



## “Emmbi Industries Limited Earnings Q1 FY19 Conference Call”

**August 13, 2018**



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DIRECTOR**

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CHOKSEY SHARES & SECURITIES PRIVATE LIMITED**



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**Moderator:** Ladies and Gentlemen, Good day and welcome to the Emmbi Industries Limited Earnings Conference Call for First Quarter of FY19 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 the date of this call. These statements are not the guarantees of future performance and involves 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, please signal the 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. Thank you and over to you Mr. Garg.

**Raghav Garg:** Good afternoon everyone. On behalf of KR Choksey, we welcome you all for the Q1 FY19 Conference Call of Emmbi Industries Limited. I take this opportunity to welcome [01:13] Emmbi Industries represented by Mr. Makrand Appalwar – Chairman and Managing Director and Ms. Rinku Appalwar – Executive Director and CFO.

We will begin the call with a brief overview by the Management followed by a 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 everybody at KR Choksey and people at call center. Thank you very much for your support. Good day investors from every part of the world. I am Makrand Appalwar Managing Director and Chairman of Emmbi Industries. This was a interesting quarter and let me tell you at the beginning the launch of new initiative what we name it as an Avana. Avana in Sanskrit literally means protection. So, why we choose this is under this initiative everything what we are doing is there for the protection of farmers income or farmers wealth. So, protection by providing them enough water, protection by giving them crop cover, protection by giving them Mulch Films that is why we have selected them as a specific name and the whole idea behind them is creating a strategic business unit within our company which is completely focused on the retail side because as you know many of you have been with Emmbi for a very long and Emmbi has been a typically a B2B company in the company in the past and as you have seen that last year we had almost 10% of our topline which was generated out of B2C and companies taking a shape of a nice B2B company.



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So, it is my job or it is my aspiration that I create an environment which is perfectly supportive to this B2C activity. Apart from creating a cheapest pond lining or a cheapest water storage facility which was at the 1 paisa per liter per year cost and which was completely recyclable, extremely eco-friendly. Now is the time where we give a wonderful environment to our investors to our staff member to our employees to take care of this B2C activity into the next level. So, going forward I am just going to tell you a short story of a famer Mr. Babasaheb Padua just I visited them about a couple of weeks back. So, the story with Babasaheb is he is basically a kind of a cultivator, small cultivator in Aurangabad district a place called Ladsawangi he had almost 500 mosambi tress and in the drought of 2014 all these mosambi trees got burnt and he lost entire crop of mosambi and naturally the family was extremely pain and troubled and the protection was withdrawn because they had no water.

They tried to put up a pipeline which was almost 11-kilometer land, they have hired lot of experts. They spend something like Rs. 10 lakh doing all these things but in Vain, but they could not really save that garden. In late 2015, or early 2016 we had a chance to meet with them and in 2016 we set up a one of our ponds in their area and I was very excited and very happily I can tell you that in my last visit I have seen that there are now mosambi are gone or the sweet lime are gone, but there are more than 1,000 trees of pomegranate standing up and erect and I had tasted the pomegranate they really taste wonderful. So, this is the story or this is the strength of the Avana initiative and let me tell you we are now able to do this almost 5.5 times every day. The run rate what we had last year when we closed the last year. We had run rate of almost 4 pond a day now it has been moved to almost 5.5 pond a day and I think going forward it is going to again go up. So, it warranted a very specific attention and that is the reason why Avana.

So, if anyone of you or many of you had a chance to run through our investor presentation always we circulated before the concall. We have given a specific slide separator for separately for the Avana which explains the function which is coming up with a completely independent thought process, peoples, brains behind it a vertical because the whole idea or the whole concept behind B2B and B2C always defers. Here the small and more efficient sells are going to be the part while in B2B is a bulk sale it is a larger operation. So, this is going to be a typical differentiator and I am sure in coming time the dream what we have seen we make this company at least 25% B2C company within next two years we are going in the right direction. Secondly let me inform you regarding the food grade operations. Food grade operations are up and running certification is done and we have started operating it to the level. I would not say that they are 100% now we are utilizing the capacity because it is a process and during the process it will happen that slowly will keep on growing the consumption of food grade material being sold from that facility. Right now, we are using it in the food grade sector but not to the fullest. So, I am sure you must have seen there is an improvement in the export, there is improvement in the profitability. One of the signs are coming out of that.



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So, right now, our top priority remains on the focus pertaining to the profitability improvements. Of course, there is a very keen eye on the top line improvement which is one of the core things which we need to do and will be doing apart from that our very specific focus will rest now in also improving the bottom line. So, generally, if you have seen the operations wise like we make 10% increase in the top line or bottom line generally increases 15% but this time the skew is slightly more in favor of the bottom line that we made something like 10% increase and almost bottom line is almost 20% increase. So, that is because of this new initiatives, better focus. Let me also update you regarding the industry 4.0 or IOT or machine learning initiatives which we took I informed you during our last conference call that companies working very, very specifically. So, now the pilot project is complete, and we are also moved on to actual implementation more than 30 machines has been connected with IOT and I think during this year time we would have a complete manufacturing set up, moving towards the next step to make our manufacturing a smart factory. That is the whole idea like I think in three years' time we would like to correct most of our operations to go towards the smart manufacturing activities through IOT and machine learning activities. Regarding the EBITDA level margin you must have seen a better thing vis-à-vis year-on-year we almost 120 odd points up on the EBITDA level and that is the part of the activities which have been multi-phase things to improve the profitability, better operational leverages, better man power, better purchasing all this together I would not attribute the improvement in the EBITDA margin to any specific one reason but I think it is a combination of multiple reasons coming together. One more interesting news I would like to share with you today is renewal of R&D centers status. So, we are just received renewal letter from the government regarding the R&D status renewal and now Emmbi is going to have a certified R&D center status till March 2021.

So, next three years we can continue with the similar acts and other structures and the same initiatives pertaining to higher research and development would continue. So, these were the basic thing which we had during this quarter apart from always first quarter is one of the toughest quarter we always face because of the marriage season and the heat and the people just going away for the holidays and other things. Still this year it was a interesting changeover generally if you see our quarter four to quarter one movement is a negative side or a sluggish we lose little bit on the earning per share or other insight, but this year we were able to maintain it I am so happy to tell you that. This is all about this quarter and now I would like to open the floor for the questions and answers.

**Moderator:**

Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.

**Priyank Chheda:**

So, I would like to know this beyond the segmental revenues and beyond the products what is the vision for Emmbi beyond 2020 in terms of market positioning across the segments that Emmbi is present.



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**Makrand Appalwar:**

I would like to catch your attention to our main four product lines I hope you will just run through them. So, two of them are our classical old product line which we have been working for a while that is specialty packaging and advance composite that has been very constantly because India is now getting a center stage as a global packaging industry and I am very happy to tell you the field in which we are FIBC Association. We contribute to 42% of the global market share. There are 30 companies I am actually present sitting president of India in FIBC Association. So, I can give you these numbers on the hand that India contributes to 42% of the global market share and it is moving continuously towards India. Conventionally we had a competition from Turkey, Mexico and to some bit from China. So, Turkey because of their political instability and the consistent price imbalance of Lira. Mexico for their apparent reason with United States they are losing their trade share and China because of the cost is also losing a trade share to India. So, there is a consistent movement of trade share happening from these three major manufacturers apart from India towards India. So, what we envisage is between these two vertical that is specialty packaging and advance composite where most of the product India would be actually contributing to almost 50% of the global market share and we being one of the four in the forefront of this industry and we have been one of the top exporters of India. We would almost have so we see at least consistent growth of around 10% to 15% in between these two verticals. Now talking about the other two verticals and our vision about it. So, as I told you in my first opening remarks regarding starting up of Avana the whole idea is basically going ahead and helping Indian agricultural community and farmers to create a situation where the uncertainty would go further down for everything in every aspect. So, what we are doing through the Avana is we are basically creating a market place where the products which are pertaining to storage of water, better utilization of water, making smarter decision for buying as well as selling on the equipment using the crop protection thing everything would be able to happen. So, till 2020 we have all the infrastructure which is required our manufacturing infrastructure which is required is already set up and company would be able to at least generate a 100 crore revenue out of that particular initiative that is what is our belief and using that particular foundation because we are using this three to four years from last two years odd we started and another two years will go. So, these four years we are using as a foundation for building up the next level of business into B2B. As you told you conventionally we have been a B2B company. So, when you move from segmentation to other the best thing is you personally experience or the company itself develops its own knowledge knowhow and make its robust framework or distribution as well as manufacturing. So, right now, we are in that process of developing a framework. By 2020 we believe that we would be ready with that and from there we would take this company to the next level where that is the time where we will have probably I would see a booster engine connected and much faster or a quicker growth offered to this.

**Priyank Chheda:**

So, the whole focus now for next growth trigger is the pond liner that we understand from your commentary?



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**Makrand Appalwar:** I would say Avana platform kind of thing not just pond liner is one of the or is just a substantial product in that but the Avana platform as such whole would be a growth trigger.

**Priyank Chheda:** Sir just focusing on one of the products which is pond liner for Emmbi which we see it as substantial jump in the contribution of revenue in the coming year. So, my question is regarding the coverage in terms of the states that how many states are we covering, what is the market potential that we look for pond liner particular for India and do we have that capacity ready or do we would be having again a next capacity ready after 2020 and then going forward, how the things are planned for pond liner?

**Makrand Appalwar:** So, I will break this question into two. First was your potential of pond liner in India. So, right now, the studies are not completely available, but I can tell you about the two states where we are operating that is Maharashtra and Rajasthan. So, Maharashtra had 1,25,000 already dug out ponds which need lining and Rajasthan is recently announced 50,000 more ponds for making them fit for storage of water. Between this two this would roughly estimate it to be around 3,500 to 4000 crore opportunity. Now this is getting in cash, this is slowly changing into reality because there are lot of small hurdles which is turning to regarding the financing, regarding the infrastructure. So, opportunity is much larger than what is actually the supply into market. The supply is restricted because of multiple reasons. One is there are less companies who make the ponds another thing is there is a less financing possibilities. So, we are working on multiple reasons or multiple levels to complete this entire value chain where farmer would be convert into a pond owner. So, that is one side and second side your question was whether we have a capacity already ready to take care of this growth. So, answer is no we do not have a capacity which is equivalent a 4000 crore revenue growth, but I think that is not going to be a one time or a very quick happening. This is going to happen in next three to five years and it is going to give us the time enough. So, we feel that right now whatever is the market and the way and the speed with which it is growing we have a sufficient capacity to take care of that, we are now one of the leading players in the Indian market and as per some global surveys Indian Pond liner market as a whole country is targeted at around \$3 billion or around 25,000 crore roughly you may take some here and there. So, this is going to be a very large market and there are going to be some very substantial opportunity to come our way. So, we would take a time till next two years or till 2020, create a situation, create a system, create electronics, create program for our company to split and migrate to a next level and then go to the next level.

**Priyank Chheda:** Just a last question from my side do we have any new products line up for next two years I mean we have around 40, 45 products already there and my question was based from the background that we are seeing lot of plastic bans happening and then we have some products in the food grade facility, so are we looking out for some new products and looking forward for innovative products ahead.



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**Makrand Appalwar:** Yes. So, let me take you briefly towards the plastic ban as you open the topic most of the plastic ban is happening in a single use product, none of Emmbi product is a single use product we do not do like a use and throw kind of thing like a bag or film or anything. Now there are certain products which we are going to the next level like typically pond liner. So, pond liner though not ready or the recycling because it has got a life time of around 6 years, but Emmbi has created a substitute when after six years it would be ready for recycling we would be able to create a substitute product which we have already created that what it is going to happen out of that recycled material. So, we are very, very focused and glued on our understanding and managing the polymer related processing or making polymer more and more eco-friendly as well as more and more sustainable to the whole ecosystem. Your second question was what the pipeline products are so that is little difficult to inform you in this platform because they remain little bit under wraps. So, as and when we launch them we will immediately announce but the more focus remains on consolidating the products already have creating their monetizing them, improving their level, a lot of R&D happening to improve their performance and levels. So, that is a larger focus in the present time.

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

**Shashank Kanodia:** On the top line front what was the volume related growth and what was the value related growth out of this double-digit growth?

**Makrand Appalwar:** I would say that volume led somewhere around 9% odd and the value growth is little bit higher because there was a little bit of reduction in the raw material cost and actually last quarter but still we had sold a better contribution to the product which pertain to pay us little higher. So, I would say it is little bit skewed in favor of value than volume.

**Shashank Kanodia:** Sir there was substantial increase in gross margin for us. So, like RM to sales for us is roughly around 66% to 67% to sales in the past and it is 63% for the quarter, so is it structural change for us or is there any one-off attach to it?

**Makrand Appalwar:** No, there was some couple of things rupee became little.

**Rinku Appalwar:** If we see RM the cost of materials consumed remains the same around 58% so it has come down a little bit around 57% this quarter, 57.1% so that has contributed little bit to the profitability and also the dollar price.

**Shashank Kanodia:** Is it kind of thing which is sustainable going forward?

**Rinku Appalwar:** Yes it will be sustainable because as the sale of pond liner and this will increase the RM consumption will start going down. So, that is going to be sustainable and that is not an issue.



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**Shashank Kanodia:** And ma'am on the margins front also so 14.5% is a new high for us so we have been always clocking 14% trajectory only in the last quarter which is the best for us.

**Rinku Appalwar:** Therefore, we will like to keep it between 14 to 15.

**Shashank Kanodia:** So, next year will be in excess of 14.5% the EBITDA level for us.

**Makrand Appalwar:** Typically, we have been growing our EBITDA by 20, 25 basis points, but this particular quarter what happened was this quarter unprecedentedly better than typical first quarter because food grade started operating, pond liner got a better traction because of low water and water shortages. So, the typical pattern of the sales is slightly changing at Emmbi what was happening. So, that is why we had all our minds while spending the money where everything was equally tight in the first quarter because we were not envisaging that this is going to be the end result of the quarter. So, it also came as a very happy surprise to us that we sailed through this quarter very well. So, I feel that typically the target what we keep. So, let us say March 18 was around 14.20 was a EBITDA level. So, during this year we could have seen anything around 15%. So, give and take I think we would stay or stabilize somewhere between 15.25 it will still remain somewhere around that during the whole year pattern if you we observe. I think if you have noted my two years back concall we were always predicating that within next two years. We would be matching towards like 15.5% to 16% so we are slowly moving towards that was the plan, that was the whole idea how to operate the company that is happening.

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

**Ankit Merchant:** So, my question is specifically related to this growth I believe the growth in the last year in the first quarter was basically down due to the GST issues, so on that we have just grown at 14%. So, what do you make out of this that is the growth for you it has started slowing down or we have achieved a base where our growth is likely to be in this range only?

**Makrand Appalwar:** No, I do not think so because the first year, last year the GST and other things was not in the action like GST came in the second quarter did not happen in the first quarter. So, that particular thing is not what you are trying to say first quarter growth is not comparable with the GST. So, I think we are going to have a growth somewhere in the range of 15% to 18% that is what it looks like so we had a little bit of down last year the speed was also but it does not happen that way that whatever sale is lost, sale will get back in this year or something like that. So, I would not try to draw any inference like what you said that because last year growth was slow and still this year growth is 14% so it may be inferred that we are going to have lesser growth. My answer is we will have to look at two years in the independent way so still I feel that company has a potential to deliver anything between 15% to 18% annual growth even this year.



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**Ankit Merchant:** I believe you said that the plant is now operational so what is the current utilization and what is the peak which we can achieve with this year?

**Makrand Appalwar:** Right now, I will give you this numbers regarding the food grades so I think around 15% of the plant capacity is getting used in the food grade sector and rest is used in the non-food grade such as industrial clean or for animal and fish meal and other thing. I am targeting at least 45% to 50% of the plant capacity to be utilized in the food grade sector during this year. I am not talking about just using the capacity. I am talking about using the capacity for the right application for which it is made.

**Ankit Merchant:** And your interest cost on the year-on-year front has also gone up, so can I have more color on this?

**Makrand Appalwar:** Interest cost by and large I think has gone up little bit because of the interest cost itself has increased this year. Some bit what GST lock out which is now recently started coming out those were actually non-business interest loaded on the profitability or businesses which are independent of what normal business as such. So, if you see last quarter to this quarter percentage is little down like last quarter it was some 4.11% now it is 4.08% so it is a little bit reduced not increased compared to the last quarterly if you see but yearly yes, it has gone little bit up from 3.8% to 4.08%. So, exact matching cannot happen because it is a factor of multiple things people paying to you, you paying to people particular creditors, debtors in that particular quarter. So, I would say that it would stay it would stabilize anything between say quarter three to quarter four that kind of (+/-5%) would happen. It cannot be that every quarter it would exact at particular number. It is a business it cannot be predicted to that pinpointed level.

**Ankit Merchant:** There is lot of talk about this rural recovery which is happening and fortunately the monsoons are also better although 10% below the average, so what do you feel about you were closely with your rural sector so what is your feeling regarding the rural sector and do you see growth coming in for our particular product line?

**Makrand Appalwar:** My take is like rural recovery is happening. I would say little bit more happier or wealthier than what they were earlier because as you rightly said the monsoon has been reasonably good. It is 10% deficient in certain areas not across because the numbers which has come up is a kind of a gross country number and that does not really apply to all the part of the country and still substantial part of monsoon is still yet to come down like we are almost one and half months left for the monsoon like monsoon would fall till end of September because this time Ganpati is almost at the end of September. So, roughly I would say 25<sup>th</sup> of September the monsoon will be still active. So, I see that this is going in a right direction, this is going good way so if they are more water to store we have better chances that we can sell our more pond liners and lately we are also very active to connecting with the banks. So, I think by next quarter we would be able to announce you some more developments on the bank side attachment with the farmers and like



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creating a triparty thing. So, yes, with the monsoon stabilizing, things are better in the rural area than what they were seen at least about a year and year and half back. So, I am quite excited and bullish about what is happening here.

- Ankit Merchant:** So, can we see the old 20% growth coming in on the top-line front?
- Makrand Appalwar:** I am quite excited, and I am quite gung-ho that it should happen, but I cannot promise but I think between 15 to 18 looks like very reality.
- Moderator:** The next question is from the line of Vinay Pai from Individual Investors. Please go ahead.
- Vinay Pai:** I think all my questions are more or less answered, only one specific question I had that GST money that was locked up has it been released in this quarter?
- Makrand Appalwar:** We have got a money till March lockout, but like it is not still online, there is a procedure or lag of around 4 months, 5 months still happening.
- Vinay Pai:** So, basically, you get this money on a continuous basis. I thought it was just a x amount of some locked with the government which you could not receive it for a long time?
- Makrand Appalwar:** So, technically when the system will start working as it is designed whatever you sell any particular month in the subsequent month you will get all your refunds, but because the system is not fully functional yet ,what is happening that electronic part of it or software part of it is not supporting on so everything has to be done on manual level. So, instead of getting it on the subsequent, it gets in the subsequent four month or five months so that is the problem. So, in the coming year we are hopeful that it would start rotating and this lock out will completely go away. In the initial days, there was not coming anything, but now is the thing that you are around lock out of four months. So, say in the month of May you get a month of January, in the month of June you get a month of February, so three to four months delay it is happening with the time it would keep on growing down.
- Vinay Pai:** What is the approximate size of that money?
- Makrand Appalwar:** Around 5 to 5.5 crores.
- Vinay Pai:** The next question is just sometime back you said that the run rate is around 5.5 now for the pond liner, if the plant is running at what capacity what could be the level?
- Makrand Appalwar:** This can be anything between 22 to 23.
- Vinay Pai:** And that could happen in the next.



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- Makrand Appalwar:** You can almost say 1.1 hour.
- Vinay Pai:** Any time you have given to achieve to that 22 to 23 level?
- Makrand Appalwar:** 2020 what we are looking at.
- Vinay Pai:** And then this annual report has not yet been uploaded any idea when?
- Makrand Appalwar:** I think it will be uploaded in the coming week.
- Moderator:** The next question is from the line of Pankit Shah an individual investor. Please go ahead.
- Pankit Shah:** In the last concall you had mentioned that we are test marketing in four to five states like Karnataka, Madhya Pradesh, Punjab, so how is the response there for ponds?
- Makrand Appalwar:** Well Karnataka was very encouraging that worked out well. In Madhya Pradesh also, we made few ponds that has also gone decent. We actually also test marketed in some hilly regions. So, that is also working so I think during this next couple of months or maybe next quarter or so, we would select one of the states and move ahead.
- Pankit Shah:** And regarding our AVANA new initiative it is mentioned that proposed site, so when can we expect a site to go live and be some action there?
- Makrand Appalwar:** Well I would say about 4 weeks.
- Pankit Shah:** In the months' time.
- Makrand Appalwar:** Yes.
- Moderator:** The next question is from the line of Mayur Jain, an individual investor. Please go ahead.
- Mayur Jain:** Actually, what is our current debt position like long term, short term?
- Rinku Appalwar:** So, long-term is 37 crores, and short term is 54 crores.
- Mayur Jain:** My second question is that is there any CAPEX requirement for current year or for next year which we are seeing?
- Makrand Appalwar:** CAPEX is required for next probably 18 to 24 months barring some debottlenecking or R&D CAPEX so not a major CAPEX is required.
- Mayur Jain:** So, what is our current capacity utilization level right now, at the full plant level?



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**Makrand Appalwar:** Last year on the 31st March it was in the range of around 55%-odd. First quarter we have moved up around 3% up around 78%.

**Mayur Jain:** Can you please provide us in terms of turnover like if I say that in our current capacity how much turnover can we cater, can you tell us the figure?

**Makrand Appalwar:** 400 crores around means not under current capacity but installed capacity there is a question. So, we talk about utilizable capacity like it is not just machine person said that you can take 100 ton from that what is our experience, so whatever capacity we have announced 24200 ton that is an installed or usable capacity. So, that usable capacity goes there itself and in that we want to make product in that way we sell then roughly between 380 crores to 400 crores around topline we can take.

**Mayur Jain:** In current working capital cycle is there any chance of improvement or is there any plan?

**Makrand Appalwar:** Like you are seeing so last year-over-year approximately almost 8 to 10 days improvement is there. So, every year around 8 to 10 days it improves and we are expecting to settle anything between 90 to 100 and that much is required to be taken care like we have a typical orderbook of 8 to 10 week that only we almost we can keep the raw material then our operations are comparatively insulated to any external shops whether it is a crude movement or whether is a other price movement or whether it is any other movement and so comparatively become very, very sustainable to any shops and we have become very independent of external pressures the profitability and operations can be stabilized. So, I would say to answer your long question in a one line we are right now somewhere around 112 to 118 days and in the coming two years our target is to bring it down roughly around 100 days and we would like to stabilize between anything between 90 to 100 days.

**Mayur Jain:** Is there any debt repayment plan for long-term debt is around 38 crores?

**Makrand Appalwar:** I think every year we are roughly repaying around 8 crores, 9 crores through the installment and other things. So, that is consistent happening. So, there is no separate plan as such or raising any money to equity to repay the debt. Right now, nothing has been announced or nothing has been on the card probably we have to at all raise the money I would like to raise it for the new projects instead of repaying the debts because the present system is completely capable of repaying the debt our debt equity ratio is within 1. So, that kind of a worry is not there so if at all we have to borrow we should borrow for making a new facility or new CAPEX or making new businesses or new factories. So, instead of just repaying old loans and getting away because debt equity ratio is not very unfavorably skewed it is very much under our control.

**Moderator:** The next question is from the line of Somanth Paul, an individual investor. Please go ahead.



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**Somanth Paul:** An earlier participant had raised a question regarding the GST impact been there last year and compared to that there was a sales, so I am still not able to understand most of the companies that we have been following have reported increased numbers, however, we have still got tepid kind of growth compared to quarter year-on-year so I would like you to throw some light on that particular factor?

**Makrand Appalwar:** We have been typically targeting our growth anything between 15% to 28%. Last year also we grew 15% this year also our target is somewhere around 15% to 18% in the top-line growth and when we have seen that when the top-line grows by 15%, 18% our bottom line grows by almost 1.5x the topline. So, our focus also remains substantially on the bottom-line growth. So, I cannot comment much about what happened with other companies, but for us we are taking a new shape. We said these three years which we have given ourselves we are metamorphizing or we are actually rediscovering this whole activity of distribution. So, our larger focus is not just going ahead, and I would say running behind the top line, but larger focus is creating this B2C vertical and a frame or I would say that iron structure so that when 2020 we go ahead and put a larger expansion and go for a next level of growth, that time all systems are put into place. So, right now the company's focus is in creating a perfect system to take care of that next level growth that is why our focus is not just growing the top-line that is one of the things that could happen, but because we were changing from B2B and going ahead with B2C, our profitability is improving more than 20% like if you have checked last year also we have improved I think 23%-odd PAT has gone up or EPS has gone up and our focus is large maintaining that EPS and then getting a sustainable growth because typically if you have seen when companies grow their top line very rapidly, their bottom line starts shrinking and at the end of the day I had to take care of everybody interest and getting a better EPS as well as making a stronger system which would be able to sustain and the next level of growth is important.

**Somanth Paul:** I think we have been generally very optimistic but what would be the major challenge because to be very honest I have not heard things challenging things strongly if you could just share some of the challenging or which you make you lose your sleep at night going forward this is a challenge?

**Makrand Appalwar:** Luckily, I am a pretty patient guy so I generally do not lose sleep at night, but the things are challenging are I can tell you those things. One of the largest challenges getting the finance for farmers. See what has happened is though they are the community which works most hard and they are extremely dedicated towards what they are doing but because of their poor CIBIL history and various things which happened in past for them, banks are very much on the back foot to fund him very easily. So, we have to really do lot of hard work to create a kind of funding plans for these people with their existing payment track records because the product what we sell is 100% cash 'n' carry we do not give any kind of credit or any deferred payment so they have to pay us right in the beginning before we start actually working so that is one of the things probably which is a keeping the growth under control. So, luckily, we have been working with



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various bank we went right up to department of agriculture – Government of India, we went up to NABARD and other like all the various organizations which are pertaining to improvement of agricultural inputs and for the betterment of agriculture in this country, we knocked everyone door and we have been reasonably successful convincing them and now is the situation I think in next three to six months I would be dreaming some such banks schemes which are going to be floating which would happen like an auto finance schemes like if you go to buy Maruti car or a Suzuki car you will have a finance guy sitting in there sure and then he would be willing to do that. So if some situation like that happens this growth can be much quickened than what is it happening now.

**Somanth Paul:** I am sure you would have tried it but then there are lot of microfinance companies and all willing to spend to the unbanked people so in spite of that if you are facing challenge so probably that it's a serious concern?

**Makrand Appalwar:** Actually, this product is little larger, or it is out of the ambit of microfinance like this is around 1.75 to Rs. 2 lakhs of money so that is slightly out of microfinance thing. This can be done through the NBFCs. NBFCs are doing it but their interest rates of NBFCs are anything upward from 15% to 18% which again farmers are not super convinced. So, we have to see most of the balance, so we convince the banks to keep the interest rate say within 10%, 11%, 12% and still are willing to fund about couple of lakh rupees. So, it is a combination which is kind of making it little bit more difficult.

**Somanth Paul:** One more last question if I may put it across so what would construed to a good earning year for you, would it be a good monsoon season or probably perhaps not so good monsoon season where farmers or rural folks would be requiring artificial water?

**Makrand Appalwar:** I would say a reasonable or good monsoon season is the best thing because if it is a drought-like situation farmers even do not enough water to store. So, saying that drought-like situation will give a boost to our product is not the biggest of the reality normal monsoon helps everyone to create a possibility that they can store the water for the summer season or the time where it is not available. So, to answer the question normal monsoon helps not drought.

**Moderator:** The next question is follow-up from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.

**Priyank Chheda:** So, one of the question of working capital requirement was answered, but just heads up that somewhere earlier we had given a guidance or somewhere in the range on the yearly cash flows and we had given a guidance around we would have a free cash flows of around 2 crores to 25 crores considering that we are into we do not have any major CAPEX lined up for next two years so is that intact or is there some changes in that?



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- Makrand Appalwar:** No, I think that stays as it is.
- Priyank Chheda:** Another question was regarding since we have been looking up in the currency market and the cross-currency we have been exporting around 40%, 48% of our revenues and there are lot of currencies involved in that. So, do we have any currency hedging policy or how much do we get benefitted due to this currency weakening happening for particular rupee against all other currencies that we export?
- Rinku Appalwar:** So, we have a forward currency hedging policy and we have a basket of currencies like pounds, dollar, euro and CAD so we do hedge for next three to six months depending on the order position.
- Priyank Chheda:** One last question regarding the quarterly seasonality if you can just put up like H1 as compared to H2, how is H2 better or how is H1 better or in terms of what are the initiatives that we are taking to tackle that seasonality?
- Makrand Appalwar:** Typically, we have been H1 45%, H2 55% has been historically our this and frankly, nothing very severe can be done to tackle this because most of the times this summer season which is one of the worst seasons for the manufacturing activities in India still remains as it is. So, we are kind of a dressed out or we are kind of geared up to take care of these kind of behavior. And historically we have seen that it is generally a 45:55 kind of situation in H1, H2.
- Moderator:** The next question is from the line of Vinay Pai, an individual investor. Please go ahead.
- Vinay Pai:** Just one more doubts see you have said that the potential is around 4000 crores and we have hardly like done some 50 crores or whatever so there is immense opportunity, so my question is what about the competition if somebody is smelling the opportunity and coming up with a big capacity or something which we are not aware of or do you think anything is coming?
- Makrand Appalwar:** We are keeping a very close watch of what is happening, are any foreign companies or any other local or domestic companies involved into that because this is a value core or a kind of learning curve which any company who comes in will have to do. So, I have not come across because I am right now very much on the floor I am visiting farmers, I am visiting shops, I am visiting actually on the ground. So, there is nothing very significant has happened, but we are expecting that yes sooner or later more companies would involve themselves and that is the time Emmbi will have that initial lead brand created, system already in place, system already in place and experience of the Indian market because pond lining or storing water in the artificial reservoir is not new for the world. It has been done in United States.
- Vinay Pai:** From a shareholder point of view I would request you all to immediately set up units outside where the demand is there like Rajasthan and elsewhere so that we do not miss out on those?



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**Makrand Appalwar:** Absolutely. We are like frankly we are doing exactly the same what you are thinking that learning the best way and going ahead with kind of a presence in the areas where we need to be and then very soon I am sure you would see us operating more aggressively and going ahead.

**Vinay Pai:** Multiple units hardly we will reach 100 crores with this one even with a full capacity, but what I am talking about opportunity is 4000 crores I mean 100 crores is nothing as compared to 4000 that is what I am saying.

**Makrand Appalwar:** If you have heard my heard my comments that once this two years' time is complete the next growth would be much larger than that 100 crores that is what I was trying to explain.

**Vinay Pai:** Before two years itself because the opportunity is so much.

**Makrand Appalwar:** We should be also prepared to handle that opportunity like it should not happen that we do some investment in the greed of capturing the business and then we are not able to handle that opportunity and we crumble because the size of the engine and the size of the truck has to match each other. So, we have to create the kind of a system which is robust enough to run at that speed.

**Moderator:** Ladies and gentlemen this was the last question for today and I now hand the conference over to Mr. Makrand Appalwar for his closing comments.

**Makrand Appalwar:** Thank you very much. I really appreciate your presence on the call as I always do. I am always very excited to answer all your queries. Kindly feel free whenever you wish to know a little bit more or want to visit some pond or you want to visit the factory you are welcome. We will have to welcome all our investor and analyst to our works and factories. So, it will be my pleasure to take you around. Thank you so much.

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