



“Mold-Tek Packaging Limited Q1 FY-23 Earnings Conference Call”

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MANAGING DIRECTOR, MOLD-TEK PACKAGING
LIMITED**

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Moderator: Ladies and gentlemen, good day, and welcome to the Mold-Tek Packaging Limited Q1 FY '23 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you, and over to you, sir.

Abhishek Navalgund: Thanks, Sanju. Hello, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all to Mold-Tek Packaging Limited 1Q FY '23 Earnings Conference Call. We have with us Mr. Lakshmana Rao, the Chairman and Managing Director of the company, along with the entire finance team at Mold-Tek.

Without further ado, I would request Lakshman sir to start with his opening comments, post which we'll open the floor for Q&A. Thank you, and over to you, sir.

Lakshmana Janumahanti: Dear all participants, thank you very much for your interest in our quarterly results conference. I am very glad to inform you that all segments have done wonderful in this quarter, reaching some historical volumes and that enabled us to achieve 55% volume growth in sales and PAT is up by 80%. Though it is compared with the COVID affected last year quarter, even on comparative the figures of 2018-19 and 2019-20, these numbers have been substantially better.

So, the overall top line is more than Rs. 207 crores as against Rs. 133 crores last year in terms of rupee terms that is up by 55%. But even in the volume terms, the numbers have gone up less than 6,000 tons in Q1 last year to more than 9,000 tons. And this is the first time in the history of the company that in a quarter we achieved more than 9,000 tons. The previous figure is less than 8,000 tons, so around 8,000 tons. And this year, 8,400 tons was the highest in Q4. And we achieved 9,040 tons of sales and 9,150 tons of production, which is a historical high in our company's performance.

This has become possible because of a huge increase in demand in our food and FMCG as expected. But also one surprising element is lubricants business also grew up very much in the quarter due to new brand of DEF brand of lubes being introduced in the country. It has been introduced a year ago, but more and more numbers have been accumulated towards Mold-Tek in the last few months and that resulted in a big jump in sales for lubricant industry as well.

So, going forward, another new announcement or new relation taken by the company is to set up a second plant at Daman because the Daman plant is now full, and there were some issues of getting additional construction permits due to the huge highway we have in front of our factory. So, Mold-Tek company has decided to set up its new plant in a new land and very soon we will be going ahead with the plan there because a lot of clients in the Western region belong to food

and FMCG are expecting us to be nearer to them in the west and it also makes both commercial and transportation sense to be closer to the clients.

So, the Board has decided to set up a plant, the second plant in Daman during the financial year itself or probably it will fill in at the beginning of next financial year. That is a new announcement in terms of our CAPEX and other capacity plans that were announced at the time of QIP are going on well in time. The major plant of IBM products, injection blow molded products coming up at Sultanpur will be operational in the beginning of next year. And our pilot plant to produce OTC products and even sampling of pharma products would be starting in September or October of this year itself.

And I am also glad to inform you for the entire pilot plant capacity, we have received orders from one of the major FMCG companies in the country for a OTC product, which will completely occupy the capacity of the IBM pilot project. So, this has been confirmed and the molds are under development.

And I am also glad to inform you that the FMCG companies are now on back contract to develop new products in IML, which they almost suspended for the last two years of COVID impact. And now they are opening up the doors and at least three projects are confirmed to go ahead and another fourth project is being decided in this next few weeks.

So, that way, the food and FMCG, new brand development is also started, which has been kind of suspended for the last 2 years, which might augur well for us in our IML food and FMCG segments. So, other projects are all on time, going on as per plans, and we hope to achieve our ambitious target in this year.

And also one major announcement is as expected at the time of QIP we mentioned to you that Rs. 250 crores of CAPEX is planned for the next 2.5 to 3 years. And this year itself, the company has layered out plans to invest Rs. 125 crores plus or minus 5% to enhance various capacities, set up new plant at Daman, maybe start new plant construction at Kanpur and complete mainly the Sultanpur pharma project at least buildings and the main machineries would be completed.

And we are doubling our IML label printing capacity and steps have been taken to make sure that is also on the anvil before the next season starts in January. And we also doubled, almost doubled, if not doubled, the tool room capacity, where we used to make 4 to 5 molds a month, it will enhanced to 7 to 8 molds a month starting by January '23. So, these plans are all keeping us very busy, but we foresee that these kinds of investments are required to meet the growing demand for our products.

So, now I leave the floor open for question and answers. Back to the coordinator.

Moderator:

Thank you. We will now begin the question-and-answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, you are super genius. One my request kindly preserve money for expansion in CAPEX and do not give big dividend because the equity raising cost is too much high in compared to giving the dividend. You have raised the equity by QIB and that is our costlier impact on the company and shareholders need to pay taxes on that. So, our request, please preserve the money for CAPEX expansion in the company.

And sir, now much will be net profit in quarter 1 due to increase in raw material. How much will be net profit rise due to raw material increase or finish cost increase in quarter 1?

Lakshmana Janumahanti: See, I always told you, raw material price increase or decrease will have only a marginal impact on our profitability because we pass on the raw material impact on a monthly basis or on a quarterly basis to our clients. So, whatever is in the Q4 raw material average price will be applied while invoicing in the Q1 of this year. Sometimes, April pricing is applied in May, May pricing is applied to June, depending upon the client relations.

Major clients, it is quarterly. But small and medium-sized clients, it is on a monthly basis. But whenever the price of raw material is going up, we will be bearing for a couple of months or for a month or two, we will be bearing the cost impact. Similarly, when the raw material prices are coming down, we will enjoy the price advantage for a couple of months before passing on to the clients.

So, I would not consider that as a big impact, maybe on average Rs. 1 to Rs. 2 per kg would be the impact while going up. Similarly, Rs. 1 to Rs. 2 advantage when the price is coming down. But this time, the sync is being very high, like raw material price went up from almost Rs. 119 in December or Rs. 116 in January to almost Rs. 139 in April. And then it is now on the down trend, last 2 months from Rs. 133 in April, it is now at around Rs. 121, even Rs. 118 now in July. So, in a downward cycle, we will be gaining a couple of rupees more in the EBITDA. In an upward cycle, we are losing a couple of rupees on the EBITDA.

Ravi Naredi: And one my request, please consider do not raise the equity always.

Lakshmana Janumahanti: No, we will take your advice but we also have our own thought process behind that.

Ravi Naredi: Yes. Thank you.

Moderator: Thank you. Next question is from the line of Omkar Hadkar from Mirabilis Investment Trust. Please go ahead.

Omkar Hadkar: Sir, my question was on the lube segment. I missed your comment. You mentioned some new brand has been introduced. If you can share any experience from an existing plant or any new plant has been introduced? And secondly, I saw in your list of plants in PSUs also in the lube segment. Just wanted to know how is their off-take and how much proportion do they contribute to our lube segment?

Lakshmana Janumahanti: Your first question is not clear, Mr. Omkar. Regarding the PSU, they have started picking up volumes. BPCL is the only company where we have some reasonable numbers. But apart from PSUs, ExxonMobil and generally, all the DEF brands are causing growth in the lube sector. What is your first question?

Omkar Hadkar: Yes. My first question was, you mentioned some new brand has been introduced in the lube side?

Lakshmana Janumahanti: That is a new brand of lubricant companies have introduced about a year ago. And the numbers are shooting up due to various advantages that lube has against ordinary lubricants, especially for some diesel engines and CNG engines. So, that numbers have contributed handsomely in this quarter. We gained major numbers from Gulf, Valvoline, and Shell. These three major companies have adopted our sales, and that is one of the reasons why there is a shoot up in the lubes sales.

Omkar Hadkar: And in terms of the sustainability of these volumes of this new segment, do you foresee this to be a recurring feature?

Lakshmana Janumahanti: Your voice is not very clear. Can you speak loudly?

Omkar Hadkar: Sorry. I was saying what do you foresee in terms of the sustainability of these volumes from this new segment or the new product? Do you think this will continue going forward?

Lakshmana Janumahanti: Yes. Yes, obviously, it will continue. There may be a little dip in the monsoon months for lubricants. But once the brands are there in the market for some particular range of engines, as long as the engines are there, these lubes are required.

Omkar Hadkar: Sir, my second question is on the IBM side, you have mentioned there is a pilot project that has been going. Is it a sizable project because you have mentioned that you are putting up a capacity for 2,000 tons but this pilot project, is it kind of a sizable project? Or is it a small one to begin with?

Lakshmana Janumahanti: No. The pilot project is with a four-mission project, having capacity to produce about 4 crores to 5 crores bottles per annum. And we now have almost 4 crores to 5 crores commitment from one of the OTC products. So, on a value wise that will be in the region of Rs. 8 crores to Rs. 10 crores. So, it is not very small, but at the same time, it is not a huge pilot project.

From this, the next major project at Sultanpur will be having about 4 times capacity to start with, but it can be expanded by adding more and more machines. So, the first pilot project of close to 500 tons per annum would be completely operational from October onwards. That is about 40 tons per month. But that is our first beginning into IBM, and it is a good beginning because right from the day one we will have almost 80% to 90% capacity occupied. And this will give us an opportunity to showcase our abilities in IBM to our existing clients as well as new pharma clients.

But as I explained all the time, pharma will start contributing numbers only from the year 2023-24 because it has lot of same gestation period for clearances, stability tests and other processes. But however, we will continue to take opportunities in food and FMCG and OTC medicines packaging because there the compliances and time taken is much shorter.

Omkar Hadkar: Okay. And sir, my one final question is, you have not mentioned in your presentation also and either on your comments. What is happening on the pump side? I mean you have set up the capacities but the off take was not as per our expectations. So, what is happening there?

Lakshmana Janumahanti: Yes. So, pump side we continue to have average performance only. About 1.5 million to 2 million pumps as against a capacity of about 6 million to 7 million is being engaged. As I told in the last commentary of last quarter also, the beauty of one good thing about this pump division is all the 6 machines that are kept for pump manufacturing can also be used for all of our thin-wall products. So, we are not keeping any of the machines idle. Only part of the investment on the molds which are meant for pumps are only partially utilized to the extent of 20% capacity utilization.

As I explained, Wipro, who has committed us 2.5 million to 3 million pieces per month is presently picking up hardly 700,000 to 800,000, that is 7 lakhs to 8 lakhs pieces a month. And until they setup their plant in Hyderabad, which is postponed to end of this year, their volumes would not pick up. But we are still trying. We are adding small, small clients here and there. And even some export opportunity in Malaysian Wipro, we are exploring. So, we hope that at least next year, it will be above 50% capacity utilization.

Moderator: Thank you. Next question is from the line of Bhargav Buddhadev from Kotak Mutual Funds. Please go ahead.

Bhargav Buddhadev: In the press release, there is a mention about actually major FMCG and food companies opening up the new IML product development activities. Can you elaborate a bit on the statement made in the press release?

Lakshmana Janumahanti: Yes. Companies like HUL, P&G, GSK, Arun Ice Cream, Amul, all these companies were generally out of developing any new concepts of packaging in the last two years because of COVID and uncertainties in the market. So, now we have seen that in the last 3, 4 months, some of them have started releasing their clearances to go ahead with the new product development with IML.

And in fact, three projects are under almost getting ready by September and October. One is almost ready. Others maybe in the end of September will be going commercial, maybe in October it will start commercial supplies. And fourth one is at the final stage that is with again one more MNCs and that may be decided any time now.

So, with these four projects, which I mentioned in the Q4 results had a possibility, but now they are all confirmed and they will be contributing in a full year about Rs. 40 crores in the food and

FMCG segments. But this year, probably around Rs. 20 crores, Rs. 25 crores, we can expect in the remaining 6, 7 months of the year. These projects clearance have been uptime and mold development is going on, and we hope to start supplies some in September and some in October and November onwards.

Bhargav Buddhadev: Secondly, sir, any update on the QR coded IML venture which we were sort of being very optimistic on?

Lakshmana Janumahanti: Sorry, what is that?

Bhargav Buddhadev: Is there any update on the QR-coded IML piece, where we all excited?

Lakshmana Janumahanti: Yes. Yes. On the QR coded IML, now tomorrow, actually, today, our team is with Shell, Bharat Shell. Shell and Valvoline and Gulf are advanced stage. And probably one of them would be introducing very soon is our guess. Castrol is on the little back seat. They are still not allowing people outsiders to come into their plants for trials and setting up systems. But these 3 companies are open, and hopefully, we will have a breakthrough during this quarter.

Bhargav Buddhadev: And no breakthrough with any of these paint companies, right, as of now?

Lakshmana Janumahanti: As of now, actually, we are not only increasing our capacities at Mysore and Vizag meeting Asian Paints, increasing demand. But also, we are in talks with Berger and also other new paint company for creating additional capacities for them in the north. So, if those things happen, the paint industry will continue to give us a good growth. In this quarter, we have seen 43% growth over the Q1 of last year. But Q1 of last year being not a great year. It is still amounts to more than 10% to 12% growth in a normal year.

And this is expected to increase because Asian Paints has asked us to keep our capacity steady from the July, August onwards, and we are almost there, and we hope the numbers of Asian Paints plants at Vizag and Mysore to better perform better starting from August because of the festival season is starting and paint sales peak in October, November, during Diwali. So, generally, companies start building up stocks from August onwards.

Bhargav Buddhadev: And sir, just one clarification. So, in the last call, you had mentioned that there is a pipeline of Rs. 40 crores additional revenue in food and FMCG. So, this particular statement which you give of HUL, GSK, P&G, Arun, Amul looking at developing new packaging? Is that the same part of Rs. 40 crores of revenue, which we were expecting this year additional?

Lakshmana Janumahanti: Yes, they are same. Now they are confirmed. And one additional product is also added, which is under finalization now.

Moderator: Thank you. Next question is from the line of from Hassan M from Liberty Research & Investments. Please go ahead.

Hassan M: I just wanted to understand the perspective on the export business, so how much percentage of total revenue denotes to export business? And with this easing out in freight cost and container issues, are we seeing a substantial increase in export business?

Lakshmana Janumahanti: The export business is looking up, but the freight cost has still not come to the normal level. What used to be about Rs. 1 lakh, let us say, for Dubai or Middle East, is even now at around Rs. 1.8 lakhs per for a 40 feet container which went up to even Rs. 3 lakhs per container. So, it is hardly around Rs. 1.5 crores in this quarter. But going forward, we have 2, 3 major inquiries and sample submissions for actually in the exports to USA for their restaurant packs for the sweet box pack and even for idly dough, for dough packing.

So, these trial orders have been just supplied in the month of June, July. And we hope those numbers will increase considerably in the coming quarter. But we do not expect volumes to shoot up beyond Rs. 10 crores, Rs. 12 crores per annum because of the limitations of the freight.

Hassan M: Okay. Another question is linked to this only. Do you see any major impact of potential recession in euro zone and the U.S. or what you call the mild recession?

Lakshmana Janumahanti: See, as of today, we are dependent only on Indian markets and Indian growth story. And as it is our demand growth is coming mainly from replacement demand, replacement of either glass or sachets or even thin containers, which are being getting banned because of the thickness being very low, containers which are used for curds, onetime used containers are really getting banned.

So, more and more companies are shifting towards IML containers, where we offer the economy, but not as cheap as sachets or those thermoformed cups. But because of this ban on such items, more and more companies are looking at IML packs. If that happens, we can certainly see the IML growth to be robust for the next couple of years also.

Hassan M: Sir, second question is, which are our key raw materials and the sourcing country? So, do we see any disruption going ahead on anything?

Lakshmana Janumahanti: Our main raw material is polypropylene co-polymer. Reliance is our major supplier. A few particular grades, which are required for very thin wall molding, we import from Dubai and Saudi, very little quantities, less than 5%.

Hassan M: So, rest is domestically prepared?

Lakshmana Janumahanti: Yes.

Moderator: Thank you. Next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: What would be our volume growth this quarter?

Lakshmana Janumahanti: This quarter, the volume growth compared to the previous quarter was 51%. Compare to Q4, it is around 8%. Q4 of last year.

Moderator: Thank you. Next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir, what kind of capacity addition are we looking for FY '23 and by the CAPEX of Rs. 125 crores overall? Earlier, we had around 44,000 odd metric tons of capacity, right, by the end of FY '22?

Lakshmana Janumahanti: Yes. We hope the capacity will be expanded to 54,000 tons with this addition because part of the CAPEX is going towards enhancing our tool room, enhancing our label printing and dye cutting and also adding new land at Daman also. So, however, the capacity will go up from 44,000 tons to 54,000 tons by end of this FY.

Hitesh Taunk: Okay. And sir, we have clocked approximately 9,000 metric tons of capacity for this quarter. This is one of the highest. So, can we take kind of this kind of volume going forward for the rest of the year? Or do you see kind of blip in between because of lower demand in the FMCG or any other segments?

Lakshmana Janumahanti: See, typically, the Q1 and Q4, are our best quarters in Mold-Tek because Q2, the monsoon starts heavily, which disrupts transportation and thereby in general consumption patterns and also some of the frozen fruits and ice cream consumptions come down. But again, from Q3, the festival starts, festival season. So, sometimes, if the demand is too good, people will start picking up in Q2 itself, especially paint. But Q3 will be generally reasonably just around above average.

And Q4 will be a really strong finish again because all the public sector and also some of the companies wish to close on a brighter note and the as the summer starts arriving in Feb-March. So, typically, Q1 and Q4 would be really good in terms of volume growth. So, we hope it will average at around 9,000 per quarter.

Hitesh Taunk: And sir, my next question will be on the gross margin front. Though on a per kg basis, we have improved on a Q-on-Q basis. But sir, I mean, despite having a significant growth in the FMCG business and the customer additions, is it a kind of level do we maintain going forward? Or do we see kind of improvement in this going forward?

Lakshmana Janumahanti: Yes, I explained in my first question and answer to my first question, the raw material prices are now started coming down from May onwards. June also better. July, it is come down comfortably. And if the same trend goes for the next couple of months, the EBITDA margins will improve because as I said, there is a lag effect of about 2 to 3 months. So, whatever is while the prices are going up, we end up supporting our clients because whatever materials we purchase in that month, we will be still pricing 2 months behind.

Similarly, going forward, when the price is coming down, we will be able to command the same price levels for a couple of months, which is now happening. So, hopefully, it will at least stay

around 42, 43 if things go as per plans, if not worse. Last year, we ended up with 41.8 for the 12 months. So, this year, probably we can aim around 43.

Hitesh Taunk: And sir, can you give us the volume breakup for segment wise, sir? And revenue also if possible?

Lakshmana Janumahanti: Yes, the volume breakup paints is around 49% -- sorry, in the terms of kgs. Paint is 53%. Lube is 29%. Food and cube pack together is around 18.2%.

Hitesh Taunk: The volumes, sir, right?

Lakshmana Janumahanti: It is a volume.

Hitesh Taunk: And about value, sir?

Lakshmana Janumahanti: In the value, paint is 49%, lube is 26.5% and 25.5% is food and cube pack.

Moderator: Thank you. Next question is from the line of from Rahul Maheshwari Ambit AMC. Please go ahead.

Rahul Maheshwari: Just two questions. Can you give just now in the previous question you answered about how lag is the pass-through that takes place? Can you give us an example like HUL, which is one of your FMCG customer. So, whenever they order for the next repeated purchase, what is the pricing that is getting passed on or sometimes when the prices are going up, how much hit do you take and how much price frequent time frequency you pass it on? That is the first question.

Lakshmana Janumahanti: There is a break in your voice, Rahul?

Rahul Maheshwari: Can you tell the time frequency of passing on to the price?

Lakshmana Janumahanti: Most of the clients, it is quarterly or monthly. That means some clients like HUL is quarterly. Asian Paints is quarterly. Arun is monthly. So, like that Amul is monthly. So, we have different arrangements with the different clients. And whatever is the price of, let's say, April 1st, will be applicable for one of the clients in May. And for 3 months clients, whatever the average of Jan, Feb, March will be applicable for April, May, June. So, that is how we have agreements with several clients.

Small and medium clients, we do not pass on this kind of thing. We generally tend to take the immediate price rise. So, there, we don't lose anything when prices are going up. But many of our clients, let's say, who contribute to 90% of a sale, they are under either 1-month or 3-month average. So, for example, if Jan, Feb, March average price is around Rs. 125, in the month of March, it went up to Rs. 140. So, whatever material we buy even at Rs. 140, we supply to them at Rs. 125. But same count, the average of Jan, Feb, March is Rs. 125, April, May, June is, let's say, Rs. 120, we continue to charge them Rs. 125 only for 3 months.

And next 3 months, now that is July, August, September, now the prices are around Rs. 115, Rs. 112, so let's say, these 3 months, the price goes at a Rs. 112, but we'll still be charging them at Rs. 120, which is average of April, May, June. So, that way, when a downward trend, we gain. In an upward trend, we lose a bit. So, similarly, it will get nullified over a period of time. I hope you understand it.

Rahul Maheshwari: Yes. And which are the segments where on a monthly basis. Are you told for quarterlies for paints, HUL, etc., but for monthly, which are the...

Lakshmana Janumahanti: No, it is not for paint. For some clients in the paint segments. For Nerolac, Berger, Exxon Mobil they're still under one month only. Only for Asian Paints, it's quarterly. In the other FMCG, HUL is quarterly, Cadbury is quarterly, but other clients like Arun and Amul is monthly. So, it is different depending upon their purchase formula and our comfort with them. So, we offer either one month or three months average.

Rahul Maheshwari: As you said, sir, in the injection blow molding already you have received an OTC order from the FMCG company. So, in case, if that, the capacity gets utilized in the next 2, 3 quarters, in case you have to do brownfield expansion, work further CAPEX that will be required? Because as we are seeing the kind of enquiries, as you said, in every year or 9-month time period, you might go for a CAPEX in a few of the plants wherever it has been required. So, can you throw some light on the CAPEX part, brownfield, how much it can be acquired?

Lakshmana Janumahanti: Yes. Now Sultanpur project, which is basically we are major investment is on the land and building, mainly building because it requires a pharmaceutical qualification of hygiene and cleanliness. That plant will be ready by November, December, or max by January. And there we will be starting not only pharmaceutical, IBM products, but also cosmetics, OTC counter products, for example, I am telling, it is not that we have orders. For example, Ponds, Vasoline, Amrutanjan, Zandu Balm all these products are nowadays coming in IBM. Earlier, the technology used was EBM. EBM means Extrusion Blow Molding, which is a cheap technology and the product finish is always compromised.

In IBM, you get the beauty of injection molding and accuracy of injection molding at the same time, low weight, and reasonable pricing of blow molding. So, with this technology getting more and more prevalent, we have decided to enter into IBM last year. And this pilot plant is getting filled with one order itself. But again, in Sultanpur by end of December or January, we'll be adding another 8 machines. So, if the 4 machines are now getting busy, 8 more machines will be added. And the Sultanpur plant is built to house up to 20, 25 machines.

The beauty of our packaging line is we can always adopt and change gears from one to other, like say, from pharmaceutical, even the capacities are created by pharma. And if the pharma companies are taking longer time to give us clearances, instead of keeping the machines idle, we can run cosmetic products on it, or OTC medicine products on it or even food or IBM products on it.

So, as, and when the pharma demand increases, we convert the whole thing into pharma and set up a special area or special machinery for cosmetics and other products, thereby will be effectively utilizing the capacity rather than create capacity and idle that for longer periods.

Rahul Maheshwari: But except Sultanpur none of the facilities are fungible, as you mentioned, which can shift from pharma to cosmetics, et cetera?

Lakshmana Janumahanti: See, even in injection molding, all the machines are fungible. Only molds become unique and typically, in a project cost of Rs. 20 crores, mold will be hardly Rs. 10 crores to Rs. 12 crores. Even in the pumps case, which the other gentleman was asking, in the overall project of Rs. 12 crores, molds was around Rs. 2 crores. So, 10% to 15% of the cost is not so fungible, whereas the remaining 85% of the project, including land, building, and machinery and ancillaries, they are all fungible.

Rahul Maheshwari: And just last question. On a blended EBITDA per kg it is on a rise, but can you give the difference between the paint versus the food and FMCG. Not an absolute number, but how much difference can be there?

Lakshmana Janumahanti: Yes, I can't give absolute numbers for our own business reasons.

Rahul Maheshwari: Percentage, if you can?

Lakshmana Janumahanti: Yes, I'll just give you a rough idea. In paint and lubes, if the range is somewhere around 30 to 40, but depending upon the client and depending upon their volumes. Food and FMCG is somewhere around 80, 90. And in IBM ordinary products, it is again in the same range 80 to 100. But in pharmaceutical IBM, the range could be as high as Rs. 180 to Rs. 200 per kg.

Rahul Maheshwari: And this digital IML, how much it can add to? I know it's into the trial phase for paint or lubricant, but how much more it can add value to the EBITDA per kg?

Lakshmana Janumahanti: See, actually, we are waiting for the critical client entry into this because QR code is still not fully understood by even big companies in our country. Some of them which understood have to go through not only changes and modifications on their filling lines, but also they have to add on their websites and ERP, some additional software features to effectively get the benefits of QR code. So, they not only need clearances from the production side, but also from their IT and marketing functions.

That is what is taking longer time, but all of them are excited about the prospect and the benefits what it derives. But until last year or beginning of this year, it was COVID. And now one by one, people are coming forward and opening up to that idea. And I'm sure once it happens, probably now I don't want to give you time, but whenever it happens, it will certainly lead to a lot of companies shifting to QR codes because of the share benefits it offers.

Rahul Maheshwari: How much accretion it can happen in case if it goes from a normal IML to digital IML?

Lakshmana Janumahanti: See, I'm more than happy even if 10% to 20% accretion comes through the QR code. But timelines, I don't want to guess now because as somebody commented, we have been thinking that will be a game changer. But timewise, I don't want to guess. But once it is getting adapted in few big companies, it will certainly move faster.

Moderator: Thank you. Next question is from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: My first question is on the food and FMCG segment. If I look at last 3 years, right, our contribution from F&F is in the range of 23% to 25%. So, are there any specific challenges in F&F business where we couldn't get a sizable or scalable client, the way we have done in paints, like for example, Asian Paints like 25% of our total sales. Is it something has to do with the industry? Or are there any specific challenges why we couldn't scale up in F&F till last three years?

Lakshmana Janumahanti: We are growing rapidly in Food and FMCG. Last year, it was 52% growth. And this quarter, it is 54% Q1-on-Q1. But anyway, this quarter is not a correct quarter to judge because of the previous year's impact. But even the last 12 months ending March, we ended up with 52% growth in the food and FMCG. One reason why the overall number look only grown by around 25% last year was the drop in our Q-packs sales, that is edible oil in sales. Edible oil packs have come down considerably last year. Because that industry has faced tremendous price increase in their basic material that is crude oil, palm oil or whatever they import. And that has been really eased out in the last month.

So, we see the edible oil companies, which have discontinued our spare bags to save costs are coming back to our bags because the looks of the pack and the branding has been established in the market, but they are forced to withdraw because of fuel cost considerations. And now that the crude palm oil have fallen drastically, they are again looking back at our packs, and I hope in this festive season, the Qpack numbers will shoot up.

One good thing here to note is while our Qpack numbers for last full year, it was around Rs. 40 crores, where contributed 85% by edible oil. This year, they are less than 35%. So, new applications of our square packs or Qpacks we call them, are increasing, let it be protein powder, detergent, or tea or recently cashew nuts and various other food products, even sweets, they are adopting. Even some of their products new trends, micronutrients, aquaculture food, that is getting packed in square packs because they give excellent tamper-evident feature and a very easy to remove pack, at the same time, excellent tamper evidence.

So, many other applications are centered out of this current year in the first quarter, though we did around Rs. 10 crores. Out of that, almost Rs. 7.5 crores to Rs. 8 crores is from other applications than edible oil. Earlier, edible oil used to be 75%. Other applicants are hardly 20%. So, more and more products are adopting our Qpacks. And once the edible oil industry stabilizes this number also can shoot up

Then the overall food and pack together will be sizable, better than 24, 23, which is now currently both of them put together are around 25%. They can even go up to 30%.

But again, I want to remind you, our other segments like paint is also growing rapidly. If it is stagnated or growing only at 8% to 10%, the growth would have been considerable in food and FMCG in the overall pie. But last year, in the plant, we have grown by 34%. So, that base is also increasing. That is why as a percentage food and FMCG still looks around 24%, 25%, but the basic number is also growing.

Akhil Parekh: My question was more from is there hope for further improvement in EBITDA per kg because given that FNS is almost Rs. 80 to Rs. 90 per kg. So, that can happen only obviously, our food and FMCG contribution tends to probably move from say 25% to 30% or 35%?

Lakshmana Janumahanti: I agree with you. The EBITDA margins will improve faster if food and FMCG or tomorrow our IBM, especially pharma, IBM sales start picking up. Faster than other segments.

Akhil Parekh: So, would you be able to mention our top 5 plan and probably what roughly they contribute to our total sale?

Lakshmana Janumahanti: Yes. Top 5 contribute almost 60% to 65% or even 70% of our sales, 65% you can say. Asian Paints is the number one. And then we have Castrol. We have Arun Ice Cream. Amul may not be in the fifth it may be sixth or seventh and then we have Cadbury. Hindustan Unilever, sorry. Hindustan Unilever would be the second because now our relationship Hindustan Unilever has increased in many products, and we are adding actually some more products in this year. Hindustan Unilever will be our number 2 client and followed by Castrol, Cadbury. Amul, Hatson.

Akhil Parekh: IML, non-IML volume value contribution for the quarter?

Lakshmana Janumahanti: See, IML, as I told in the last quarter also. Now it is more or less stagnating. IML and HUL together, we are around 66%, which was 63% in the Q1 last year. And last year, full 12 months, it was 65.28%. So, it is more or less at the same level, unless a major shift happens in paint companies in our country, this number will now stagnate around maybe 65% and it can at the most can go up to 70% in next couple of years.

But again, we are adding IBM products, which are non-IML as of today. So, that will stagnate somewhere around 65% to 70% is my guess. Unless a major shift is taken by a company like Asian Paints or who contribute sizable to our sales, this number cannot move much.

Akhil Parekh: 66% in value terms, right?

Lakshmana Janumahanti: Yes, 66% in value term. 61.8% in quantity.

- Akhil Parekh:** Last question on the CAPEX, right, we have got Rs. 250 crores of CAPEX kind of for the next 2 years. At peak utilization, how much of sales this total CAPEX can or capacity can kind of deliver?
- Lakshmana Janumahanti:** See, as of today, as I said, from 44,000 tons, we are coming to 54,000 tons. But the next growth of another Rs. 125 crores investment can take it beyond Rs. 70 crores, 70,000 tons is my guess because this time, we are investing again on tool room and the label manufacturing, more than Rs. 25 crores on that, which will be not directly contributing towards the capacity indirectly though it is contributing. So, next Rs. 125 crores can add another 15,000 to 16,000 tons. So, probably from 54, we may hit 70,000 tons.
- Akhil Parekh:** I was asking from a sales perspective, how much of sales we can put up from 54,000 tons and at 70,000 tons?
- Lakshmana Janumahanti:** Yes. Sales means our average sale price today is around Rs. 230 per kg. So, even if you take at the same 230, the capacity at 70,000 tons will be something around Rs. 1,600 crores. But assuming 80% max capacity up to Rs. 1,200 crores to Rs. 1,250 crores turnover is possible.
- Moderator:** Thank you. Next question is from the line of Karan Bhatelia from Mastek. Please go ahead.
- Karan Bhatelia:** So, you mentioned last time that we started to supply our dispensing pumps to Himalaya brand. So, how much you are shipping out there?
- Lakshmana Janumahanti:** No, not much is going to Himalaya. They were still asking some changes and adopting the new pack design they are coming out with. So, the volumes are now not much. Our main suppliers are going to Wipro and another 4, 5 cosmetic companies in Bombay and neighboring areas.
- Karan Bhatelia:** Okay. And sir, what kind of capacity expansion are we looking at for the Asian Paints plants in Mysore and Vizag?
- Lakshmana Janumahanti:** Mysore and Vizag, we are expanding from around 3,500 tons. Already, we have expanded in last year and kept 5,400 tons per annum at Vizag and 4,000 at Mysore, and 4,800 at Vizag. This will be, again, added probably to 6,300 and 6,000, respectively, by end of this year or probably in August, September itself. Some more machines are arriving. These are brownfield expansion. We'll be adding only machineries, not even molds, not even land and building. Building was already built last year to accommodate this expansion and molds and others are already there. So, these two expansions will go on by August itself.
- Karan Bhatelia:** Any update on the Sippers?
- Lakshmana Janumahanti:** Sippers, we are now bringing in some couple of them, but none of the major brands have given their approvals. So, we are also waiting on their wings. The moment any of these brands are interested, we want to launch that.

Moderator: Thank you. Last question is from the line of Namish Gupta, an individual investor. Please go ahead.

Namish Gupta: So, I just want to understand our products. I do not have any questions. So, what is this IBM, EBM and EML? Actually, I have tried to understand but couldn't sir. So, if you can just tide me in your lament like what is the broader difference in these things?

Lakshmana Janumahanti: Yes. See, injection molding is a process where containers without neck, that is a big container like a paint container or a packs, these are all made of injection molding process. There, the mold cost is very high. For example, a 20-liter mold cost for jar and cap will be more than Rs. 1 crores, the mold itself. So, once the mode is made, you can only make that shape, you can't make any other shape. So, investment in injection molding is very high, but you get very good accuracy.

Coming to EBM, that is extrusion blow molding, all your shampoo bottles, all your liquid edible oil packs of 1-liter and 2-liter rail, you have a handle and you have a small neck, these are all made of extrusion blow molding. Here, the mold cost is very low, like, say, Rs. 5 lakhs to Rs. 10 lakhs. And the dimensional accuracy is also very pretty low, but you get different shapes, variety of shapes you can make in that. So, products like shampoos and edible oil where more than the utility and finish, they look at economics. So, they go for extrusion blow molding.

The technology between injection molding and EBM is called IBM, that is injection blow molding. In this, the neck part is made of injection molding. And the body part is blown by blow molding process. So, the technology is in between IM and EBM. It gives both the advantages, accuracy of the neck for good capping and tamper evidence and light weight of blow molding because it is blown into a kind of a balloon, the body of the bottle is lighter than a container. So, you get the advantages of EBM and also advance of IM. That's why most of this. But there is a limitation. You can't make this beyond 1 liter size. Less than 0.5 liter is more typical, maximum 1 liter.

So, 100 grams, 50 grams, 200 grams, 300 grams, 600 grams tablet containers, pastes, some Vasolines, cosmetics, all these kind of products are used in IBM technology. Because there, you want a good finish, you want accurate capping and also average pricing. So, that is where IBM comes in. So, cosmetics, food and FMCG and products of pharmaceutical tablets and powders, they all adopt IBM technology. That is where our company is entering. We are leaders in injection molding for last 30 years. And today, we are entering into IBM.

And EBM is a little phasing out of these kind of products because of its not so good looks and very bad dimensional accuracy. So, EBM is still there for bigger containers of 1-liter oil, 2-liter oil or some of the shampoo bottles are still in EBM. They continue to be in EBM because beyond the half liter, or 0.8-liter, IBM technology is not still available. So, anything above 0.8 liter or 1 liter, they still have to go with EBM technology. That is basically the three varieties of packaging.

Namish Gupta: And sir, one more thing. And what is this IML labels?

Lakshmana Janumahanti: IML label, that is in mold labels. IML means in mold labels. That is a label made premanufactured and by robotics, the label is kept inside the mold by a Robot. And then melt and plastics in a liquid form goes into the mold and it fuses the label to the body. And when the bottle or when the container is taken out, the label is already fused, so the decoration is completed. So, there is no need to do any post operational stickering or printing on the container. So, that is the most advanced technology using robots. We are the first people to bring it to India more than 10 years ago.

Namish Gupta: Okay. So, I mean you mean to say, once you have done this IML label, the manufacturer just has to, I mean, since their material in it and nothing else. No stickering nothing else, correct?

Lakshmana Janumahanti: Nothing. And it looks permanently stuck to that, and it looks multicolor printing of world-class finish.

Namish Gupta: Okay. And sir, this QR coding can be done in IML and IBM both or just in IML?

Lakshmana Janumahanti: No, it is done only on IML. IML can be used in IBM also. So, the term is on the IML itself, not on the bottle.

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Lakshmana Janumahanti: Thanks, everybody, for participating in the conference and making it successful. Thanks to Nirmal Bang, in particular. Thanks, Abhishek, and thanks coordinators for your patience. Thank you very much. Have a good day. Bye.

Moderator: Thank you. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.