we have planned around 10 to 12 days a year that is we are on the back of that and we would be able to diminish it by around 12 days here also.
- Ankit Merchant:** Has the equation with the data cycle improved or data days are improving or what are the terms from your debtors is there any lag in repayment or payment to you?
- Makrand Appalwar:** Internationally no, retail no. In Indian companies or Indian domestic companies yes because of the GST thing, Indian domestic companies the days are little bit is sticky, but international debtors and retail data they are actually been consistent or rather we are able to get down some numbers there.
- Ankit Merchant:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Udit Gajiwala from KR Choksey for closing comments.
- Udit Gajiwala:** Thank you everyone for joining the Q2 FY2018 earnings conference call hosted today by KR Choksey. Thank you so much for joining in.
- Makrand Appalwar:** Thanks a lot.



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**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of KR Choksey that concludes this conference. Thank you for joining us. You may now disconnect your lines.