



“Mold-Tek Packaging Limited Q4 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mold-Tek Packaging Limited Q4 FY2018 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you Sir!

Abhishek Navalgund: Thank you Janis. Good afternoon everyone on behalf of Nirmal Bang Institutional Equities I welcome you all on the 4Q FY2018 earnings call of Mold-Tek Packaging Limited. We have with us the Managing Director of the Company - Mr. J. Laxman Rao. We will begin with the opening remarks from Laxman Sir followed by a question and answer session. Over to Laxman Sir!

J. Laxman Rao: Good afternoon everybody. Thanks for participating in our analyst conference. I am glad to inform you that in spite of GST and turbulence that caused in the demand patterns, our company could post almost 13% increase in the income, which we had in the volume terms it is just 2.5% because more and more food and FMCG is occupying our growth numbers which is a reason while the tonnage growth is just 2.5% the incremental growth is 13% and the bottomline has gone up by around 18%.

Now definitely the three months June, July and August were doing by more than 18% to 20% the impact of GST otherwise the company would have posted much better results. Now having said that one very positive development is more and more food companies are preferring to go for IML packaging. The sales numbers have shot up from 6.6% last year for overall growth to almost 19% to 20% in the current year, it is almost three times sales have grown and there is a lot of response for our new generic containers we introduced for ice creams and candies. With leaders like Vadilal at the schools, Heritage and Arun adopting our containers in the last three months but these numbers will shoot up further in the next season starting from January 2019. So efforts are being also put on to add new products like Ghee retain packs which are expected to start production from September this year and can contribute significant numbers from fourth quarter onwards.

And we also our edible oil packs, which was introduced few years ago found good response in the last six months. The numbers are gradually going up, company has found the importance of tamper proof the feature which no king then you can never give apart from attractive looks and those companies are finding this product more preferable though in the expense than kings. So those numbers also started picking up in the last three, four months and bigger volume commitments are coming in the last few months and going forwards

there should be sizable contributions come from that sector or the packaging products as well.

I know some of the questions you will ask I will just try to apprehend. The sales growth in overall IML and HTL label sales that is non-screen-printing has gone up to 62% up from 52% last year in the fourth quarter. For the overall year it is 57.5% as against 48% last year. So there is a considerable increase in reduction of IML obviously the entire growth of food and FMCG are in IML itself.

So as we thought a year ago food and FMCG is occupying more and more sales volumes and production facilities are also being created in tune with getting these growth senses in future too and we anticipate at least to cross 25% sales in the current financial year, the food and FMCG segment.

So our plants at Vizag and Mysuru for Asian Paints are coming up, production at Mysuru is slated in August, September and probably from January and now they say in Vizag; however, we are not considering much numbers coming from these two plants in the current year, but next year 2019-2020 they can definitely make significant contributions. So having said that and many new product developments underway future looks brighter for both the 2018-2019 and 2019-2020.

So more detailed questions if you have I will be happy to take then one of the other I now handover back to the convener for question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Sameer Deshmukh from Principal Mutual Fund. Please go ahead.

Sameer Deshpande: Key questions as far as competition goes in terms of catching up on the IML or the advantage that we have any changes to that, that is question number one in your opinion so anybody is close to because in the cup definitely there are too many competitors but as far as the bigger packaging goes I think competition has not been able to catch up and also on the RAK and in your opinion what has there been a reasonable delay in terms of expected performance against and lastly on the tamper proof or any other innovation do you think again it can give anything in the works which can give us again some significant advantage which we already enjoy in terms of offerings in the IML.

J. Laxman Rao: Yes competition in small cups is there with two three clients in north and west producing similar containers but one good thing is even their pricing is high because they buy label from elsewhere robots from outside so they cannot offer pricing at a lower level to give us an impact on the pricing and companies, which we are getting at same price the products

from Mold-Tek are even at a higher premium it refer to stay with that us than its all players because the dependency on a single mold single machine kind of a single robot not that entire company has been come up but for one particular product they may have hardly one set of molds and one set of robot's depending on such supplier is always with us mainly in seasons like ice cream where they depend on a small player and if there is something gone with the mold or robot or the machines they can really get affected during the seasons so this play since they have been sell for company like Mold-Tek. The proof of the pudding is we were little late it should admit in bringing oval tubs in the ice cream market, only this year we did that but major players are ready to swing and give their volume commitments to us. There is a testimony that are IML has be in an urban sector and the way it should be expanded should have a lot of strengths like everyday to maintain the robot's we did to produce the labels get changes quickly and make the new art works come into the label shelves. How this makes Mold-Tek much higher than the small players as you correctly found in the bigger segments beyond one liter none of our competitors are really succeeded there is one company I heard LG Polymers in then on our Daman or Mumbai they are attempting with some imported labels, some labels they have been trying to do but they are finding their cycle time shooting up by 20%, 30%. So they are the only people in bigger segment has made some commercial cup size. Other than that I do not hear any news about anybody really doing good in the bigger container segment.

Sameer Deshpande: So how long then your opinion can this advantage sustain?

J. Laxman Rao: See I would not be surprised that one or two even suppliers of bigger containers can emerge by end of this year or next year middle but we will continue to have the price advantage for much longer period say five to ten years basically because we have such a backward integrated company, we will make molds, we will make the labels we will make the robots and you can see not only the advantage of in-house making but unless that trade supplying some quick changes in their process somebody want to make an offer for Diwali. Again they feel in half season they want to give a 10% discount all this has to be affected on the labels so these were who are dependent on imports or even dependent on a printer to do the job if the printer develops will react and come back much longer way take much a longer period. So they would be more comfortable working with us its multiple locations, multiple robots and ability to make the robot and maintain the robot and make the label so these advantages will be a long-term advantage I would say at least five to ten years we have fist ahead of competition.

Sameer Deshpande: And does this same advantage be held by any global players specially the Middle East where we are present do you think anybody has a similar advantage or can do what we have as far as that geography books?

J. Laxman Rao:

No even Jockey Plastics who are there in Turkey who are competing with us in terms of or we are competing with them in Dubai area they do not have a label manufacturing either forget about robot makings they make molds but they do not make robots and labels. So I heard one company in Korea makes their own labels. There is one in Indonesia and one in Germany as far as my knowledge goes there are three, four companies in the world maybe or five who make their own labels but there are no other companies who make their own robots so that way we have to be make. Coming back to your question on RAK yes I am also little disappointed with the performance of RAK plant, but we thought by June, July or May, June will be in breakeven and the trend shows only in August because the orders because the orders what we received less couple of weeks' couple of months are under development for latest robot or for label development hopefully from July, August they will be execute it and things look from August onwards will be certainly more breakeven. So as I anticipate it, full year of 2018-2019 will certainly breakeven in RAK. We are also planning to add some new robots and molds and shift one of the underutilized machines to India and send another machine a smaller size where the demand is found better to RAK so the product mix will be done by month of June, July and more productivity is being now production capacity is created for foods and FMCG products out there. We went with the balanced billing to lube and food but it looks like lube and food are the best in those countries because paint is still coming in cans and price differential does not matters might take longer than what we anticipated for paint industry to shift to our containers so that may take a year or two more but certainly they will also turn to in a phase that is about RAK.

Coming to the tamper proof and the features, we are working with couple of MNCs on tamper proof concepts, in-build full concepts, which are unique in India and our edible oil pack which was introduced three years ago we had in fact improve the tamper proof in the last seven, eight months and also it is a stackability and transportation worthiness that has prove to be a positive point in the last six months the sales which was negligible last year have come to a sizable number of about Rs.1.5 to Rs.2 Crores per month and we are aiming at, at least 30 to 40 Crores turnover coming from that segment in the current year so that edible oil has excellent you have seen the pack I remember and excellent tamper evidence and further improve the tamper evidence that nobody can open it unless they break open the ring and the teeth so it is a clear proof that somebody tampered the container and with FSSE putting up new norms for edible oil pack wherein they send tin container should not be reused and if they really reinforce that rule then more and more pain free shift to our fair tax which are elegant which are tamper evident and very attractive in the shelves so that is the third point where we are working on and as I told in my introduction our ice cream tubs cups, our range of ghee retail bags and candy and biscuit retail packs which are introduced some of them introduced in March some of them are again introduced in September will add then widen our production.

- Sameer Deshpande:** Great sir I will just come back in the queue.
- Moderator:** Thank you. Next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** Sir many congratulations good set of numbers. Sir my question is on food and FMCG segment you have mentioned on your press release that we have stock almost 60 Crores of sales from food and FMCG and assuming of that 60 Crores, 30 to 35 Crores should be from Mondelez, could you please elaborate it in the rest 30 or 35 Crores is from which of the big clients from food and FMCG?
- J. Laxman Rao:** Yes, MTR Foods is one of them, Milky Mist is another and the Amul is the third I think actually Amul is the second biggest after the Mondelez, Amul, MTR, Milky Mist contributes somewhere around 120 Crores. So remaining 10 to 11 Crores from more than 30, 40 clients from the mainly dairy segment.
- Akhil Parekh:** So 20 Crores from this three, 10 Crores from other dairy clients and the rest 30 Crores from the Mondelez.
- J. Laxman Rao:** And we are also adding probable such big clients like Lazza, Arun Ice cream, Vadilal in the ice cream segment. We are little late introduce the ice cream cups in the month of February so but our reduction and acceptance by some of these five, six cool season is a big tight everybody how these besides what dimension four, five of them has a potential to give orders to the tune of 5 to 10 Crores per annum. So even ten of them will be add by next season it could be a sizable for making 50 to 60 Crores additional business from the ice cream segment.
- Akhil Parekh:** Sir the Mondelez you have mentioned that we are planning to add capacity of 1000 to 1500 tonnes this year right FY2019 or this has already done with that expansion?
- J. Laxman Rao:** We will be expanding from August, July, August 2018 itself we had expanding by another 30%, 40%.
- Akhil Parekh:** So the expanding by...
- J. Laxman Rao:** 30% to 40%.
- Akhil Parekh:** How many realistic potentially you see for Mondelez you are going ahead like from 30 Crores may be in next two years or may be at least for next year.
- J. Laxman Rao:** Next year it should from 30 Crores it should hit 60 Crores in 2019-2020 I am talking about.

- Akhil Parekh:** FY2020 basically.
- J. Laxman Rao:** Yes.
- Akhil Parekh:** Sir and even two bookkeeping questions, your tax rate has increased this quarter could you please what will be the reason for it.
- J. Laxman Rao:** Sorry.
- Akhil Parekh:** Your tax rates have gone up for this quarter.
- J. Laxman Rao:** What has gone up?
- Akhil Parekh:** Tax rate.
- J. Laxman Rao:** Yes, tax rate it was underprovided in the second quarter so because of the GST impact or something in the Ind-AS application of accounting has some changes in the taxation so if you notice in the second and third quarter the provisions were less and it is much higher in this fourth quarter.
- Akhil Parekh:** So going ahead the 34%, 35% should be the effective tax rate.
- J. Laxman Rao:** Yes, we are at the full tax rate absolutely no assumptions.
- Akhil Parekh:** Thank you so much I will get back in queue.
- Moderator:** Thank you. We take the next question from the line of Sandeep Agarwal from Naredi Investment. Please go ahead.
- Sandeep Agarwal:** Sir my question is reading inventory in trade receivable level they increased very much from compared to last year so any comment?
- J. Laxman Rao:** Inventory we were borne to buy some excess raw material in the month of March due to our prior agreements with Reliance. Reliance has an incentive plan which enable us to get a sizable discount this. Time it is almost close to 1 Crore so to avail that discount we were forced to pickup a huge raw material in the month of March which was I think suppose 16000 to 18000 tonnes costing has almost 20 Crores additional material so that is why we have noticed the inventory levels have gone up.
- Sandeep Agarwal:** Unless the trade receivables.

- J. Laxman Rao:** Sorry.
- Sandeep Agarwal:** The trade receivables debtors?
- J. Laxman Rao:** Trade receivables stay at the same level. I need to just get the data what is the trade receivable days' number of days.
- J. Laxman Rao:** Last year.
- Sandeep Agarwal:** No 84 days approx. Sir it is 84 days approx.
- J. Laxman Rao:** It is coming around 70 odd days, which were similar and I think I mentioned to you also Mondelez payment terms are 120 days so that is why also there could be increase in the trade receivables.
- Sandeep Agarwal:** Thank you Sir that is all.
- Moderator:** Thank you. We will take the next question from the line of Pritesh Chedda from Lucky Investment. Please go ahead.
- Pritesh Chedda:** Sir I just wanted to know what were the IML total and non-IML total volumes that we did in FY2018 and how much volume were we able to do at our Ras Al Khaimah plant of us?
- J. Laxman Rao:** Yes, on the volume side in tonnage it has gone up from 44% last year to 52% and in value terms it is 57.52%.
- Pritesh Chedda:** Sir I wanted to know the absolute volume of IML and absolute volume of non-IML the volume number?
- J. Laxman Rao:** 10100 tonnes.
- Pritesh Chedda:** Is the IML.
- J. Laxman Rao:** IML and label sales non-IML are skin contain is 9197.
- Pritesh Chedda:** So actually the non-IML has actually declined this year.
- J. Laxman Rao:** No, it has gone up from 44% to 50% last year it was 8320 has gone up to 10100 but it is almost 20% it went up.

- Pritesh Chedda:** So that is the IML volume right and 10100 I am saying non-IML have we declined when you gave the number 9197 what as the process last year?
- J. Laxman Rao:** Yes, it has come down from 10515 to 9197.
- Pritesh Chedda:** Any reason for this?
- J. Laxman Rao:** Reason is some of the brand shifting into IML. Second is the GST impact on paint was so high last year that the sales were down for about three, four months in a row so actually we ended up with a 7.5% of the drop in paint sales, sales to paint companies.
- Pritesh Chedda:** And you said the IML volume growth is 20%.
- J. Laxman Rao:** IML volume growth is 20%.
- Pritesh Chedda:** Yes, and how much volumes did we do our Ras Al Khaimah plant of us?
- J. Laxman Rao:** Ras Al Khaimah volumes are very nominal even now I think we have them about 500 to 550 tonnes.
- Pritesh Chedda:** What is the sales plan there?
- J. Laxman Rao:** See we started the year at around 90 tonnes a month sales now it is 150 tonnes per month and we hope to hit 200, 220 tonnes by August which is ever breakeven 200 tonnes would be our in the quarter 250 will be our breakeven. So now currently means in the month of May I think we did close to 80, 75 tonnes so in June, July it might be around 80, 85 tonnes and by August we cross 100 tonnes per month.
- Pritesh Chedda:** So you are running at 75 tonnes per month right now.
- J. Laxman Rao:** Now around 70.
- Pritesh Chedda:** And what is the capex plan for us.
- J. Laxman Rao:** Capex plan last year we invested almost 46 Crores on various projects and this year also we foresee that the industrial the plants for Asian Paints would be requiring at least has a 15 Crores investment and we have plans to expand our FMCG and food facility by another 15, 18 Crores so at least a 35 Crores would be a budgeted capex for this year.
- Pritesh Chedda:** And what capacity it will bring in.

- J. Laxman Rao:** Both the Asian Paint plants have 3000 tonnes each so about 6000 tonnes would come from Asian paints and we anticipate that another 3000 tonnes of food and FMCG involved mainly at Hyderabad so we will be adding about 9000 tonnes.
- Pritesh Chedda:** 3000 tonnes will be IML right and the 6000 tonnes Asian Paint will be non-IML.
- J. Laxman Rao:** They are now shifting to HTL, which is also a label sale giving us under return on EBITDA and all that so that half of their turnover is now into HTL 40% I can say so we will be setting up the HTL facility also at both these plants.
- Pritesh Chedda:** Thank you.
- Moderator:** Thank you. Next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.
- Pragya Vishwakarma:** My first question is on the Asian Paints plant capacity so by January we will have the entire 6000 tonnes capacity available in what time period do you think like maybe for financial year 2020 you can comment what is the kind of capacity utilization you foresee as of now in that plant?
- J. Laxman Rao:** Yes, in the year 2019-2020 we should hit at least 2000 tonnes each plant so or at least 2000 in Mysuru and maybe 1500 in Vizag so around 3500 tonnes we should be able to hit.
- Pragya Vishwakarma:** And maybe you must have discussed in this on your previous calls but is it possible to give some idea on what will be your average realization per tonne in these plants?
- J. Laxman Rao:** As you had noticed this year it was around 33.3% or 33.4% so will be having a hit of 35% this year.
- Pragya Vishwakarma:** Coming on the raw material front so how the prices moved for us in the last quarter and how do you see the prices currently for raw material?
- J. Laxman Rao:** Though I answer this question I still have a reason to tell you one explanation. Raw material price was shot up in the last three, four months five months of the year especially in the month of January, February, March so that increase whenever there is a raw material price increase our pricing strategy should take the price from the next month so this lag effect always impacts our profitability and this impact is almost across this quarter. Hopefully it will taper down or come back to us if the prices start coming down. Currently the material has just come down a bit in the month of June so if June, July, August, September let us say when the price worth couple of rupees down or Rs.3, Rs.4 we extent to gain because we get the previous month price so in the trend of a rising prices the quarter gets affect in next July

in the trend of declining prices or to gets benefited so this January, February, March the price trend was up and up it was 86 in January 93 in February and 94.5 in March and it was 85 in December so that means first month we lost about the rupee second we lost Rs.2, Rs.5 on the sale volume so going forward if the prices start coming down it will come back to us as a benefit.

Pragya Vishwakarma: And where are the prices currently?

J. Laxman Rao: Current raw material price is around it went up to 100 in the month of May from 94 in March and it is now around 97, 98.

Pragya Vishwakarma: Is it possible to give some colour on difference between food and FMCG and the other segment, which is paint, and lube in terms of gross margins?

J. Laxman Rao: Yes, there is a lot of difference between pricing strategy and EBITDA margins between paint and lube and food and FMCG it is almost double I can say so if it is around 25 or 18 to 20 in the case of paint and lubes we aim at 40 or even more in some cases in food and FMCG.

Pragya Vishwakarma: Down the line two years where do you see your contribution going I know you have already guided around 25% in FY2019 but anything more you can guide for next two years?

J. Laxman Rao: See next year the numbers absolute number will definitely go up again in food and FMCG but next year non-IML sales or if you can take HTL and IML, HTL under IML probably we will again see a jump of overall IML sales from IML label sales from 57% to probably 65% next year, but as the food as a percentage might look little only small growth next year because nonfood products will go up in thanks to Asian Paint plants so if it we hit 35% this year and we are happy to hit 30% next year of the overall increased number.

Pragya Vishwakarma: And in HTL we make similar margins like IML a similar margin to IML right?

J. Laxman Rao: Yes more or less, because we make the HTL label.

Pragya Vishwakarma: That is it from my end I will join the queue if I have further questions. Thank you.

Moderator: Thank you. We take the next question from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: Thank you for the opportunity. I have two questions when do you mentioned that your edible oil packs are receiving little traction and now with the raw material prices going up do you see any impact on the demand to the end consumer because still around when we

had launched the edible oil pack, we had mentioned that because of the cost differential being here for the square container the demand has come down a bit so do you see anything similar happening this time around has this was to happen?

J. Laxman Rao: Not really as much the impact it had less and because of action unfortunately their shot up was so high from 72, 73 levels raw material shot up to Rs.100, Rs.105 this time when we introduced also it was around 86 in the month of December 85, 86 is now around went up to 100 of course in the month of May or April and now it is down say around 95, 96 and hence there is still a Rs.10 increase in the raw material in the last six months but that is not deterrent this time because more and more companies are looking a tamper evident features as an assurance to the client about oil as the awareness of tampering and adulteration in oil becomes more and more known to public, they will also do not mind paying another Rs.2, Rs.3 per liter more if they are sure fair tamper proof or adulteration free and as I told you a few minutes ago FMCG has also it come out with a new set of guidelines for the oil industry not be use thin containers so now instead of comparing our price with the king, most of the oil companies are comparing our price with facility drums which are also expensive not as expensive as IML but almost close to IML pricing. So now the differential delta has come down. If you see low molded packaging also the prices vary as per our injection molding package and plastics so the same impact of their for example will keep increasing if the raw material price increases.

Suvarna Joshi: Would it be fair to assume that if the demand for edible oil packaging this time around will be driven more by FSSAI the other than the actual demand from the edible oil manufacturer?

J. Laxman Rao: No it is not the FSSAI everybody looks at end of the day their sales if the sales are going to increase with the better pack which is giving a tamper evidence and the public awareness is increasing there is advertisement by FSSAI about edible oil adulteration and impact of that has helped so once the awareness goes up at least urban buyer will be looking at the sales product at a little higher price so let us say in a 15 liter the price differential is earlier on Rs.30 so he is ready to pay Rs.2 more per liter and take a sales pack less than a tamperable pack which do not guarantee him to the safety of that. So that again as it goes up this product will catch on.

Suvarna Joshi: Sir my second question is if you could just help us with the breakup between paints, lubes and F&F for the quarter FY2018 and of financial year FY2018 in terms of revenue?

J. Laxman Rao: In terms of revenue paint contributed 46.5%, 33% from lube, 20.5% from food and FMCG.

Suvarna Joshi: And we just have Q4 of FY2018 right Sir?

- J. Laxman Rao:** This is the Q4 for the full year it was 50.5% in paint, 31.5% in lube and 18% in F&F.
- Suvarna Joshi:** Sir and you have mentioned in your opening remarks that there was since with head offs under development during the year FY2019 so could you just throw some more light on what are these news head ups are we working with some different packaging food mart or what would that be like?
- J. Laxman Rao:** Yes, both lines I mentioned in the last conference we are now getting into generic IML products generic in the sense which can be sold to anybody, just a change in the label so like ice cream tubs, ghee tubs, ghee containers, containers for dates these are all meant to be sold to anybody and everybody just we are changing the label so those generic products were little ignored by us still last year. We were concentrating more on industry specific or a customer specific products like Cadbury or MTR so now we have decided to have generic products also in our basket, which will widen applications, enhance our client quantity revenues and client numbers and that is what has been achieved in the last six months or five months when we introduced various shades, various sizes tubs for ice creams in oval, in screeds and round so all these has really created a good skill in the market and some of the major players have started buying from February, March so last year in fact was hardly any, may be 3 Crores or 4 Crores, but in the current year that segment of ice cream can at least contribute to 25 to 30 Crores and probably more in the coming years and we are also introducing the generic range of products for ghee packs. It can be used not only for ghee, it can be used for spices, it can be used food paste, pasty products anything like ghee so with various applications coming in that product, we can expect sales going up further again from October and November onwards but more impact will be felt again in the next year. So these generic products will entrench into different application for example the cups what we introduced around I think three shapes in five sizes so almost 14, 15 shapes containers we introduced can contribute to a significant amount like 50 to 70 Crores in the year two that is 2019-2020 and similarly the ghee packs what we are introducing currently one is that six models in September probably another six models by January can contribute significant numbers in the year 2019-2020 and 2020-2021 so like this we are keep on adding generic products which can contribute to our sales in both sides and we are working with specific And we are working with specific MNC needs with various companies, which I cannot divulge the names unless we introduce them, reasonable quantities, not very huge as Cadbury, but something of sizeable number, at least with two clients as of today and there are two, three considerations under pipeline, one of them could be really large, but I do not want to speculate unless we really hit the right spot, so like this we work both on generic products and also specific client oriented projects.
- Suvarna Joshi:** Right Sir just another question would be you had mentioned sometime back in one of your concalls about a big consumer company wanting to adopt IML and you were almost close

to finalizing the deal, so has the deal happened or have we not yet made any significant progress over there?

J. Laxman Rao: Sorry what I did say you said?

Suvarna Joshi: Sir you had mentioned about a big consumer company wanting to tie up with us for their packaging requirements in the consumer space and this was some MNC company, so I just wanted an update on that?

J. Laxman Rao: Yes, pilot moulds are completed, transport tests are completed and even pricing is now completed, so hopefully any moment we may get the order, it is not very huge like Cadbury, but it is certainly of reasonable size and gives us an entry into a segment, which has very huge potential.

Suvarna Joshi: Right Sir, so that is it from my end. Thank you and wish you all the best.

Moderator: Thank you. We take the next question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Sir, the follow up question would be like I think three or four quarters back, you were discussing about oxygen barrier technology, which can replace glass containers and probably that time you were in talks with some Korean company, may be I am not putting it up in a very correct way, but there was something of this sought, which we were discussing then, so any progress on that side?

J. Laxman Rao: In catching the oxygen barrier unlike IML being applied all around on the top, it also required to be done at the bottom, so we have found our robots, which we made could make testing samples, but not the perfect production mould, so we now ordered a Korean – we are ordering and importing a robot with five side IML application and that is expected to come in by August, September, so actually for a specific client those – he is not asking for oxygen barrier, he is looking five side application, so once in September, October that robot arrives our experimentation will go forward in that direction.

Pragya Vishwakarma: And will this be a sizable thing for us in financial year 2020?

J. Laxman Rao: It could be at least an entry in 2019-2020 because in India things take longer time, decisions are taken over long stretch of time to change packaging and here we are talking about replacing gas, so that is a very delicate issue, but certainly people abroad in Europe and all are going towards that, so in India also it has to happen, but it may not happen as early as 2019-2020 it should be couple of years.

- Pragya Vishwakarma:** Okay and last question would be; I think we were in talks with for paying switch from some company for the sizeable tonnage?
- J. Laxman Rao:** Yes, I think last quarter itself I confirmed, we are not going with them and their project is also getting delayed by a few quarters due to the GST impact, they indicated they may not start in this March, they are supposed to have started by now, but still not moved out of drawing board.
- Pragya Vishwakarma:** But no such delays expected at the Asian Paints plant, which we have?
- J. Laxman Rao:** No, they are after us, actually we are little behind.
- Pragya Vishwakarma:** Okay, that is it from my side Sir. Thank you again.
- Moderator:** Thank you. We take the next question from the line of Dhiral Shah from Asit-C Mehta. Please go ahead.
- Dhiral Shah:** Good afternoon Sir, what is the volume guidance for FY2019 and FY2020?
- J. Laxman Rao:** FY2019 we are anticipating at least 15% to 18% volume growth because paint and lube are still stagnant and improving definitely, not as bad as they were in GST, so even if you recover what we lost last year that means almost 7% growth in paint industry and lubes are continue to grow, but this year they might stagnate, so food and FMCG we are anticipating at least from 18% this year to 25, 26, 8+7, 15% overall growth we anticipate this year in volumes and next year it could be better because both the two plants of Mysuru and Vizag will contribute almost 3000, 3500 tonnes that is about almost 15%, 16% of our current volume, so year 2019-2020 we should see close to 20% plus kind of volume growth.
- Dhiral Shah:** Okay and Sir whatever you are talking about food and FMCG in this you are considering this ice cream business of Rs.25 Crores to Rs.30 Crores for FY2019 or this would go additional?
- J. Laxman Rao:** No considering that.
- Dhiral Shah:** Okay, considering that and Sir what is your overall RAK contribution in the total revenue right now in FY2019?
- J. Laxman Rao:** Right now it is hardly 4.8 Crores.
- Dhiral Shah:** Okay and Sir you talked about FY2018 overall contribution, so what was there in FY2017 for paint, lube and FNS?

- J. Laxman Rao:** Paint in FY2017 was almost 61%, 31% lube and 6.6% food. For your information RAK sales were 8.6 Crores.
- Dhiral Shah:** RAK sales.
- J. Laxman Rao:** Again it is 1 Crores in the previous year, which is hardly four months.
- Dhiral Shah:** Okay, do you expect RAK to be breakeven by August right?
- J. Laxman Rao:** Yes, by August we are hoping and this full year at least will be definitely reaching the breakeven for the full year again a loss of Rs.3.5 Crores.
- Dhiral Shah:** Okay and Sir what is the overall current capacity right now?
- J. Laxman Rao:** Overall current capacity is around 30000 tonnes.
- Dhiral Shah:** What is the capacity utilization?
- J. Laxman Rao:** Utilization is 72%, which is fairly high in injection moulding shift basis.
- Dhiral Shah:** Okay. Thank you Sir, that is it from my side.
- Moderator:** Thank you. We take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Dhruv Bhatia:** Good afternoon Sir, just the first question what is the reason of Asian Paints not moving to the IML technology, is it that there are not many other vendors to supply the IML and hence just taking to the HTL technology?
- J. Laxman Rao:** That is all. You answered your question.
- Dhruv Bhatia:** Is that the only reason?
- J. Laxman Rao:** Yes.
- Dhruv Bhatia:** Okay and Sir what will be the price difference between HTL an IML?
- J. Laxman Rao:** Actually price differential between HTL and IML is insignificant, it is hardly Rs.3 for a 20-liter pack and if Asian Paints want we can give it at the same price as HTL also, it is not the price, the difference is inability to find others – others inability to produce IML containers.

- Dhruv Bhatia:** You had mentioned that FY2020 from my Mysuru plant you are expecting 2000 tonnes of sales and Vizag 1500 tonnes of sales, so can you just also mention what is the breakeven levels for both the plants?
- J. Laxman Rao:** Breakeven level at a plant of 3000 tonnes would be in the region of around 1500.
- Dhruv Bhatia:** So 50% utilization is the breakeven level?
- J. Laxman Rao:** Yes.
- Dhruv Bhatia:** Sir this capex that you have mentioned of Rs.35 Crores for FY2019 does this include the north plant that you are planning?
- J. Laxman Rao:** Probably we may invest on the land by the time and construction might start around beginning of the next calendar year, because we want to complete these two projects before we take up the project creation in the north, so hopefully we will start somewhere around October, November for land acquisition and then start construction from January. Our target is July next year.
- Dhruv Bhatia:** So the Rs.35 Crores does not include any capex?
- J. Laxman Rao:** Not much was planned in it; only for land we provided some amount.
- Dhruv Bhatia:** Because you mentioned the price has increased in the last three, four months of the raw material, have you been able to take any price increase?
- J. Laxman Rao:** That is what we keep taking the price increase in the following month. We got the entire amount, but there is a lag. I get this month price rise next month. If the next month also price goes up I lose that money, but I get it from the following month, so in a price rise situation there is always one-month loss. When you go down in the price spiral you gain.
- Dhruv Bhatia:** Would it be also because you mentioned that you had bought stock in advance because of the incentives provided by Reliance, you probably might gain because in upward moving scenario right now of raw material you have inventory gain?
- J. Laxman Rao:** Yes, in this quarter.
- Dhruv Bhatia:** And Sir and the last question with Maharashtra having plastic ban, any impact may be negative or positively for the company?

- J. Laxman Rao:** What I hear is that the ban is for components or containers or films, which are under 50 or 60-micron thickness. There is no ban on containers, which are always more than 500 microns thick.
- Dhruv Bhatia:** Is there also any talks that you have got, anyone wanting to move because if any working on with some 50-micron product and you are one of those who can supply the higher micron and the people would have to shift to those higher micron products?
- J. Laxman Rao:** If not rigid containers, they have no choice, but to go for a thicker film, but the film is always cheaper than a container, so that may not really push people to come to containers, but it may contribute a bit.
- Dhruv Bhatia:** Sir just lastly, what I understand it that you earlier had mentioned that the product that you supply are where the SKUs are higher than one liter for ice cream or for ghee and oil what now you are talking about is you are supplying to Vadilal, to Amul and to other dairy as well as oil companies, are these smaller SKUs?
- J. Laxman Rao:** To cater to such smaller volumes, actually volumes of all the players what you said are high, there are many other small players like Heritage and small companies there the SKUs are more and volume are less, to cater to that only we got the flexographic machine from Italy six month ago, so keeping in mind our ability to lead, cater more people this machine has been procured at a cost of almost Rs.5 Crores in the month of August or September last year, so that has a flexibility to print short runs with less price or same price.
- Dhruv Bhatia:** So what type of capacity of in terms of the product size, is it like a 250 mL, 500 mL, how low can you go in terms of the product size?
- J. Laxman Rao:** We can go to 20 mL, 10 mL also, if there is a multivolume, huge volume production, for example the small cup what we have developed for Cadbury Lickables, I think the volume is hardly 40, 45 mL, we can go down also if there is a product, which require smaller volume, but there should be considerable quantity per month, we go for multi cavitation that means in one piece in 20 liter we produce only one piece in a cycle, there are products, which we make 16 pieces in a cycle, there can be products, which can be made 48 pieces in one shot.
- Dhruv Bhatia:** Thank you so much Sir.
- Moderator:** Thank you. We take the next question from the line of Charmi Mehta from Prabhudas Lilladher. Please go ahead.

- Charmi Mehta:** Good evening Sir, could you please share a segmental volume for this quarter and same quarter last year?
- J. Laxman Rao:** Yes, segmental volumes are in the percentage wise, tonnage you want or value?
- Charmi Mehta:** Sir tonnage wise?
- J. Laxman Rao:** Tonnage okay, it was 59% paint last year, it has become 50.5%, lubes were 31% is become almost 36%, food and FMCG was 9% and it has become 13.8% in the Q4, you want the full year?
- Charmi Mehta:** Full year also if you can give me?
- J. Laxman Rao:** Full year paint from 11742 has come down to 10381, lube gone up from 6160 to 6750 and food from 930 to 2180.
- Charmi Mehta:** 2180?
- J. Laxman Rao:** 180 yes.
- Charmi Mehta:** Okay Sir and in value terms I wanted bifurcation for Q4 FY2017 for paints, lubes and food?
- J. Laxman Rao:** Value terms 59% has become 46%, 29.5% has become 33%, 11.5% has become 20.5% in Q4, you want full year?
- Charmi Mehta:** No Sir, you have given, so I have noted that down and Sir I wanted to know what were the RAK volumes for FY2018, I must have missed that out?
- J. Laxman Rao:** RAK volumes are hardly 481 tonnes.
- Charmi Mehta:** Okay Sir and last year Q4 what was that average EBITDA per kg?
- J. Laxman Rao:** Last year Q4 was 29.03% it is now 33%.
- Charmi Mehta:** Okay Sir, so that is it from my side. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Mahesh Jhawar from Antique Stock Broking. Please go ahead. As there is no response from the current participant we move on and take the next question, it is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: If you look at the EBITDA per kg is 33.5% for FY2018 right?

J. Laxman Rao: FY2018 the overall is 33.4% yes.

Akhil Parekh: Can you give the bifurcation for FY2018 entirely IML versus non-IML EBITDA per kg?

J. Laxman Rao: We did not do, if you want I can ask my finance department to provide you.

Akhil Parekh: Okay, no worries, I will take it offline. So absolute numbers I missed that part, for IML, non-IML for fourth quarter only? For fourth quarter FY2018 IML and non-IML sales volume – sales number, absolute numbers?

J. Laxman Rao: Absolute numbers.

Akhil Parekh: Values.

J. Laxman Rao: The fourth quarter only?

Akhil Parekh: Yes.

J. Laxman Rao: Rs.35 Crores for non-IML, Rs.57 Crores for IML and label.

Akhil Parekh: 35 is non-IML and 57 is IML?

J. Laxman Rao: Yes.

Akhil Parekh: IML we would not include HTL right, so we do include?

J. Laxman Rao: Yes, it includes.

Akhil Parekh: Last question, I do not know if you will be able to answer it, I mean the Cadbury volumes would you be able to share like how much volume we done for Cadbury?

J. Laxman Rao: No I cannot share that quantity.

Akhil Parekh: Okay Sir, no worries, last question on the robotic that we have 45 robots right as of now?

J. Laxman Rao: It has gone now beyond 60.

Akhil Parekh: All right, thank you so much and wish you all the best.

- Moderator:** Thank you. We take the next question from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.
- Manish Mahawar:** Sir just wanted to know any breakthrough in our Pharma Side Sir?
- J. Laxman Rao:** In Pharma?
- Manish Mahawar:** Pharma space, actually we are looking to add some client in a Pharma side?
- J. Laxman Rao:** Yes, we are now actively with Sun Pharma we are talking about the small opportunity and Himalaya is there and Procter and Gamble also we are in talks, but they take longer time, I think if something happens it could happen with Sun Pharma.
- Manish Mahawar:** Okay, so do you believe any sales will happen in the next year FY2019?
- J. Laxman Rao:** FY2019 could be very small, but FY2019-2020 there will be certainly something coming from that segment.
- Manish Mahawar:** In RAK plant, what is the exact issue either this taking so much time to breakeven?
- J. Laxman Rao:** Actually I explained that we have setup capacities of almost 50% for paint and lube and 50% for food, while almost more than 60% of the food machines are occupied hardly 20% capacity utilization in the paints and lubes big machines, so the main thing was due to the economic activities has come down in part of the world, there is a resistance to change from tin to paint, using lube and paint segments, so our estimation of paint and lube sales has not really matured enough, so we decided to bring back actually one machine of bigger size to India and we are planning to add smaller machine there and robots to cater to the more food and FMCG there, so the product mix change are makes a wrong expectation, wrong calculation has led to little longer BEs.
- Manish Mahawar:** But we are confident next year we have been able to breakeven on that?
- J. Laxman Rao:** Certainly 2018-2019 itself we will breakeven.
- Manish Mahawar:** Okay Sir and lastly in the North India plant, what would be the capacity for the plant?
- J. Laxman Rao:** I always tell you Ezhil plant is of 3000 tonnes, so probably we will go start with that.
- Manish Mahawar:** 3000 tonnes, okay Sir, sure. Thank you Sir and all the best.

- J. Laxman Rao:** We have not yet decided actually, it is just still in the drawing board, typically we go for 2500 to 3000 as they start up.
- Manish Mahawar:** When it will come to the FY2020 onwards right Sir, 2020 or 2021?
- J. Laxman Rao:** July, August next year.
- Manish Mahawar:** Sure Sir. Thanks and all the best.
- Moderator:** Thank you. We take the next question from the line of Ankit Goud from Systematix Shares. Please go ahead.
- Ankit Goud:** I am good Sir, thank you, Sir my question with regards to trends in paints and lubricants, being a veteran in dealing with all paint company, if you can guide in which cycle we are in and when we can see some crossing that probably 5%, 6%, 7% of volume growth year-over-year from paint industry, similarly on our lube side, I am sure we are doing great in IML side and F&F, when we can see some pickup in these segments as well Sir, that would be great?
- J. Laxman Rao:** I think this year we should see definite positive trend in paint because there was much less growth in the last couple of years due to demonetisation or GST or whatever, but I think it has to take off and the way Asian Paints is also expecting to do well this year, they were indicating the plant in Mysuru has to start in July and they were not even accepting a delay of one month that shows that they are also positive about volume growth, so hopefully this year we will see paint going beyond 5% growth.
- Ankit Goud:** And lube Sir, lubes will be in the similar?
- J. Laxman Rao:** Lubes always a stagnant market because of the better and better lubricant keep coming and reduce the consumption, but we are able to grow in the lubes mainly because of replacement through IML or sneaking into other share with increased IML conversions.
- Ankit Goud:** Okay, Sir my question with regards to this Asian Paints, given to understand that Asian Paints in Vizag and Mysuru is dealing with more three companies like us and I am just trying to understand have we given equal opportunity to serve Asian Paints there in those?
- J. Laxman Rao:** Yes, Asian Paint policies always to develop three suppliers in the first phase and add one more in the second phase, so we were along with Hitech, given both the plants, supply status for both Mysuru and Vizag in the phase one, so probably obviously Hitech generally used to get 40%, 45% of business, so hopefully we can aim at around 25% as a second preferred vendor.

- Ankit Goud:** Sir one is Hitech, second is you, third is Parekh Plast, if I am naming correctly and fourth it will be if you can share that name that would be great?
- J. Laxman Rao:** I do not know the name, there is a fourth guy I know, but his plant will come up after a year later, so similar in Vizag also only Hitech and us, but other two names, I am not very sure.
- Ankit Goud:** Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Charmi Mehta from Prabhudas Lilladher. Please go ahead.
- Charmi Mehta:** Just a follow up question, I just wanted to know what were the total volumes of Q4 FY2017?
- J. Laxman Rao:** Q4 FY2017 volume was 5190 tonnes.
- Charmi Mehta:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that seem to be the last question, I would now like to hand the floor over to Mr. Abhishek Navalgund for his closing comments.
- Abhishek Navalgund:** Thank you everyone for joining the call. Thank you Laxman Sir for answering all the questions patiently, so over to you Sir in case you have any closing remarks.
- J. Laxman Rao:** I have no more to add, but I am very happy that there is an active interaction and the interest shown on our company and its future. I thank Nirmal Bang for giving this opportunity. Thank you everybody. Bye.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Nirmal Bang Equities that concludes this conference. Thank you for joining us, you may disconnect your lines now.