

Mold-Tek Packaging Limited

Q3FY17 Conference Call Transcript

Moderator:

Ladies and gentlemen, good day and welcome to the Q3 FY17 Results Conference Call of Mold-Tek Packaging Limited hosted by Emkay Global Financial Services. We have with us today Mr. J. Laxman Rao - 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 after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Amar Mourya of Emkay Global. Thank you and over to you Sir!

Amar Mourya:

Good evening everyone. We would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. J. Laxman Rao. Over to you Sir!

J. Laxman Rao:

Good afternoon gentlemen and ladies. Thank you very much for showing interest in attending our conference call on Q3 results. I am glad to inform you that in spite of steep drop in demand during the November and December month due to demonetization impact, our company could still post reasonable results for the quarter ending December. For the quarter, the sales have in fact declined vert marginally in volume terms about 2%, but profits also dropped by about 8% from Rs.6.01 Crores in the last Q3 to 5.55, earnings at 2.01 as against 2.17 last year. The sudden impact of demonetization in the month of November especially it was felt very much deeply in December from both our main segments that is paint and lubricants have impacted the growth, which we have consistently shown in previous Q1 and Q2 quarters. In fact in Q1 and Q2 we had a robust growth of 20% plus. Due to the small drop in this Q3, the overall average for the nine-month stands at around 16.5% in production terms in terms of kgs. So still it is a healthy growth for this nine month, but it could have been better had there been no such impact of demonetization. Coming to the other areas where the company has taken foray is RAK plant has started commercial production from mid of November, slowly many orders are being received from paint, lube, and even dairy industry in Middle East and we are also in a discussion with one FMCG company for the hair creams and other containers which are conceivably huge in volumes. Going forward I am confident RAK will start contributing maybe from first quarter of next financial year. In this quarter of January, February, March also, the numbers are improving, but I guess we would be able to breakeven starting from first or second quarter of next financial year in RAK. So having said that on the other positive side, we are receiving overwhelming response from the food and FMCG industry, where we are now developing a product for Cadbury's that is Mondelēz and we also already put in Proctor & Gamble's Ariel pack in the market which has received very good response and repeat orders are coming from Proctor & Gamble. So these small additions, though they are not fully utilized during the year as they were just started in the last few months in case of Cadbury, a few weeks, but that has impacted and improved our food and FMCG sales from 3.34% last year to almost 7% in this Q3 and I expect with these additions coming into full year impact next year, they themselves can take it above 15% in food and FMCG for the upcoming quarters and years. Apart from that, we are actively pursuing with SmithKline Beecham, Dabur, Patanjali, Levers, Britannia, ITC, and Tata's for various products, hopefully and Haldiram's. So some of them might start happening in this quarter, but for us to make the moulds and robots and put it in action that could take about three to four months. So every quarter, we will be adding couple of clients, couple of products, which would gradually improve our food and FMCG numbers in the coming year itself. On the other side as I already announced, Asian Paint plants, we have

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acquired the land in Vizag and Mysore and those plants have to go in production in June 2018 and October 2018 respectively. We are also in negotiation with another company which I may not be able to completely give you the details to setup another plant for their upcoming paint unit that would also be almost 3000 tonnes capacities similar to what we are setting up at Vizag and Mysore. These are the new developments. With all these new products coming in from food and FMCG, RAK contributing from let say March, April onwards, I see robust growth coming in the coming quarters and for the next financial year and also that will continue the momentum, because from 2018-2019 we will have this plants for Asia paints and other paint company would be going on stream towards middle of next financial year, but for the demonetization, the situation is very much as per our expectations and I foresee good future for company's prospects. With this I conclude my talk on the results and request audience to ask any questions if they have and I once again thank you all for your interest.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Rohit Chabla from Axis Securities. Please go ahead.

Question and Answer Session

Rohit Chabla:

Good afternoon Sir. I wanted to ask some set of questions. Firstly Sir what is the revenue share of IML in this quarter?

J. Laxman Rao:

Revenue share of IML is almost 51.5% as against 48% in the corresponding quarter last year.

Rohit Chabla:

What do you expect how long the demonetization effects will be there, so this quarter also demonetization effects will be there or...?

J. Laxman Rao:

We noticed in January the demonetization impact has toned down a lot. It is back to normal. Our production level and the demand level was what it was in the year 2016 January, so that means we are back to normal, no growth, but no decline also. In February, we are noticing little better numbers coming in because of the new products in food and FMCG and March also looks positive, so fourth quarter would not be as bad as third quarter I guess it would be reasonably better than third quarter.

Rohit Chabla:

Okay and what would be the capacity utilization overall?

J. Laxman Rao:

As I told you capacity utilization is something which is very tricky in injection moulding, but we have done about 14000 tonnes so far in the seven months that is around 71% of the capacity utilization and RAK is negligible, so I am not counting RAK in it, so 71% to 72% is the capacity utilization.

Rohit Chabla:

Okay Sir. If I have more questions I will come back in the queue Sir.

Moderator:

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

Pragya Vishwakarma:

Sir can you tell me what was the volume number for third quarter?

J. Laxman Rao:

You mean in terms of sales in kgs or tonnes?

Pragya Vishwakarma:

Yes.

J. Laxman Rao:

Third quarter we did about 4140 tonnes as against 4235 tonnes in the Q3 last year.

Pragya Vishwakarma:

For the nine months what is the IML share in the overall?

J. Laxman Rao:

For the nine months IML share is around 47.3 as against 42.8 of the corresponding period last year.

Pragya Vishwakarma:

Is it possible for you right now throw some light on I think in the last con call you spoke about some technology which you would be thinking about that will be replacing glass in the FMCG industry, I think oxygen-barrier IML?

J. Laxman Rao:

Yes. We are working on it. We are not yet really got into it, because now more focus is on demand coming from various food and FMCG for the regular IML itself and everybody want exclusive shapes and exclusive containers, they do not want to have the regular run of the mill, so even we are in talks with Levers for their Vaseline, Vaseline for P&G, and then Horlicks for SmithKline Beecham, so when these major projects are happening that product of replacement of Glass is a little on the back burner, but we have got continual on the technology now but probably next year we will be concentrating on it.

Pragya Vishwakarma:

For the next two years, what would be your key drivers in terms of volume and revenue? Will it be the FMCG share going up and RAK coming up to the expectations, if you can just throw some light on that?

J. Laxman Rao:

RAK will be completely IML. There we are not planning to have any screen printing at all. There is no facility also. So whatever numbers hopefully we will be hitting around Rs.25 Crores to Rs.30 Crores turnover at least in the year one, so that means almost 9% to 10% addition would come directly to the IML sales from the RAK, whatever is RAK and as I already indicated to you the food and FMCG which was for the full year last year hovered around 5.6% should go up to 15% to 18% this year. So that is another direct contribution or addition to the sale. So with these two itself, I could see a kind of 18% to 20% volume growth for the next financial year, assuming that demonetization impact continuous and it stagnates Indian economy to major extent. If it is not, then things can be better. So let us look at least 18%, 20% volume growth for the next financial year.

Pragya Vishwakarma:

My last question is, is it possible for you to give some guidance on what kind of revenue we can generate from the Asian Paints plants I mean the setup, which we are going...?

J. Laxman Rao:

In 2018-2019? In this year there is nothing going to add. Next year I guess the Mysore plant might run six months in a production mould and Vizag plant might run hardly two, three months because by October when we start, the real commercial production might get in from January. Similarly the Mysore unit in June might get into commercial production from September. So I am presuming there will be just on average three to four months operations in these two plants. So each plant is about 3000 tonnes, so 6000 tonnes and that is for one-third of year, so hardly 2000 and assuming 1000 tonnes just 4% to 5% volume growth might come through Asian Paints in 2018-2019. But 2019-2020, it will be very sizeable, because they will definitely lift at least 5000 to 6000 tonnes that itself would be something like 20%, 25% growth in that year that is 2019-2020. As per their projection, by 2021-2022 they would be doubling their input from us that means instead of 5000, 6000 tonnes it could even go up to 12000 tonnes and third plant which I cannot confirm because it still in negotiation that is for a different client. If that happens, that will also be similar to one of these plants. So from 2018-2019, the growth will again shoot up from the pail business.

Pragya Vishwakarma:

And the 6000 tonnes what can be the revenue generation from this?

J. Laxman Rao:

Our average you can see is around Rs.180 per kg or Rs.180,000 lakh x 60, you can say Rs.120 Crores.

Pragya Vishwakarma:

Thank you. That is it from my side.

Moderator:

Thank you. The next question is from the line of Ankit Gor from Systematix Shares and Stocks. Please go ahead.

Ankit Gor:

Hi Sir, good evening. Thanks for the opportunity. My question is more related to just wanted to understand the paint industry, just wanted to understand Sir, how many months inventory these guys keep if we do not have plant nearby there facility first question. In that case, if the plant is so far from their facility then what is the inventory, they keep on a monthly basis or quarterly basis?

J. Laxman Rao:

The inventory levels at all the paint industries differ from product to product, but if you take the pails nobody wants to have pails occupying their stores. Unfortunately they can afford to not to have pails because especially the one and four liters which are not nestable, they occupy huge space and the volume what we supply for example, in Satara, our share of supply to Asian Paints alone is around 7 lakh to 8 lakh pieces a month and that occupies even any volume of godowns you have, you will not be able to stock them for more than a week and they have more than 20, 25 SKUs varieties, so they need to have 25 varieties and sometimes based on the demand and call ups, they have of course a production plan. So they will be giving us call ups and they expect the delivery within two to three days. So closer the plant, it is better for them especially for companies like Asian Paints and Berger who are big and AkzoNobel. So these companies prefer to have suppliers close by to minimize their inventory, to interact closely with their production planning department, so that next one week what are all the brands they want, what are all the sizes they want. 25 SKUs x four sizes, you are talking about 100.

Moderator:

Sorry to interrupt Mr. Rao. You are not sounding clear to us. Can you come a little more closer to the mike?

J. Laxman Rao:

Okay. Inventory of pail is always say a tricky thing for the companies with huge capacities and they prefer to have supplier base close to them with an assured business and better terms.

Ankit Gor:

My reason behind asking is because majority of paint companies like Asian Paints or Berger Paints, they have not seen or registered so much decline in this quarter in Q3, while we must have dipped, just my guess correct me if I am wrong, more than 10% in paint itself Y-o-Y, so what is the difference, where my understanding goes wrong, because most of these paint companies have not declined so much in terms of volumes, so...?

J. Laxman Rao:

The point here you have to take is the supply chain for paint industry is long. The moment let us say demonetization impact came in middle of November by then the sale what they book in the quarter would have been majority completed. You may see some flake in January because of December reduction in production. Our numbers are related to production, not the supply or the pickup in the market. So they also would have suffered pickup in the market in December and that is why they dropped production in December, the drop is very sizeable in December. So it cannot be avoided probably it come through in January.

Ankit Gor:

Sir, my question with regards to Q4 FY2017, what kind of volume growth we are seeing though it is just coming out of the woods what could that number be in volume growth in Q4?

J. Laxman Rao:

I would be happy if we can hit double digit, but I think we will be somewhere between 5% to 8% pail products.

Ankit Gor:

In that terms full year we should be hitting anything between 12% to 15%?

J. Laxman Rao:

Must, 12% you can say. We are now 13.54 on volume I saw production 16 but sale is 13.54 is growth, so hoping this fourth quarter we end up 7%, 9% it may dip to around 12%.

Ankit Gor:

Just to confirm that number you said in nine months what was the production number Sir in tonnage?

J. Laxman Rao:

Production is 16.5, sale is 13.5 because in the month December as I told you movement of goods has come down considerably. So, there is a gap between production and sales, but it is better in January and it is found to be better than February last year, so we are hoping on February and March to give us at least 5% to 8% growth in this quarter.

Ankit Gor:

Looks great Sir. Last question with regards to new paint company for which we are going to set up a plant, will it be IML or mixture of both?

J. Laxman Rao:

We are in talk to convince them for 100% IML, they are more or less in tune with that, but more details I will be able to give in the month of March or April.

Ankit Gor:

Thanks a lot Sir. Thank you very much.

Moderator:

Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak:

Good afternoon Sir. Could you just repeat in absolute terms what is the volume for this quarter for the nine months base?

J. Laxman Rao:

For this quarter, the volume of pail is 4140 tonnes and for the nine months, it is close to 14,000 tonnes

Kamlesh Kotak:

What would be the same figure, same period last year, three months?

J. Laxman Rao:

Last year for Q3 it was 4235 that is about 2.5% more last year, but overall nine month is 12320, from 12320 we grew to 14000.

Kamlesh Kotak:

Could you also repeat breakup in terms of the paint volumes and lubricants and food and FMCG if you can?

J. Laxman Rao:

The percentage has come down and changing. Paint has fallen from 66.9 last year to 57.6 and lubes have gone up as I told you we received now shift in IML by Shell and Gulf and other brands and also public sector adding HPCL and IOCL has resulted in huge numbers going up, so 28.48% last year has become 35.3. Food and FMCG, which was 4.61, I am talking about Q3 to Q3, has become 7.1.

Kamlesh Kotak:

Do you also have the percentage for the nine months?

J. Laxman Rao:

For the nine months, the 64% of paint has become 61.8%, lubes 32% has become 33% and food 3.3 become 5.25.

Kamlesh Kotak:

That is useful. Secondly Sir how much is the production at our RAK plant as of now?

J. Laxman Rao:

It is hardly anything till December, but in January, we are hoping to process at least 50, 60 tonnes and maybe 100 tonnes in February per month and may be close to 75, 80 tonnes in March and more than 100 tonnes starting from April that is indicative demand what we have and we are getting clearances from the diaries, because all the diaries they have to come and visit our quality control department and they themselves openly said our plant looks better than their current suppliers in terms of hygiene and in terms of controls and IML facilities. So Marmum, Al Ain and another three companies in diaries have given clearance, couple of paint companies have given of course they have not much audits, but they also cleared. So slowly their pickup coming in the dairy industry, which we hope by April, will be reasonable in numbers.

Kamlesh Kotak:

So the largest market would be what dairy?

J. Laxman Rao:

Both paint, lube, and food industry moved in effectively.

Kamlesh Kotak:

Currently there must be sourcing from where they had local supplies for sourcing?

J. Laxman Rao:

There are one or two local suppliers with few robotic facilities, but majority are still coming from Turkey and Saudi.

Kamlesh Kotak:

Then we also would be cost competitive vis-à-vis the competition?

J. Laxman Rao:

Yes, we are.

Kamlesh Kotak:

You said about two upcoming plants. What is the investment that we are lining up for the same?

J. Laxman Rao:

I already mentioned to you each plant would be in the region of Rs.15 Crores to Rs.18 Crores in the first phase for 3000 to 3500 tonnes per year which we need to double in three years, so hopefully another Rs.10 Crores each needed in the three years or so that is in the year 2021 and 2022, so in the 2018-2019 already we invested on the land this year about Rs.6 Crores on both the plants we acquired five plus three eight acres of land at Mysore and Vizag and now the construction activity would start from June, July.

Kamlesh Kotak:

So Rs.6 Crores put together for the two plants?

J. Laxman Rao:

Put together, so investment would be another Rs.24 Crores, so we can say Rs.24 Crores to Rs.26 Crores, around Rs.30 Crores to Rs.35 Crores should be invested by middle of next financial year.

Kamlesh Kotak:

How much did we spend this year till now nine months total capex including these two plants?

J. Laxman Rao:

Our capex this year is we had a lot of other products like RAK part of it, so all that put together it is around Rs.22 Crores so far in the nine months.

Kamlesh Kotak:

So how much more to going this quarter?

J. Laxman Rao:

In this quarter, now we are expanding our facility in unit one in Hyderabad, we are still completing the tool room building which we are shifting our tool room into the city. So that we may have to send another Rs.3 Crores to Rs.4 Crores. So we end up this year with 26, 27.

Kamlesh Kotak:

And that would take our capacity to what?

J. Laxman Rao:

In this capacity expansion is only in the Cadbury's facility. The rest is all more of buildings and land and what will be 30000, may become 31,000, 32,000.

Kamlesh Kotak:

So that Cadbury facility is in which location Sir?

J. Laxman Rao:

Unit one, Hyderabad, already started, but new building is coming up where we will be shifting the machinery after three months.

Kamlesh Kotak:

Great Sir. That is useful. Thank you very much.

Moderator:

Thank you. The next question is from the line of Aman Bij from Astute Investments. Please go ahead.

Aman Bij:

Good evening Sir. I have two questions. First on the basically if you can throw some more light on the industry size as well as what was the industry growth for nine months and who are the other players especially unlisted players in this industry?

J. Laxman Rao:

The lines where we are in can be broadly characterized as pails for paint and lubricants and packaging containers for food and FMCG. So as far as the paint and lubricant is concerned, I have been telling you we must be having about 20% of the market share. So Rs.300 Crores 20% is say Rs.1500 Crores from the organized sector. There may be another Rs.500 Crores to Rs.600 Crores of unorganized sector, so the total market size for pails would be in the region of Rs.2200 Crores. In that we have a market share close to Rs.300 Crores and coming to food and FMCG as of today we are nothing, our turnover so far is some Rs.17 Crores last year and probably it would hit Rs.24 Crores, Rs.25 Crores this year, but food and FMCG per se is a very huge market, I do not have proper estimate, but I can easily guess it should be also in the region of Rs.2000 Crores to Rs.3000 Crores and it is more of replacement demand where we will be replacing glass containers, we may be replacing some pouches, we may be replacing cardboards, we may be replacing tin boxes even I was talking about the glass replacement in IML is also possible. So in that sense, I do not have a proper estimate, but food and FMCG together can be much bigger than paint and lubes put together. So our entry is very, very recent in that segment, but the numbers can be really huge.

Aman Bij:

But when we hear about rigid packaging industry we are much bigger, so for us the target size only Rs.2000 Crores for the paint and lubricant and assuming Rs.4000 Crores, Rs.5000 Crores for food and FMCG?

J. Laxman Rao:

Food and FMCG I can never make a real good estimate, because as I said in India due to cost constraints and due to supplier constraints also traditionally rigid packaging in food and FMCG is not very predominant, but with the thrust for take away foods and quick to eat food coming in and consumer is able to pay a little bit more for packaging and to get a good shelf attention and brand image, companies have now started in investing like in foreign countries. If you look at Europe and US, the food and FMCG must be 10 times bigger than paint there because there the foods and on the shelf foods are huge. One day will come in India, here also they demand will go up for these kind of readymade foods, for example, the Poha and Upma, which was in containers with ordinary decoration, now gradually MTR is shifting, another brands are pressed

to shift into IML containers, because that that will served at 88 degrees temperature and at that temperature the decoration should not deform. That will give a bad image of the brand. So they would prefer to have IML which will stick as their skin and it will never come of, so now they have identified and they are able to pay little extra for the IML and Poha and Upma ready to made containers are getting shifted into IML. Like that so many other applications can be envisaged. It is a time for their brands to want to show up in a better way then there will certainly shift to IML. Even we are in talks with Haldirams , the chairman very closely and we are now trying to propose from IML for Haldiram's also, so that could be a new segment altogether and sweets and takeaways.

Aman Bij:

Correct me if I am wrong, flexible will also be strong in food and FMCG?

J. Laxman Rao:

It is already. Flexible is very strong in foot and FMCG mainly because of cost, it offers very low cost and ease of filling lines, so that makes flexible a better choice anyway, but if you want to get out of the crowd and want to stay as a brand image and give convenience to the client/enduser, then you will be going for IML. IML means rigid IML container.

Aman Bij:

As of now, are there any strong unlisted players, because listed we know about in food and...?

J. Laxman Rao:

There are no strong players as such in this because there are a couple of IML players like one in Delhi and one in Baroda or Gujarat somewhere, they are with two, three robots and five, six kinds of standard moulds and they are operating in the small container business, other than that there is no big strong player as of now.

Aman Bij:

My second question is Sir with demonetization plus GST coming in so do you see any consolidation or have you got any offers from says smaller players?

J. Laxman Rao:

As of now there are no offers, but we are open to that and the GST is a good thing for us actually for bigger companies because we will get a level playing ground in different states also. Coming to demonetization it is impact for everybody it is not good for anybody as far as demand is concerned, I am not talking about the good of the nation and other things, it may be good move in that direction, but coming to the industrial growth it definitely put a setback in these couple of months and everybody is guessing this impact might taper off by March, April. So I am also seeing similar trend.

Aman Bij:

That is it from my end. Thank you.

Moderator:

Thank you. We will take the next question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi:

Raw material prices have risen from 71 to 88 in last quarter, now what is the situation in current quarter?

J. Laxman Rao:

Current quarter the raw material prices are now around 90, 91.

Ravi Naredi:

So, it is rising trend?

J. Laxman Rao:

Yes.

Ravi Naredi:

Definitely it will impact our margin?

J. Laxman Rao:

No, it would not impact the margin, as a percentage the EBITDA margins look like less because the overall sale value goes up without much addition increase, so that it might look like less, the correct thing to look at is EBITDA per kg that would give you a better indication.

Ravi Naredi:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah:

What are your margins in FMCG?

J. Laxman Rao:

Sorry.

Ravi Naredi:

What would be your margins in the FMCG business?

J. Laxman Rao:

FMCG and food we always aim at around 22% to 25% EBITDA margins.

Ravi Naredi:

These will be sustainable as such?

J. Laxman Rao:

Yes.

Ravi Naredi:

And now that blend say in the coming year if that shifts to 14%, 15%, so how much would it take our average blended margins?

J. Laxman Rao:

It should improve definitely by at least assuming 7%, 8% better by 10% growth, so 0.6, 0.7 it should improve.

Ravi Naredi:

Okay and second is obviously it is a repetitive question, of the total addressable market that we have you said you have got paints and lubes around 4000 Crores, FMCG would be around, basically taking the total market size say Rs.10,000 Crores. There are only two major players that we have which is ours and say Hitech adding taking it to about say Rs.500 Crores, Rs.600 Crores. So, how would you sort of call the other part of the market, would you call it as unorganized side or how does it function, if you can just give us some idea on that?

J. Laxman Rao:

There are a couple of reasonable big players like Jolly Plastics with about 200 Crores turnover and an unlisted company, Rs.170 Crores, Rs.180 Crores and there are other couple of others which around Rs.70 Crores to Rs.100 Crores turnover also, because as I was explaining regional players also will have a say in the supplies because of the nearness to the plants and we cannot have plants everywhere, so we have plants at all major locations of major clients, but there are medium-size clients who would be glad to have small timer supplying to them with both transport cost saving more than that the inventory control, so there would be some players I can say 5 to 10 players in the region of 30 Crores to 60 Crores turnover.

Ravi Naredi:

But would you still have sizeable unorganized part I do not know if that is a right term, but...?

J. Laxman Rao:

There would be unorganized definitely, there is unorganized paint and lube industry in the country and so there will be unorganized pail suppliers also meeting their demand.

Ravi Naredi:

Fair enough, so for us even if the industry sort of does not grow by big volumes, we could still have a sizeable, we could take up sizeable market shares across these players, the smaller guys as such in terms of pricing?

J. Laxman Rao:

Yes, but that is not our target market actually if you ask me. Going down the unorganized sector would only lead to lower margins and bad debts, all kind of issues, so we have enough on our plate in food and FMCG and the new plants coming up for this paint major, so which itself will be a big thing to pursue. So we would not be going towards unorganized market in a hurry.

Ravi Naredi:

Right and what sort of cost advantage do we have, would it be 5%, 6% at EBITDA level compared to other guys?

J. Laxman Rao:

I cannot say that with Hitech we certainly have some few percentage points better because of our higher productivity and inhouse manufacturing of moulds, labels and even robots, as you know we make our own robots. So that makes our cost structure entirely different from any other packaging company in this country in rigid packaging.

Ravi Naredi:

And technology wise I understand we are fully implicated on the back end, so how are these players like say Jolly Plastics or the other ones that you mentioned?

J. Laxman Rao:

They do not even make their own moulds, so they are dependent on commercial tool rooms for moulds, procurement, so that way technology side I would say at least we are two, three steps far ahead of them.

Ravi Naredi:

Fair enough. That is all from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Ansh Vora from Praj Financial. Please go ahead.

Ansh Vora:

You mentioned that from 2021 Asian Paints will be doubling input from our company. So currently what is the volume we supply to Asian Paints and with further capacity expansion with the two plants suppose say in 2019, what would be the supply at that point of time?

J. Laxman Rao:

I do not have complete details of client wise, but certainly Asian Paints is our major client as of today. They will continue to be so, because of those two plants adding handsomely to the numbers, so whatever I guess it is somewhere around 28% to 30% so that will continue to be there, but other segments are also growing rapidly RAK and food and FMCG, so hopefully they will maintain that or it might improve a little bit to 30, 31 level.

Ansh Vora:

But you were saying that from 2021, they are in talks that they might double the supply?

J. Laxman Rao:

No, it is not might. They have already given us an indication. By 2021, 2022 we have to have double the capacity, so we have to invest in the year 2021; 2018, 2019 will be the year to start with 3000 tonnes each and by 2021, 2022 we should double it that we have.

Ansh Vora:

Both the plants are non-IML right?

J. Laxman Rao:

No, we are pushing them to adopt IML or HTL which is also equivalent of IML to 80% of IML you can say, so they are convinced about HTL to a large extent and they also willing to give us an option to give them IML in place of HTL, so by the time they really start commercial production probably we will be in a position to covert at least a part of their requirements into IML.

Ansh Vora:

That is okay Sir. Sir, Food and FMCG as you said from next year it will be around 17% from 7% currently, so which part currently you said lubes is going good and paint is little bit downward in this quarter, so what would be the mix likely in next couple of years, say paint would be in a declining mode or?

J. Laxman Rao:

No, I do not think the paint will be declining. Paint is basically healthy hit in November and December mainly and January onwards, I am noticing the numbers are back to normal, I would not say growing, but normal. So hopefully the trends will emerge better by March, April. So paint would not be a setback, only for this quarter we had that.

Ansh Vora:

It would be around 50%, 60% in the next couple of years and mix would be the same I mean?

J. Laxman Rao:

Mix will be gradually coming more towards food and FMCG, so probably the 57 what we are seeing might become the norm for the next year which is for nine months we are at 61.8% in paint probably it will dip by 4%, 5%, lube also might dip by 2%, 3% and food will go up by from 6% to maybe 16%, 17% that is a kind of dip, because of the mix is changing, food and FMCG is increasing.

Ansh Vora:

Any contribution from edible oils, any progress on that Sir?

J. Laxman Rao:

Edible oil we have now Bunge and Kamani starting picking up, ITC Agro-Tech again taking small quantities. What they notice is price is a big barrier for them, otherwise as a pack it has been found to be very good that is why ITC again came back and this month we are lifting some small quantity as they are trying again in Andhra Pradesh, which they did some one-year ago. They are again trying, they just want to see there is a push from that, but we are trying that pack for different other applications like packed foods and bulk foods and some of the nutrients and seeds. They are also slowly we are picking up utilization of that moulds capacity.

Ansh Vora:

But not any significant progress on that?

J. Laxman Rao:

Not significant. It is just about Rs.60 lakh, Rs.70 lakh or Rs.5 Crores, Rs.6 Crores per year kind of number what we are saying in this year, hopefully it will be Rs.10 Crores, Rs.15 Crores next year.

Ansh Vora:

Rs.10 Crores to Rs.15 Crores from edible oil you are saying?

J. Laxman Rao:

Not edible oil from the square packs, we call that square packs.

Moderator:

Sorry to interrupt. Participants are waiting for their turn, we request you to return to the question queue. We will take the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia:

Thank you for the opportunity. Fourth quarter of maybe for this year, would you be ending the year with a double-digit volume growth, because the nine months you have done around 10%?

J. Laxman Rao:

Certainly, I do not think we will have a negative growth, it will be positive growth, but may not be very significant, so we should end up somewhere close to 11.5% to 12%.

Dhruv Bhatia:

Okay and Sir secondly what led to other expenses going up significantly because of that EBITDA per kilo is down to Rs.23 versus last year Rs.27?

J. Laxman Rao:

One of the reasons is employee cost going up that we cannot restrict the growth of increments in employees. Second segment is selling admin expenditure a little bit.

Dhruv Bhatia:

Because the other expenses component shows a growth of 32% year-on-year, is it because of RAK capacity or is it something else?

J. Laxman Rao:

RAK capacity underutilization and providing lot of interaction with the RAK, travel to RAK has also impacted some of our expenses going up particularly in the selling and admin side. Some people traveling from RAK frequently, some of the visits are to set the machine, some of the visits are to set the moulds and robots, so certainly in this quarter that activity was on the peak, ever since we started bringing the machines in August, by November that was four months is mainly supporting the RAK efforts.

Dhruv Bhatia:

For next year can we expect Rs.27, Rs.28 per kilo EBITDA?

J. Laxman Rao:

We are aiming Rs.28 let us see how it goes, because food and FMCG is increasing, it should make it possible to arrive at 28, even now for the nine months we have 27.81, so aiming at 28 is not a big deal.

Dhruv Bhatia:

The last question from my side is that with the raw material prices firming up for the consumer companies as well, are you seeing, they being a little hesitant or postponing their movements from normal screen-based painting or to heat printing to IML?

J. Laxman Rao:

At least for these two, three months like November till now, not many people are enthusiastic about increasing their cost, definitely this is not the time to touch them on that, but in food and FMCG when they launch new product or when they want to shift from tin to plastic or from a pouch to plastic or cardboard to plastic those products will not stop. So, there we are finding the traction is still intact.

Dhruv Bhatia:

From screen base to plastic to IML is something that is stopped?

J. Laxman Rao:

That not stopped I would not say in the month of December, no one is in a mood to talk about such cost increase, but that mood I think will reverse from March, April.

Dhruv Bhatia:

Thank you so much Sir.

Moderator:

Thank you. The next question is from the line of Suvarna Joshi from SMC Global. Please go ahead.

Suvarna Joshi:

Thank you for the opportunity. Most of my questions have been answered. Just one quick question. You mentioned that we are in talks with lot of FMCG companies, we are also in talk with Patanjali, so could you just help us to understand that in case are we close to signing up with Patanjali for supplying them pails and if yes then what could be the size of business coming from there?

J. Laxman Rao:

No, we are not very close to that level, we already gave presentation they like couple of our existing products and they also have a couple of projects to give an offer, with Haldiram also we have couple of project and we are at the finalization stage. So at this stage I would not like to speculate on it, but like that there are many other brands, which I indicated to you in my previous answer where we are pursuing with the clients.

Suvarna Joshi:

The second question was with regards to our RAK plants. So what would be the capacity there if I recollect it is about 1500 tonnes in RAK?

J. Laxman Rao:

RAK is close to 2500 to 3000 tonnes.

Suvarna Joshi:

It is 3000 tonnes, of which we will be about in FY2018 we will be coming to close to 75% of the capacity if I understand that correctly?

J. Laxman Rao:

Yes, we are aiming at 2000 tonnes.

Suvarna Joshi:

Sir what would be the differential in margins with regards RAK plant and the domestic operations?

J. Laxman Rao:

Two things make the difference, one is better price realization and low raw material cost there. Raw material difference is almost Rs.15 to Rs.16 per kg and we also realize better pricing over there for IML containers and the second most important factor is no income tax on earnings in SEZ, so that makes the profitability much better in RAK if we operate above breakeven.

Suvarna Joshi:

That was pretty helpful Sir. Thank you so much and wish you all the best.

Moderator:

Thank you. The next question is from the line of Dewang Mehta from Tamohara Investments. Please go ahead.

Dewang Mehta:

Hi Mr. Rao. Just a couple of things in terms of what would be our market share with top three, four players like Asian Paints, Berger, Castrol, Shell and Gulf Oil, what would be broad market share with these players?

J. Laxman Rao:

Asian paints certainly, Hitech is their major suppliers because of their close association, so they must be getting around 40% from Asian Paints, so we are somewhere around 20. We are the second largest supplier to them and they also have another three players, Jolly, some Patels or somebody and Baba, there are three more suppliers. So they must be having 10% to 15% mix in them. We have around 20% to 23% probably with these two plants coming up next year, where we and Hitech have been given clearance and maybe another player might be given later players. There we are getting a little big share, so we would come to a level of 23% to 25% in Asian Paints while Hi-tech will be around 40% to 45% and coming to Castrol we are even today 100% supplier, Shell we are 100% supplier, AkzoNobel we must be around 75% to 80% because Thane, Thane we do not supply, because they have commitment with Jolly Plastics and in Gwalior we supply around 50%, in Balanagar which is their main unit. We are 100% supplier, so we must be having around 60%, 65% share with AkzoNobel. Similarly with Nerolac we must be having around 30% to 40% we are the largest and there are another two suppliers in the range of around 20% to 25% level. So that is the status with this major clients.

Dewang Mehta:

Another thing was on we are shifting the tool room, Is there any technical capability improvement or it is just a shift?

J. Laxman Rao:

The shift is to make it more accessible to get better engineers in the toll room and also to have better control on the tool room activities, which is currently around 48km away from the city at our main plant. Second thing is we are also adding new machines worth around Rs.2 Crores in the current year, one of them is coming in early March, so to have bigger premises and to convert our unit one mainly into plastic processing and remove entire tool room activity from there.

Dewang Mehta:

Lastly we had got Rs.25 Crores contract with oil marketing companies for two years right?

J. Laxman Rao:

Which oil company sorry?

Dewang Mehta:

Oil marketing companies for lubes we have got Rs.25 Crores...?

J. Laxman Rao:

You mean public sector

Dewang Mehta:

Yes.

J. Laxman Rao:

Spread over two, three years, it is not Rs.25 Crores per year it is spread over two years for Rs.25 Crores.

Dewang Mehta:

So that execution is on track?

J. Laxman Rao:

Yes, it is going on.

Dewang Mehta:

Or there has been some changes in or delay or anything?

J. Laxman Rao:

No, public sector there will be delay, but no changes. Once they commit they take it, instead of two years it may become two-and-a-half years like that, they extend the period.

Dewang Mehta:

Thanks a lot, all the best.

Moderator:

Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma:

Sir you just mentioned about the PSU sales of Rs.25 Crores for two years. So can you please state, which is the time period I mean this two years the first...

J. Laxman Rao:

We started from last April, May, but the volumes started coming up only in June, July. So PSU sales are picking up only for last five, six months, so that will continue for another 18 months.

Pragya Vishwakarma:

That is it from my side. Thanks.

Moderator:

Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak:

Can you also help us to understand what is the IML and non-IML breakup for this period?

J. Laxman Rao:

I gave you, it is 51.5%.

Kamlesh Kotak:

For the nine months?

J. Laxman Rao:

Nine months it is 47.3%.

Kamlesh Kotak:

Secondly Sir how many robotics we have?

J. Laxman Rao:

Must be around 44, 45.

Kamlesh Kotak:

Okay that is across all the plants.

J. Laxman Rao:

Mainly robotics is here in Hyderabad, little bit in Daman and Satara and of course RAK now we have seven robots.

Kamlesh Kotak:

Okay, that also included in this?

J. Laxman Rao:

Yes.

Kamlesh Kotak:

RAK also included in this?

J. Laxman Rao:

Yes included. I will send you the correct details maybe next time.

Kamlesh Kotak:

Alright Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Manish Mahavat from Religare. Please go ahead.

Manish Mahavat:

Mr. Rao, just only single question. I just wanted to check what is the difference between realization in India in the RAK plant and what could be EBITDA difference?

J. Laxman Rao:

RAK is only a projection because based on some of the orders what we received, we noticed EBITDA margins there would be better, but EBITDA has no meaning when we have less capacity utilization because the employee cost and rental cost would be much more when we utilized very less quantity. So, if it comes anywhere around 70% capacity utilization, 70%, 75%, the EBITDA

margins will certainly be better by at least a couple of points. Let us say if it is 16% here it can be 18% there and the major advantage I explained there is no income tax.

Manish Mahavat:

You said percentage of 16 to 18 may be I just wanted to check up in per kg basis if you look at like earlier you said around Rs.27, Rs.28 per kg margin, so what could be there in RAK it would 30 plus?

J. Laxman Rao:

It should be 38.

Manish Mahavat:

What is the realization difference in India and RAK in IML?

J. Laxman Rao:

What do you mean by realization?

Manish Mahavat:

Basically per kg realization in IML, what it will be having in...

J. Laxman Rao:

Actually in that area only two ways we are selling. One is plain containers, other is IML. There are no screen printed containers. So plain containers will be obviously little cheaper and there per kg realization also will be little less, IML will be obviously on higher side. The mix is what I am guessing should be at least...

Manish Mahavat:

Realization definitely should be in the range of around 8% to 10% versus India?

J. Laxman Rao:

At least 5%, 6% better, but if you ask me frankly I can be in a better position this in April, May.

Manish Mahavat:

Okay. Sure. No issues. All the best.

Moderator:

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

Pragya Vishwakarma:

I just wanted to touch upon one thing like next year we will have good traction from RAK and when we expect the food and FMCG contribution to go up. So what kind of EBITDA margins do you look at entity level I mean for the whole company? What do you think is a sustainable margin going ahead in the next two to three years?

J. Laxman Rao:

Two to three years may be a little too long to guess. For the next year, we are aiming at Rs.29, Rs.30 per kg, but we have to wait and see how it goes.

Pragya Vishwakarma:

Okay, because nine month we are at around 17% or some?

J. Laxman Rao:

Percentage wise do not go Pragma because it is variable based on the raw material cost, I would suggest you to look at our company always at EBITDA per kg, so that is now hovering around 27.8 for the nine months which we are aiming to take it to 29, 30 bracket with these combinations.

Pragya Vishwakarma:

Okay. Thank you.

Moderator:

Thank you. The next question is from the line of Ankit Gor from Systematix Shares and Stocks. Please go ahead.

Ankit Gor:

Thank you Sir. I just wanted to have sense on debt levels. What is recurring debt?

J. Laxman Rao:

Debt level means there is no term loan debt, we have now starting using a little bit of working capital. The levels are around Rs.18 Crores now, which was around Rs.10 Crores in the last Q3.

Ankit Gor:

This capex we have done in nine months around Rs.26 Crores, Rs.27 Crores that is from internal accruals right?

J. Laxman Rao:

Yes, the Rs.22 Crores is through internal cash generation and maybe part is of this working capital limit you can take it that way.

Ankit Gor:

In whatever the capex we are doing probably to setup in Asian Paints plant that is around Rs.35 Crores and what is their breakup Sir internal accruals versus term loan?

J. Laxman Rao:

Annual as of this year we are looking at internal accrual for anywhere around Rs.28 Crores, Rs.26 Crores, so even we assume 90% after dividend I am talking about, so after this Rs.25 Crores this year already we spent Rs.6 Crores on those two projects. So by next March this Rs.25 Crores plus Rs.6 Crores, Rs.31 Crores and again another six more months till October for completing the Vizag plants, so we will have another at least Rs.14 Crores, Rs.15 Crores of cash flow. I do not foresee any increase in the debt levels going forward unless we end up with some big orders where we need some specific investments.

Ankit Gor:

Okay Sir. Thanks a lot.

Moderator:

Thank you. The next question is from the line of Ansh Vora from Praj Financial. Please go ahead.

Ansh Vora:

I just wanted to know the growth, which you are talking from food and FMCG, and also from the RAK plant, so growth next year would be in volume terms around 20% level?

J. Laxman Rao:

That is what, we are aiming between anywhere close to that.

Ansh Vora:

One more thing. The plant coming in Asian Paint, if suppose they are not converted into IML, so the margins in those plants would be around 14% level?

J. Laxman Rao:

Yes, it should be around 14% to 15%.

Ansh Vora:

Okay, overall margins can come down in 2018-2019 or 2019-2020 if they have not shifted to IML because at that kind of time, the capacity would...

J. Laxman Rao:

But they are now confident of shifting HTL, which would also give us 17%, 18% EBITDA, so in HTL also we have advantage of making the labels inhouse which is a major advantage. So though they considered that as 14%, 15%, indirectly for us the value addition makes it around 17%, 18%. So I am sure at least 50% of their product will go into HTL cum IML by 2018-2019, so that should not be bad it may not pull it down, but it may not add to the margin.

Ansh Vora:

So margin might not dip down it might sustain it, it might not grow.

J. Laxman Rao:

It would not grow, it would not fall steeply maybe 0.1, 0.2 kind of impact.

Ansh Vora:

Sir, five year horizon, if you take in a longer term view, we are have many growth drivers, so would we able to say that we can grow at 20% CAGR growth rate for the next three to five years?

J. Laxman Rao:

That is our target and we hope it is possible, let us see.

Ansh Vora:

All the best Sir. Thank you.

Moderator:

Thank you. We will take the next question from the line of Aditya Jadhav CFA, an individual investor. Please go ahead.

Aditya Jadhav CFA:

Good evening Mr. Rao. That is a fantastic number from your end. Most of my questions are answered by your management. I just want to understand you insights on working capital cycle. Do you see any kind of expansion on that front or do you see that we can continue with our 70 days of working capital?

J. Laxman Rao:

It will remain more or less same Sir, because I do not see any change in our terms. It should maintain around 70, 75 range.

Aditya Jadhav CFA:

Okay, that is it from my end.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Amar Mourya for his closing comments.

Amar Mourya:

I would like to thank the management once again. Thank you all for joining the call.

Moderator:

Ladies and gentlemen on behalf of Emkay Global that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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- Note:**
1. This document has been edited to improve readability.
 2. Blanks in this transcript represent inaudible or incomprehensible words.

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