“Mold-Tek Packaging Limited Q2 FY17
Results Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q2 FY17 Results Call of Mold-Tek Packaging Limited hosted by Emkay Global Financial Services. We have with us today Mr. Laxman J. Rao - Chairman and Managing Director and his team. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitesh Dhoot, Research Analyst of Emkay Global. Thank you and over to you Sir!

Nitesh Dhoot: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now handover the call to Mr. Rao for his opening remarks. Over to you Sir!

J. Laxman Rao: Good morning everybody. Thanks for attending quarterly analyst call. Thanks Nitesh for attending the same. Let me give the highlights of the quarter ending September 30. The gross sales have reached 85 Crores, up from 71 Crores in the last year, up by about 19%. The sales volume is up by about 23%. Net profit has risen from 5.12 Crores to 6.62, that is almost 30% up. Similarly the earnings per share vis-à-vis have gone up from 1.85 to 2.39. The EBITDA margins are also up around from 16% last year to 17%. On per kg basis, it is up from the last half year of 26.4 to 28.16 rupees per kg. All the parameters look healthy.

The company continues to clock more than 20% volume growth in the last two quarters consequently and in the future also will grow with the RAK plant getting into commercial production. The inauguration as you know was done in the month of August and since then we have taken various permissions from the authorities in RAK not only for the food products for any products to start there, there are various clearances that are required. In this month, we will be starting commercial production. We already have orders from quite a few lube and paint companies. Some of the dairy companies still awaiting food quality clearance, probably that will be obtained by December, so dairy product containers will be manufactured probably towards the end of this year, means calendar year. RAK will now start adding to the numbers in a small way in the next two months, but hopefully from January that is the fourth quarter of the year we can see reasonable numbers coming up from there. Apart from that, various sanctions that have been envisaged have been completed successfully and some more are being under way.

The main one being UAE, the moulds and investments over there, this year we have almost spent about 10.5 Crores, and we are creating a new facility of Jeedimetla that is for the tool room and printing facility. Another 5 Crores more would be spent on it. We have now got major order from Cadbury for their new production which they will be launching in the month of February, so that will require almost 5 Crores investment in terms of machinery, moulds, and robots. This is in the food and FMCG segment, where we expect the orders valued up to 18 to 20 Crores per annum, that means almost 6% to 7% of our projected turnover for this current year, but of course only the two-month numbers will be added in this current financial year, but next year it will continue to be a good addition to our food and FMCG segment. So these investments of another 15 Crores are required in the current year, apart from 15 Crores already spent in the first half, so that makes almost 30 Crores investment in this current financial year to take up the increased demand for various products. While the numbers on the EBITDA side are improving, we are confident that future will be further improved as RAK will be adding number and this Cadbury's order will be executed from February of next year. Apart from that we also have active enquiries from various other FMCG companies like Hindustan Lever and Nestle. We are also in talks with Australian counterparts of Mondelēz in Australia and also from Dubai. In fact, Mondelēz has selected Mold-Tek as preferred supplier for Asia Pacific region for IML Container, so that can open up some more opportunities with Mondelēz in the next couple of quarters. The ability to produce the IML label house and robots is what a formidable entry it is giving us into various food and FMCG, and I hope this will be increasing our IML products, which have better EBITDA margins and growth prospects. Going forward, we are confident that similar growth can be obtained in the next few more quarters also. The general outlook what I have is we may be in a position to continue 15% to 20% volume growth in the coming few years, thanks to the new plant for Asian Paints also to come up in 2018-2019, so all these auger well for the company's continuous growth quarter-on-quarter or at least year-on-year. This is the good news I wanted to share with all of you and now take it back to Nitesh, so that we can start the question and answer session.

Moderator: Thank you very much Sir. Ladies and Gentlemen, We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Very good set of numbers for the half year and Q2. My first question on the revenue mix. As of first half, the IML sales mix and total sales value, what is that number Sir?

J. Laxman Rao: The H1 IML sales are around 45.5% against 40% last H1. It makes sense to talk in volumes rather than value, so I am giving you in the volume terms, it has gone up from 36% of volume of 41%, but value wise last year it was 40% of the value, current year it is 45.5%.

Manish Ostwal: Okay. Secondly, margin has improved mainly because of increase in IML sales also, for the full year what kind of margin we are looking at given the higher growth in the IML sales?

J. Laxman Rao: IML growth is just marginal I would say, last year we ended up with almost 43.5% to 44%. We are at 45.5% now, and I think the current year we will end up somewhere around 46% only because most of the IML new sales would be happening from February, that means hardly last two months but probably 47% is the best we can achieve. Next year, we are expecting it to cross 50% very comfortably because all the RAK products are going to be either plain or IML, there is no screen-printing in it. Food and FMCG industry sales are expected to grow at least by 7% or 8% in the overall price, so that means we will be looking at maybe around 55% IML possibly next year.

Manish Ostwal: Okay, so minimum 50%, on the higher side 55%. Secondly, we are spending around 30 Crores this year, already we spent 15 Crores, because we are setting up plant for Asian Paints supply, for that what kind of Capex we are spending in FY18?

J. Laxman Rao: Together in FY18 and 19, the expected Capex for Asian Paints alone is around 38 to 40 Crores for the two years, 2017-18 and 2018-19, because in 2018-19 middle we have to start the Mysore plant and towards the end of 2018-19 we are supposed to start the Vizag plant. So these two plants overall layout is around 35 to 40 Crores. In that, we are going to spend about 5 Crores this year itself for acquiring land. The remaining 30 Crores only would be invested during those two years. Apart from this, we anticipate investment that would be required to meet the food and FMCG sector, and also maybe if need arises RAK also we may have to expand, so considering that we will be continuously making investments as we see more demand for our products.

Manish Ostwal: Okay, lastly the Middle East operation, could you tell in terms of client acquisitions and the growth rate in that region, in terms of volume and outlook over there at last for the next one year?

J. Laxman Rao: I can say now Shell has cleared our containers recently. Shell is one of the reasonably big players. In November end we are hoping AkzoNobel to give their clearance, and small players, three or four paint and lube companies have already given their orders, which we will be starting executing in November, but not big numbers. In December probably we may have a reasonable pickup. As you correctly said for the next year the numbers can be considerable, something like 100 to 150 tonnes a month, that is about 5% to 6% of the top volume growth can come from RAK next year.

Manish Ostwal: Okay Sir, thank you very much and all the best.

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

Pragya Vishwakarma: I have just two questions. I wanted your sale in FMCG and food segment percentage comes to the topline. I missed on the part where you were giving your volume percentage for IML year on year, so if you can please repeat that?

J. Laxman Rao: As I told you, we received the agreements we signed with Cadbury, Mondelēz for supplying one of their new product containers that would be starting in February. In this current year the 2.95% or something was the percentage of food and FMCG last year is now 4.14%. That is a jump from I would say close to 3% to 4.5%, but not very big numbers to talk about as of now, but with the Cadbury's order coming in and other orders of various FMCG to be added, I am hoping that next year we would be seeing a double digit number in the IML food category, so that is the first question. Last year first half we have done 40% sales of the IML, which we reached 45.5 in the current H1 in value terms. In terms of volume, it was 36% last year, it is now 41%.

Pragya Vishwakarma: Okay, another thing is in the second quarter IML growth slowed down right?

J. Laxman Rao: Yes, in the second quarter it was more or less a bit down because actual growth had come more from the paint segment and Asian Paints who are non-IML clients.

Moderator: Thank you. We take the next question from the line of Ravi Nareddi. He is in individual investor. Please go ahead.

Ravi Nareddi: Happy Diwali and New Year. How is demand from BPCL, HPCL, Asian Paints, Proctor & Gamble this year for your products?

J. Laxman Rao: Asian Paints demand has been really going up rapidly. The growth in their numbers is more than 30% to 35%. Whereas HPCL and BPCL, as I told last quarter we just received orders after a long break, but HPCL is giving reasonable numbers like about 4 to 5 Crores in this quarter value wise and that may start growing up in the next year, that means they will be adding at least 20 Crores turnover in this current financial year from HPCL. There were no big numbers last year. At least 15 Crores growth would come from HPCL. Coming to Proctor & Gamble, only in the month of September we made some supplies of their aerial container and it continued in the month of October. Majority of the supplies happened in the month of October, so they are now test marketing with about 5.5 lakh pieces, which is worth around Rs.2 Crores, once the market reaction is observed they might be going all out for the aerial pack in our IML decoration, so I hope it will be successful in the market so that we can see much bigger numbers in the coming year.

Ravi Nareddi: I joined late; can you tell me what is about RAK reference?

J. Laxman Rao: We now got clearances from various authorities and now we are ready to start the commercial production this month. For food and FMCG there are some clearances that will be given only after we submit samples that were manufactured there, which we did now, but they will give the clearance after testing and verifying the cleanliness, hygiene, and all that. Probably by end of this month or middle of December, we will be allowed to start the food container production also. Now what we are starting is lube and paint containers, hopefully by middle of December we will be starting dairy products, for which we already have very active enquiries. So full working will be reflected in Q4. I do not think it will be fully occupied, but I will be very happy even 30% to 40% capacity utilization happens in the month of January to March, and definitely it will go much further up from April onwards.

Ravi Nareddi: How much order you have received for RAK?

J. Laxman Rao: Order values, as you know in packaging we do not go by values, in tonnes probably this month we will hardly do around 40 to 50 tonnes, maybe we can try to do around 60 to 70 tonnes in December, and probably 100 plus from January per month, so that way this quarter, next two months I do not expect big numbers, but definitely a beginning will be there in these two months, November and December.

Ravi Nareddi: Can you tell us what are the quantity terms in the September quarter for the entire company?

J. Laxman Rao: We did about 4630 tonnes as against 3753 tonnes last year that is a growth of 23% in volume.

Ravi Nareddi: It is very nice. Sir, keep it up and all the best.

Moderator: Thank you. We take the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: Hi Sir, Happy Diwali to you first of all. My question was with regard to paint segment. We have been seeing a lot of traction coming in from paint guys, especially from Asian Paints, so what has changed actually in the last three years. Is it the demand has grown substantially in decorative segment or probably new usage has started coming in or are we taking market share from their sister concern?

J. Laxman Rao: Both. One is the paint segment per se is growing and we are able to pull some part of the demand where IML is shifted one or two brands, or ever HTL, where we are able to provide a better quality HTL containers, so that is where the paint industry has substantially added. If you look at current year also, our growth mainly came from paint segment.

Ankit Gor: This is mainly HTP and screen-printing, not IML at all?

J. Laxman Rao: HTP and IML. Screen-printing is more or less stagnant or coming down. HTL and IML, which are labels.

Ankit Gor: It was started by Asian Paints?

J. Laxman Rao: Not IML, they at least moved to adopt HTL in some of the brands, gradually they are increasing.

Ankit Gor: Second question with regard to RAK. I understand that the half or full reflection of the numbers will come probably in the next financial year, what that number would be, what do you expect in FY18?

J. Laxman Rao: Our target for next year is at least to reach 50% capacity utilization that is at least 1400 to 1500 tonnes for the full year. This year we are going to end up somewhere around close to 18,000 to 19,000 tonnes, because in the first half we did 9850, even if we double that we will be in a position to do somewhere around 19,500 or 19,600 tonnes for the full year, so this will be added by at least another 1400 or 1500 that is about 6% to 7% volume growth can come from RAK in the next financial year.

Ankit Gor: Value wise, how much it would be?

J. Laxman Rao: Value wise, I can say about 20 to 24 Crores.

Ankit Gor: I just wanted to confirm this. Capex, for this quarter the planning is 30 Crores, of which 15 Crores you had already done?

J. Laxman Rao: Not for the quarter, for the full year. First half we spent already 15 Crores and we have on hand another 15 Crores expansion and investment to be completed before March. We hope to complete most of it before this March.

Ankit Gor: In this 15 Crores, we spent 5 Crores for Mondelēz and another 10 Crores for?

J. Laxman Rao: For the next 15 Crores, Mondelēz we would be investing 5 Crores, tool room buildings have just started and tool room machinery is coming in. The unit 1, that is our old unit we are making some new buildings to house the food and FMCG products, so that would be there. Another IML printing machine, expert machine we have ordered, which is about 3.5

Crores investment. Apart from that there is land at Mysore could be purchased for Asian Paints upcoming plant, part of the payment is yet to be made in the month of January. With all these put together, overall Capex for the next six months would be around 15 Crores.

Ankit Gor: This year's Capex plus around 40 Crores next year Capex will be from internal accruals only, right Sir?

J. Laxman Rao: Next year there is no planned Capex, there may be a Capex coming in due to various opportunities that we may get into, but a planned Capex is mainly in the year 2018-19. Of course a part of it might be done in 2017-18, put together in two years there is another 30 to 35 Crores investment for the Asian Paints plant. We are also pursuing another opportunity. If that comes up, it is also in the similar timeframe we may have to set up capacities to the worth of around 10 to 15 Crores of investment, but that is not yet confirmed.

Ankit Gor: Okay. What is your volume outlook for next year, could we be able to maintain this 15% kind of volume outlook for Q-o-Q even for next financial year?

J. Laxman Rao: I cannot comment on Q-o-Q, but definitely for the full financial year we are targeting 15% to 20% volume growth again from whatever 20% we are going to achieve in this year.

Ankit Gor: Okay, lastly from my side. Any status with regard to edible oil containers, where we are right now and what is the plan of action?

J. Laxman Rao: I told you in the last quarterly result also, the edible oil pack could not pick up because of sharp rise in the raw material prices and as it is there is a big difference in tin and plastic containers, so there was not much of traction as we anticipated, but we are now trying various other opportunities. Even we are now talking with corn flakes companies, we are talking with jams and other companies, where maybe the volumes are less, but those products can afford this kind of very customer friendly packaging, so we are also hoping to enter into some micronutrients and other companies, Coromandel and others are enquiring about this. Hopefully, it will start slowly improving, but not to the satisfaction of what we talk.

Ankit Gor: How much investment we actually made for mould and everything, specifically for edible oil?

J. Laxman Rao: The beauty of injection moulding is as you know the machines are general purpose. Even if edible oil do not pick up, we can use those machines for food and FMCG or for regular paints and lubes and all. The investments that are made on the machinery is never a waste. The only thing which maybe idling is the investment made on the moulds. That is hardly around 1.5 Crores, that is also partially utilized. We may be using only 20% of our capacity.

Ankit Gor: Lastly, at utilization level, what was the level for H1?

J. Laxman Rao: The current utilization is around 74%.

Ankit Gor: The capacity stands at around 28,000?

J. Laxman Rao: You can say, 27,000. RAK is more or less in, so including RAK we are going to be 30,000 tonnes and we may be adding about 1000 tonnes plus for Cadbury that will be by February, so by the end of this year we should be around 31,000 tonnes.

Moderator: Thank you. We take the next question from the line of Dhimant Shah from Principal Mutual Fund. Please go ahead.

Dhimant Shah: Good evening Sir. Very satisfactory results. Just two questions, number one is that we had discussed couple of names and now you find new names getting precedence over some of the names earlier mentioned by you. Is there some process slippage or approval delays from the worthwhile names, earlier you had discussed one or two very large names from edible oil, the likes of Adani Wilmar so on and so forth. If you can just throw some light on the same? Second question is, how far is the competition away? If one sees that your Capex intensity is more in India as opposed to RAK. Now if the size of opportunity is almost equal or more, I think the RAK expansion should have been more ossiferous as opposed to whatever we have in India. Naturally the ROCs would command where you do the expansion earlier, but I was just wanting to know why would we not be more ossiferous in expansion equally if not more in RAK as well?

J. Laxman Rao: First I will answer your question that the names what we discussed last time I agree were maybe six months ago, Adani, Wilmar, and such companies in the edible oil. We did supply a trial lot of 5000 to 6000 numbers to Adani Wilmar and they had problems of setting the lines because the lines were meant for metal tins, so they made corrections and they changed that and they filled and sent all around the country, and they received good response but they also found some problems of handling and at the end of the day when the raw material prices shot up, the cost differential between tin and our container has become almost like Rs.40 to Rs.45. from Rs.80, it has become Rs.120. They were okay, tried when the price was Rs.100, but now raw material prices have shot up from Rs.71 to Rs.88, forcing us to increase the price to almost Rs.17 to Rs.18 per kg and that made the containers less attractive for them. They are still taking small quantities, if not Adani Wilmar, the Big Bazaar that is Allana Group, they are still buying. There is Healthy Heart; they are still taking small quantities for the metros. Even ConAgra has given us a repeat order of a small quantity, but they are not going all out aggressively because of the price differential. I have admitted that there is much less demand for edible oil than what we envisaged maybe a year ago, but we are finding alternative clients who can make use of the capacity and that is slowly happening, trickling in. I am confident next year, from 20% utilization probably at least we go to 40% capacity utilization if not more. Coming to your next question about RAK, it is our first time experience working outside the country and those countries, especially RAK we have a lot of clearances and approvals especially when you are producing anything for the food industry. So things are being completed now. As I said, this month we will be starting commercial production and supplies for paint and lube industry clients and hopefully by end of December or at least in the second half of December if things go well we will be start beginning supplies of dairy, where we have considerable demand. Certainly in the fourth quarter, there will be numbers coming from both dairy and the pain and lube industry. Once we see that market and get a feel of the demand and pattern, probably that is when I would rather take a step to enhance the capacity. Probably by April or May, I will be in a better position to comment whether we can aggressively grow there or we should take slow steps, but as far as the current capacity is concerned, I am not much worried. I am sure it can get filled up as we progress into next year.

Dhimant Shah: Given the shelf advantage of the moulds, robotics, and the in-house processes that you have kind of almost mastered, how long can it sustain before you need to really find the next level of opportunity?

J. Laxman Rao: In food and FMCG segment, we have not yet reached even the base; we are still below the base level in this country. I was recently enthused of K Exhibition, which is the world's largest exhibition for plastic products. There, I noticed that IML is still going on faster and faster cycle and higher volumes, and IML is the only decoration system that is now getting more and more accepted in even those countries. I met even a label supplier who is making about 45 million labels a day, so that means you can understand the demand for containers, that many containers are being sold every day by one single label manufacturer. There must be at least 10 or 15 such label manufacturers in Europe. So what I am saying is those numbers are mythical numbers in India as of today, but slowly now we are talking about Cadbury, if things go well they will be taking about 3 million pieces a month of a product which we are starting in February. Like that, if such mass production items come into IML that is when the numbers will shoot up and it will become more acceptable in the market. Coming to your question on competitors, as of today we have not still found any competitor making the bail IML itself. For them to make multicavity thin-walled containers for food and FMCG, it would definitely a much farther goal. Especially in this Cadbury order what we received or the agreement what we received now; order will follow when we start the production they have not given us as a monopoly. They tried giving to all the big injection moulding companies in the country, but hardly there was any response or competition. As of now, I see that many people are still yet to get a grip on IML technology. Situation has not much moved, but probably after every K exhibition, a lot of people go and visit, and probably they make some deals, probably something can arrive in the next six months or one year, but I do not have a clue as of now.

Dhimant Shah: So is there somebody who has equally efficient kind of solution of the shelves and hence are our offering becomes that much more less competitive so to say in the recent exhibition that you visited. Can somebody offer off the shelves solutions to competition?

J. Laxman Rao: As of now I have not seen anything. There are concepts like vacuum farming and thermo farming with very true wall using IML, but they require volumes like half a million cases a day. I think that machine producing half a million cups of 200 mL or something may be for yogurt with thermoforming IML, IML with thermoformed containers, which are light weight but I have also containers have thin walled molding that is injection molding, our process, also of equally less weight. That means injection molding is moving into the arena of thermoforming, which is traditionally the least weight containers. So the progress towards that is thinner and thinner walls with IML, but IML is still the common factor/

Dhimant Shah: But that would require volumes, which may not be supported?

J. Laxman Rao: Exactly, as of now in India that is not, but making of the label, making of the robot continues to be similar. I would not say same, labeling same but the robot concepts will differ.

Dhimant Shah: Lastly you have competition in the smaller container, which are handheld?

J. Laxman Rao: That ice cream and?

Dhimant Shah: Ice cream, cups and so on, so would you see the intensity fairly robust there or you think you still have some advantage over there?

J. Laxman Rao: As I told you the manufacturing of the label and the robots by ourselves even put as against the small time players who might have very small overheads and committed kind of special purpose set up where they have mold machine, robot supplied by Taiwanese or Korean manufacturers and they keep producing same containers year-after-year and month-after-month, but still we are able to beat them in the pricing basically we make the label ourselves, we make the robot ourselves and we can attend to our robot maintenance without anybody even noticing there is a breakdown whereas others have to wait for the support to come. So that is where reliability wise even in the price wise, without sacrificing our EBITDA margins we could even compete with such small players. Of course they are also taking away together two three players may be he is taking away 15% to 20% and we may be getting around 25% to 30% to 35%.

Dhimant Shah: That is all Sir. Many thanks.

Moderator: Thank you. We will take the next question from the line of Kamlesh Kotak from AMSEC. Please go ahead.

Kamlesh Kotak: Good evening Sir. Sir just wanted to check, can you get the breakup of volume for paint, lube, food & FMCG for this half-year vis-à-vis last year same period?

J. Laxman Rao: Last year paint was 62.6% has now become 63.56%, that is about 1% is increase whereas lube has fallen from 34.63% to 32%, 2.5% down, food & FMCG has gone up from 2.7% to 4.45%.

Kamlesh Kotak: So that means that the highest growth has come from which segment?

J. Laxman Rao: As a pure percentage number food and FMCG but it is still not so significant.

Kamlesh Kotak: You said it has gone from 2.7% to 4.45%?

J. Laxman Rao: Yes.

Kamlesh Kotak: Sir, when you say that the incremental growth would be 15% next year onwards, which of the segment you see the growth is coming primarily from?

J. Laxman Rao: RAK will be keep adding at let us say 5% to 7% annually for at least next two three years until it approaches 75%, 80%, 85% kind of capacity utilisation, so I expect RAK to add 5% to 7% annual growth in volumes. I also expect 6% to 7% or maybe 8% growth coming from food and FMCG segment that means currently year 4.5% or 5% we could end up into 11% to 12% or 13% next year. That is a clean growth in the food and FMCG I anticipate and our other natural growth in the paint industry, natural growth of IML brand shifting could also lead to another 5% to 7%, so these are the three areas where I am looking at growth for the next financial year that is 2017-2018.

Kamlesh Kotak: Sir Castrol and Shell we got some IML shift that happened, so all these orders have already started commissioning?

J. Laxman Rao: Of course yes, Shell is completely now in IML and they happened in three, four months.

Kamlesh Kotak: And Castrol?

J. Laxman Rao: Castrol has been in IML for quite some time.

Kamlesh Kotak: Sir second thing how you see the raw material scenario in terms of the pricing is it firmed up of?

J. Laxman Rao: Raw material is more or less stable, if you look at, if current year raw material has gone up in the first six months that is from as low as Rs.70000 a tonne and it went up to 84000 by June, but now it is just Rs.81000, so it is more or less stabilized between 80 and 84, 85.

Kamlesh Kotak: Sir when you said the IML shift across paint companies, Asian Paint you said is not moving, out of the other thing, are they seeing more of shift to IML products?

J. Laxman Rao: Likely they are almost shifted what they can, I think Nerolac is buying almost 40% to 50% of their products in IML now, Berger is little less, but if you include HTL they are also almost 40%. AkzoNobel including HTL and IML they are more than 60%. Asian Paints is now entering into HTL, which is also a step towards IML, so where we eliminate the labor and eliminate the space utilisation to great extent, of not as IML, so that is hardly now above 10% of their supplies, but I hope going forward HTL label decoration would go up to 40%, 50% in the coming couple of years.

Kamlesh Kotak: Which is currently how much Sir?

J. Laxman Rao: Hardly 10%, 15% may be less?

Kamlesh Kotak: What is the price difference between HTL and IML?

J. Laxman Rao: In the market HTL to IML the difference could be Rs.2 to Rs.3 for us the manufacturing cost of HTL is as much as low than IML, so margins in IML and HTL are similar for us, but not for other because they buy the labels, they end up paying higher price.

Kamlesh Kotak: But for us it is Rs.2 to Rs.3 difference only right?

J. Laxman Rao: In overall pricing, but the costing is less, so the delta is same in both the products.

Kamlesh Kotak: Okay great Sir, all right, thank you Sir.

Moderator: Thank you. We will take the next question from the line of Devang Mehta from Tamohara Investment Managers. Please go ahead.

Devang Mehta: Happy New Year. Congratulations on good numbers. Just was trying to understand on this RDK facility that we have put up, so how difficult it is or would there be a lot of checks by the buyers when you go to dairy market or how do you look at it, so dairy market is huge in this areas of the world, currently also they are importing a large part from maybe Turkey or somewhere else, so how do you see this market going forward, in terms of competition, in terms of pricing and in terms of acceptability of the product?

J. Laxman Rao: We are confident that once the clearance has come from the plants, the plant has to have certain specifications of dust particles per cubic meter and all that has to be verified by a independent agency, which is being done in this month and probably they take a couple of weeks, they may give some suggestions and that need to be implemented, once we implement and certification comes it is an annual ritual, here also in India it will happens once in a year, we need to have re-audit, so once the certificate is issued and auditing is done no individual dairy will come and keep doing that, they may come for inspection to just see how they cleanliness is maintained, which is also a common practice in India, so there also we expect that, so initially it takes some time to get the certification which are almost there and once we get it dairy companies will just make a visit and they starting giving us trial orders, so couple of companies even to the extent of giving away their what you call art works for us to develop the IML campaign. So it can happen as earlier, let us say middle of December, that would not be a continuous problem, it is a one-time issue.

Devang Mehta: Correct and in terms of pricing and in terms of acceptability, in terms of competition, how do you see these two variables?

J. Laxman Rao: We are much better of, we are able to give a reasonable competitive price to clients and they are more than happy that they have seen our facility and there we went for the rest of the machine, JSW and Sumitomo Japan machines with complete automation of robotics, which is very rare in Dubai also. In Dubai if they have 30 machines they may have two or three robotic machines and the rest all regular convention machines. Whereas all our eight machines with seven I think, seven machines we plan all are with robotics and completely automized plant, so they feel we will be in a position to serve better and there is actually some kind of a pressure from the dairy industry to hurry up.

Devang Mehta: There are also local players in terms of there is this Alana group also is doing packaging of this kind and so what I just trying to understand do we have, so one is the technological advancement edge that we have over them, so is there any pricing advantage or is their technology is the only advantage that?

J. Laxman Rao: No, the pricing I told you time and again that IML constitutes in small containers as high as 15% to 20% of the cost and we produce the IML share in Hyderabad and send it to Dubai or RAK. So even if you add couple of percentages points for the freight, air freight or even ship freight we will be still having 10% to 15% advantage in the overall 10% at least price advantage in the container price, so either we end up taking a better EBITDA margin are we can compete in the market and still stay afloat.

Devang Mehta: And last thing on, so you are talking on this technology where you had visited this fair, so is oxygen barrier IML the same as what you were talking?

J. Laxman Rao: Yes oxygen barrier IML is still there, it is now come up to a little higher stage of application there, and there is another type of oxygen barrier injection moulding itself also has come up, which is afford by one Milacron Company that is an American Company and by a Korean Company. We are in talks with the Korean Company because they are less costly, more economical there and their solution also looks feasible, so we are just in talk for a future need arises.

Devang Mehta: Are these technologies more capital intensive then what are doing currently?

J. Laxman Rao: Marginally higher, but the Milacron one is very high it is almost three, four times high, but the Korean offer what they are talking is about 40%, 50% more, it is worth it because we are talking about replacing glass, so which is a very vast market.

Devang Mehta: All the best. Thank you very much.

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

Pragya Vishwakarma: Wanted to talk about your Asian Paints facility, which is coming in Vizag where you are investing around Rs.35 to Rs.40 Crores.

J. Laxman Rao: That is for between Mysore and Vizag together.

Pragya Vishwakarma: Okay Mysore and Vizag, once the facility is complete that is post financially 2019 what kind of revenue generation will it, what kind of incremental revenue will it add to the topline?

J. Laxman Rao: Both the plants will be starting with the capacity of almost Rs.6500 tones together total, so assuming year 0 is not much, the year 2019-2020, 2018-2019 is the year where we implement probably we may hardly hit about 700, 800 or 1000 tones in that year, but 2019-2020 we should be able to hit at least 4000 tones, 3500 to 4500 tones supplies during that period that is year one 2019-2020 so that itself is a kind of 20% growth for us on the current volumes.

Pragya Vishwakarma: And this is entirely IML plant, which?

J. Laxman Rao: No, they are not yet moved to IML probably it will could be 50% HTL and 25% IML and 25% screen printing by that time, I hope, otherwise it could be only 50% HTL and 50% screening printing, if they do not shift to IML.

Pragya Vishwakarma: Another question I have is on Mondelēz be preferred partnership with Mol-Tek for Asia Pacific region which you spoke about, so from here when can you see something adding to your topline and can you talk a little bit more about it?

J. Laxman Rao: Since from February this year that is 2017 itself will be getting some volumes or numbers added from Mondelēz that is for the Indian supplies and there is another product, which is under finalization with them if that happens probably in March, April we will be starting that product also, so the numbers could be sizable starting from February, March, so you can say for this year it may be negligible, but for the next full year it can be substantial, if they both happen they both together would be in the region of 6% to 7% in value.

Pragya Vishwakarma: 6% to 7% of growth in volume term?

J. Laxman Rao: In volume terms for the entire company.

Pragya Vishwakarma: Okay great, thank you.

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

Suvarna Joshi: Sir many congratulations on the good set of numbers once again and wish you a happy Diwali and New Year also. I had a couple of questions. The first one was on the EBITDA margin front. Now we have been talking of, in the fourth quarter of financial year 2016 we clocked in our EBITDA margin of about 18.6, which was the peak margin that we reported mainly because of the raw material price comfort that we got I believe, but if we see Q1 and Q2 I see that from 17.5 in the first quarter of FY2017 we have come down to 16.8, so could you just throw light on what is our sense of ensuring a sustainable EBITDA margin level for the coming quarters and in FY2018 that we expect?

J. Laxman Rao: The point what I have been pressing upon is that let us not look at EBITDA as a percentage, though it can be an indicator, EBITDA per kg is a better indicator because our raw material price has dropped let us say in third quarter if I remember correctly last year the price fell down to as low as Rs.70 and then they gradually moved up to almost like 80s in March, April and 90s in June, so when the raw material prices go up as a percentage EBITDA comes down. Now the raw material prices on average are around 84, 85 compared to 76, 77 last year similar time, so when the prices go up the percentages change a little bit and fourth quarter when you especially said that is January to March this year that is this calendar year

January to March we also get annual discounts of raw material, which are sizable like say something like about Rs.1.5 to Rs.2 Crores, we get annual discount from Reliance at the end of year. So that is one time benefit we get always in the fourth quarter, so I would suggest you to look at into EBITDA per kg that trend is what I would rather look at and H1 of last year the EBITDA per kg was 26.46?

Suvarna Joshi: Sir you were mentioned about EBITDA per kg in this particular H1 was around 26?

J. Laxman Rao: 28.16.

Suvarna Joshi: 28.16 whereas in the previous year same year was 26 around?

J. Laxman Rao: 26.4.

Suvarna Joshi: So what is the trajectory that we are looking at to close this financial year, are we looking it to improve from 28 further on?

J. Laxman Rao: Last year we ended up the full year at 27.5 because as I said fourth quarter will always have a better advantage, so probably this year we might try to hit close to 28.5 to 29 for the full year, at least 28.5 is my target.

Suvarna Joshi: Fair enough Sir and talking about volume growth numbers, now we have been saying that RAK will contribute about 5% to 7% to our volume growth in FY2018 and we are expecting food and FMCG to contribute to about 6% to 7% odd kind of a growth, so **you** also mentioned sometime back to one of the callers you mentioned that Asian Paints in terms of IML is not growing, they are purely a screen print and somewhat shifting to HTL right now, so what confidence are they getting when we are saying that we will be able to clock between 15% and 20% kind of volume growth because if I see the other paint companies let us say for an example AkzoNobel within the domestic market I believe please correct me if my understanding is wrong that AkzoNobel has not been growing as good as a Berger or Nerolac or an Asian Paints is growing?

J. Laxman Rao: True, but the growth that is coming in the paint industry alone would be a kind of 5% to 6% for our entire topline volume, so why I am confident of 15% is RAK is giving 5% to 6%, Cadburys Mondelēz alone can give 6% to 7% or at least 6%. There are many other food and FMCG products we are seeking to start up like one of them is Haldirams, anytime they are asking us to start it, but we have constraints of molds and robot so we are taking it little easy now, but probably from April, May we may start that also, it may be another 1%, 2% like that if we add some more food and FMCG next year and some growth from the square pail that is for edible oil what we develop we are finding alternative growth area probably that may add another 2%, 3%, so there itself we are talking about 15% confirmed growth and there could be further growth from the volume growth in paint and lube industry in general. So that is why I am banking it between these.

Suvarna Joshi: Another was on we have mentioned a capex that we will incur total will be Rs.30 Crores for FY2017, so this Rs.15 Crores incremental that we are going to spend is going to be funded internally, is not it?

J. Laxman Rao: Yes.

Suvarna Joshi: The requirement going forward in FY2018 and in FY2019 primarily for Asian Paints how do we plan to fund that to through internal accruals or we will likely take some debt for that?

J. Laxman Rao: As of now the internal accruals are really sizeable that means for the first quarter first half itself we have almost Rs.18, Rs.19 Crores as the internal accrual, cash accrual, so assuming that we end up for the current year at Rs.40 Crores and we distribute a 40% as a general principle what we are following up we may end up distributing a dividend of about Rs.10 to Rs.12 Crores, so we will be having around almost Rs.27, Rs.28 Crores of additional cash generated per annum, it should be good enough to take care of those two plants going forward, but if there is a need we can always raise term loans because as of today loans are almost nil.

Suvarna Joshi: That was from my end. Thank you so much for giving me the opportunity once again.

Moderator: Thank you. We will take the next question from the line of Ruturaj Kulkarni who is an Individual Investor. Please go ahead.

Ruturaj Kulkarni: Happy Diwali Sir and congratulations on the good quarter. My question is on the raw material, so we are gearing up for the operations of RAK plant, so with the additional procurement do we see any benefits there for the raw material?

J. Laxman Rao: Raw material cost there is pretty low compared to India they are available largely it is available at around 68000 as of today that is $1000 to $1050 per tonne compared to 82000 83000 in India, so there is a Rs.14 to Rs.15 reduction there.

Ruturaj Kulkarni: Are we planning to pass the benefit to the customer there or how will that be, so the margins will be small there?

J. Laxman Rao: Pricing there is entirely a different ball game so we expect the value additions to be better there, because raw material is lower and manufacturing cost maybe little higher, but still compared to the reduction in the raw material price, there could be a better value addition compared to India.

Ruturaj Kulkarni: Thank you. That is it from my end. All the best.

Moderator: Thank you. As there are no further questions from the participant, I would now like to hand the conference over to Mr. Dhoot of Emkay Global for closing comments.

Nitesh Dhoot: I would like to thank the management once again and also all the participants for joining us on this call. Thank you everybody.

J. Laxman Rao: Thank you very much for your interest in our company and thanks to Emkay and the operators who have arranged end this call. I wish you all a very Happy Diwali and continued success in the coming year.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.