



“Mold-Tek Packaging Limited Q4 FY16 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mold-Tek Packaging Limited Q4 FY16 Earnings Conference Call hosted by Emkay Global Financial Services 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 this 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. Kshitiz Prasad, Senior Research Analyst from Emkay Global. Thank you and over to you, sir.

Kshitiz Prasad: Good evening everyone. We have with us Mr. Laxmana Rao – Managing Director and Chairman and his team. I would like to welcome the management and I would like to hand over the call to Mr. Rao for his opening remarks. Over to you, sir.

J. Laxmana Rao: Good afternoon everybody. Thanks for participating in our conference call for the Q4 results and annual results of Mold-Tek Packaging Limited. I am glad to inform you that the company has performed well in the fourth quarter as expected because the newly created capacities during the year started working, especially the facilities that have been installed in the Indian plants have started functioning. At RAK that is our new plant coming up at Ras Al-Khaimah, the machines have just arrived and probably they will be erected during the month of June and production would start towards end of June or middle of July.

So the quarter four ended with a sharp rise of 17% of Q4 on Q4 rise in sales. We clocked Rs. 78.9 crores gross sales against Rs. 67.3 crores in the corresponding quarter last year and the net profits also shot up by 75.6% from Rs. 4.13 crores to Rs. 7.25 crores. For the quarterly EPS annualized quarterly EPS on Rs. 5 share of 10.47. The overall year we ended up with a turnover of Rs. 308.7 crores as against Rs. 318.65 there is a drop of 3% basically because of sharp drop in the raw material prices which as a practice we pass on the benefit to the consumer or to our clients.

So overall volume wise the year has ended up with a rise of 6.6% in tonnage terms up from 15,838 tons to 16,882 tons of process sale weight. Accordingly, the profitability also shot up in view of increased volumes and also improved EBITDA margins. The net profits have gone up from Rs. 16.86 crores to Rs. 24.1 crores a jump of around 43% over the last year profit.

The EBITDA margins have been very healthy. In Q4 it is 18.96% as against 15.27% last quarter, last year fourth quarter and for the current full year we completed the year at a 16.83% EBITDA margin up from 14.26% last year.

The overall the company's performance is satisfactory because of improved sales of in mold label applied containers and also increased sales in food and FMCG supplies to those industries. So there are considerable investments that are made in the current year of around Rs. 36 crores were already spent in the first phase of RAK and the plants across India and further Rs. 18 crores to Rs. 20 crores are planned during the year 2017-2018 which would complete the funds that arrived from the QIP one-and-a-half year ago.

So going forward, the company is also looking at increased contribution from the food and FMCG sector. We are in talks with Procter and Gamble, Cadburys, Hindustan Levers in terms of developing some containers for their world famous products. We are also developed some products for MTR Foods and we are in talks with Haldiram's for developing new IML containers for their food products. Similarly, traction is also seen from our existing clients like AkzoNobel, Asian Paints, and even Nerolac who are also expanding their capacities and giving us opportunities to set up plants dedicated for them in the very near future.

So the future looks bright and we are confident like what we discussed three or six months ago. The year 2016-2017 should be a major growth year for us because RAK will start contributing from maybe the second quarter onwards. But the capacities that are created in various plants in India would start adding to the numbers in the coming quarters. So on a positive note, we hope that coming years we will have a healthy growth. Last few years I was just going through three years our CAGR in the sales companies wise in the volumes is close to around 10%. I am looking forward to a much better growth rate in the next three to five years.

So we hope to see that growth rate anywhere between 15% to 18% in the coming years if all our plans materialize.

This being said, I feel I have covered most of the points and if anything specific any of the investors or analysts want to know they can ask me the questions. Back to Kshitiz.

Moderator:

We will now begin the question-and-answer session.

We have the first question from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar:

I just wanted to check you spelled out volume numbers in the initial comments sorry, I missed noting them. And those same volume numbers if you can split between IML and non-IML?

J. Laxmana Rao:

We have concluded the current year IML sales around 44% up from 27% last year so the volumes also are similar so volume or sale value wise, somewhere between 43% to 44% up from 27%, 28% last year, overall IML product sales.

Nitin Gosar:

Okay and what was your total volume numbers you did for the year?

J. Laxmana Rao:

Total volume is 16,882 tons as against 15,838 tons that is sale volumes.

Nitin Gosar:

And the capacities that you talked about how much is coming up in India for operational purpose?

J. Laxmana Rao:

The capacities are already created in India would be adding to about 3,000 tons because last year we have already added 3,000 tons and this year by end of March of course the capacities were added only in the last one quarter in India and in RAK they are yet to get added. In fact the machines are in transit from Japan, they are reaching Dubai any time in this month. So another

3,000 tons would be added by let us say June. So we would be having almost 30,000 tons processing capacity by end of June-July.

Moderator: Thank you. The next question is from the line of Pranay Vishvakarma from Edelweiss. Please go ahead.

Pranay Vishvakarma: Sir, I wanted to know what is the IML volume? You did mention that it increased to 44% compared to 27% last year but can you give the absolute numbers for it?

J. Laxmana Rao: Numbers in the sense it will be like somewhere around 44% of 17,000 so approximately around 7,500 tons.

Pranay Vishvakarma: Okay, I was assuming 44% increase over the last year so?

J. Laxmana Rao: No, last year it was 27% of the sale volume now it is 44%.

Pranay Vishvakarma: And what is the current capacity for all the plants?

J. Laxmana Rao: If you look at the fourth quarter alone we did about 7,900 tons. Sorry not that, that is income, 4,560 tons. So in the fourth quarter some of the machines have arrived but not fully installed. Some of them are underutilized or whatever, they are getting used in this first quarter of the current year. So these capacities that were created during the year would be more available in this current financial year 2016-017. RAK is still not installed they will be installed by end of June. So that will be available from say July onwards.

Pranay Vishvakarma: Okay, and just one last question. What is our CAPEX plan for next year like do we plan to increase the capacity in RAK or it will be just?

J. Laxmana Rao: Yes, the initial capacity what we are creating would be enhanced again by January next year that means we will be starting the second phase which actually is mainly meant for building because we are now currently setting up a leased premises given by FTZ authorities which we will be shifting to our own building by January 2017 or let us say before March 2017. So then there will be few more machines will be added to enhance the capacity. That would depend upon how the trends we notice in the demand patterns starting from July.

Pranay Vishvakarma: Okay and how much would we expect to spend on this?

J. Laxmana Rao: That would be another Rs. 10 crores. We already spent about Rs. 10 crores in RAK and another Rs. 10 crores to Rs. 12 crores would be spent on RAK in the current year, that is 2016-2017. And we have other plans for Indian plans including a land we are planning to acquire in Vizag for our new unit that may come up in 2017-2018. And total outlay for the 2017-2018 investment would be in the region of Rs. 20 crores to Rs. 25 crores which was Rs. 35 crores last year. So there will be a further investment of Rs. 20 crores to Rs. 25 crores in this year.

Pranay Vishvakarma: Okay and this Vizag plant if I am not wrong is for the Asian Paints facility?

J. Laxmana Rao: Yeah we are keeping a couple of options including Asian Paints. We are in discussion with most of our clients who are all planning their expansions in that part of the country. So there are quite a few opportunities coming up.

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

Suvarna Joshi: Just wanted some clarity again on the capacity front. If I understand correctly at Q3 ending Q3 of FY16 ending we had a total capacity of 24,000 tons, am I right?

J. Laxmana Rao: Yes.

Suvarna Joshi: I mean Q4 ending we will be having about 27,000 odd tons of capacity because we added 3,000 tons of capacity in this quarter is what you mentioned earlier, correct?

J. Laxmana Rao: Yes.

Suvarna Joshi: Sir so then what is the utilization rate that we have clocked in for FY16 and for Q4?

J. Laxmana Rao: As I told you in injection molding, assuming anything about 70% to 75% of the capacity itself is a great feat. So we are almost at 70.9% in overall year and in the Q4 it must have gone up a little bit I do not have exact figure, it may be around 72%, 73%. You cannot count the quarterly editions in the numbers. So if you take 24,000 tons and we have done 4,500 tons that means 18,000 tons annualized. So we are talking about 18,000 on 24 is what, 75%.

So we are close to utilizing the best possible capacity because I explained to many analysts I will again tell. Injection molding machines are generally not tailor made they are made for general purpose. So the same jobs what we produce even caps also are produced but not on the same size machine but maybe a smaller machine. But the smaller machine let us say it can make a 500 gram container is required to make even a 150 grams cap.

So I will be using the machines for the caps at a very much lower capacity because the injection capacity of the machine is much higher but cap also is having the same area of the jar so there are technical reasons we need a bigger machine to run a cap. So you end up producing only 40% of the machine capacity. So in the end of the day if you look at in the tonnage, achieving 70% to 75% is itself is a decent capacity utilization.

Suvarna Joshi: Alright sir and another thing since you have clocked in some decent margins I think they are amongst the highest that you have clocked for the quarter as well as for the annual fiscal. I just wanted to get an understanding are we able to sustain these kinds of margins or maybe improve because we are now focusing more on the IML pail package, pail containers as such?

J. Laxmana Rao: I would like to see this improving, but I am happy with the improvement so far we achieved and even if we can consistently maintain 17 to 18 level of EBITDA, utilizing the capacity better I think that makes the numbers and returns very handsome. So going forward we are now if you look at the food and FMCG we have just moved up from 3.8% to 5.65% of total turnover. So it is still a long way to go.

We are yet to see big numbers coming in edible oil pail and FMCG products like Ariel, Tide we are working with have to happen in this year. Cadbury and Hindustan Levers are also talking to us about some of their food product packaging. So these numbers if they come they will certainly improve the EBITDA further. It will be a gradual growth. Again raw material prices also will have an impact. If the raw material price goes up, the denominator effect will pull down the EBITDA. So I think we can aim at around 17% to 18% EBITDA in general assuming raw material stays somewhere around what it is now.

Suvarna Joshi: So are we then planning in case since you are mentioning about 17%, 18% EBITDA margins, are we planning to have any cover for the raw material because right now we are seeing crude trending at about \$45 per barrel and last year we had seen a sharp drop in the cost of raw materials for us as well. So are we looking to stock any of these for the next quarter?

J. Laxmana Rao: No, raw material stocking beyond 15 days at a month is not possible more than a month is not really feasible. And anyway even if the raw material price goes up we are completely covered on a monthly basis from all our clients. So it will not really impact that much but as the denominator goes up the EBITDA margin might look little lesser. But the value addition for us will remain same.

Suvarna Joshi: Another thing that I wanted to understand and for working capital. Should we see our debtor days has gone up quite significantly so could you please the debtor date, the receivable dates have gone up quite significantly so just wanted to understand as to what has been the reason for the rise in the debtor days?

J. Laxmana Rao: Debtor days have not really gone up I mean there is a marginal increase but not really.

Suvarna Joshi: The standard I think as of the end of the fiscal the standard 66 days compared to 55 what we had in FY15 and that I think has led to an overall increase in the working capital days to 95 from 83. So just wanted to understand what has been the cause for this rise of about almost 10 odd days?

J. Laxmana Rao: Yeah overall increase is due to increased raw material what we are storing nowadays up in all the plants but debtors days I will come back to you because there are two to three days is what I have seen. You are mentioning almost ten days.

Suvarna Joshi: Yes. So sir I will take that offline should not be a problem sir. And another thing was on the edible oil front, just the last question. On the edible oil front, what has the progress been from bigger companies like Adani Wilmar? Because in the last quarter you had mentioned that we

had received some temporary orders for test marketing by Adani so have we really got the confirmation of these orders from Adani?

J. Laxmana Rao: No, they are still doing their testing even today also our man has reported that they have sent some 500 pieces to North India, 500 pieces down to South and in North they have reached safely but they had some issues in transportation to South so our boys are going and trying to help them out how to stack it in the truck and all that. So as I expected more than what I expected it will take a little longer time for the adaption because it is a complete change the way they handle tins and the way they handle the plastic so everybody is doing cautiously introducing this.

Now ConAgra which has introduced a lot in December-January have come back now they are talking about introducing a big batch of 30,000 to 60,000 pieces in June July. So like that they have everybody is taking a little cautious steps to check the containers' suitability and adopt their own logistics to go for this kind of a square container. But I am confident given the features one by one now Kamani Oils have joined they are taking the pails in the month of May and maybe towards the end of May or beginning of June. So that will be number of tests are increasing the growth is there but it is not to the expectations what I thought six months ago.

Moderator: Thank you. The next question is from the line of Sandeep Agrawal from Arihant Capital. Please go ahead.

Sandeep Agrawal: Sir, my question is sir, any updates regarding HPCL and BPCL order you mentioned in the last con call?

J. Laxmana Rao: Yes, we have received major orders this year from public sector in the month of December to February. Some of them just started in the month of April-May but most of them would be starting from June-July. So I forgot to mention this could also be one growth driver in the year 2016-2017. Because of late we were not doing much PSU companies like Indian Oil, HPCL and BPCL because of the screen printing costs were very competitive and they were only going by the L1-L2 concept. Now they are shifting to IML has given us an opportunity to again get back their orders. So hopefully this year 2016-2017 will reflect a reasonable growth coming from PSU sales.

Sandeep Agrawal: okay my last question is just I want to separate the IML margin and other segment margins?

J. Laxmana Rao: Yeah, I think I have conveyed last time also we enjoy at least 4% to 5% better margin in IML products of pails. And almost like 20% to 22% EBITDA margins in products that we sell to food and FMCG industry. Compared to 13%, 14% of screen printed containers which are our traditional products. So gradually the increment is coming through increase in sale of IML products.

Moderator: Thank you. The next question is from the line of Chinmay Sapre from DSP Black Rock. Please go ahead.

- Chinmay Sapre:** Sir, I want to understand if you could give some color on how are you looking at the IML proportions. So already we have hit around 44% and incrementally you mentioned that you are also getting newer orders in IML. So how do you see the IML proportion going forward?
- J. Laxmana Rao:** Yeah, one of the reasons why we are still at 44% and not gone beyond 60%-70% is our major client Asian Paints continue to be in non-IML. They are now shifting at least partly into HDL. So given this non-screen printing I am counting HDL also in IML because that is also one way of automation where we avoid labor and post operation to some extent not as much as IML but it is close to that. So now they are shifting to HDL. So including IML and HDL next year we should be aiming anywhere around 55% to 57% up from 44% this year. So going forward all our sales in RAK which may be contributing from July onwards would be in IML. So all the new products that are coming in food also will be in IML. So achieving 60% also is possible but let us be conservative and look at 55% for the next year I will be happy.
- Chinmay Sapre:** Okay and what proportion of food packaging did you mentioned?
- J. Laxmana Rao:** We are just 5.6% this year up from 3.8% last year. We are aiming at 10% to 12% for the current year.
- Chinmay Sapre:** So this would be by new clients or mining the existing ones?
- J. Laxmana Rao:** No, new clients, many new clients we are talking to Procter and Gamble, Cadbury, Hindustan Levers and Haldirams these are the four major clients Nestle we are in touch with Nestle. So there are various applications of IML food containers. I think I explained to you because IML is not only looks better in decoration but also hygienically manufactured without any human contact. So these products are best suited for food industry than anybody else. So slowly the awareness is coming up and food industry is realizing the advantages and adaptability of IML containers.
- Chinmay Sapre:** Okay and sir, one final question on edible packaging if you can give some color on what sort of monthly run rate or what sort of?
- J. Laxmana Rao:** Yeah we are just reaching about Rs. 70 lakhs to Rs. 80 lakhs sale as of now per month which was last three, four months we have done about Rs. 3.5 crores which might end up to Rs. 12 crores to Rs. 15 crores in the next financial year 2016-17 which is less than what I expected. I thought it would be at least Rs. 25 crores, Rs. 30 crores but probably we might get about Rs. 15 crores to Rs. 18 crores in the edible oil sector in the either edible oil or **(Inaudible 25:53)** pack.
- What I mean is it has some other applications also like Ghee, Britannia Ghee has already taken and started using our containers and a couple of other Gokul Ghee and other local ghee manufacturers have also finding our container very suitable. We are also giving it to Quality and Equity Biscuits. So there are other food industry which is also trying to adopt this square containers. So putting them together probably in the region of Rs. 15 crores to Rs. 18 crores

turnover can be achieved in the next financial year, the additional turnover. That is directly food and FMCG industry.

- Moderator:** Thank you. The next question is from the line of Krishna Kumari an Individual Investor. Please go ahead.
- Krishna Kumari:** One thing if I follow you correctly the FMCG and our presence in FMCG and food products is only 5.7% or 6% at the moment and what could be the projections for the current FY 16-17 or the next year 2017-18?
- J. Laxmana Rao:** At least for the current year 2016-17 we should easily cross 10% probably we can even hit 12% in the 2016-17 and probably it will go to another 6%, 7% in the following year 2017-18. More clarity I will be able to give as we progress in the current year.
- Krishna Kumari:** One more thing, as far as RAK and Dubai is concerned, we are into FMCG and food products is not it?
- J. Laxmana Rao:** No all, paint, lube and FMCG and food, all four lines.
- Krishna Kumari:** Lube is also there.
- J. Laxmana Rao:** Lube and paint is also there.
- Krishna Kumari:** So what could be the total contribution the percentages for as far as RAK is concerned apart from the rest of the Indian branches?
- J. Laxmana Rao:** It is very difficult to predict because it is just starting but we already have four orders from couple of them are lubricant companies, one is a food product company, one is a paint company. So hopefully we may achieve around Rs. 12 crores to Rs. 15 crores turnover in the year.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Dhruv Bhatia:** Sir, first question was you ended this year with an EBITDA of Rs. 27 per kilo. So just looking at from a kilo point of view or a tonnish point of view, do you believe there is room for improvement of you know this per tonnage or kilo basis?
- J. Laxmana Rao:** Yeah, in whatever way you look at it ultimately per kg is one good way of looking at it so on that manner it will definitely improve as we are going more and more into food and IML pails. If you look at the per kg of last year it is much lower than what it is this year. So there is a gradual improvement which will be noticeable as our food and other product sales start increasing.

Dhruv Bhatia: Secondly you mentioned earlier I am not sure I just wanted to reconfirm you said the IML mix is 44% of revenue as well as volume, is that right?

J. Laxmana Rao: In volume if it is 44% sorry in value it is 44% in volume it may be 41%, 42% because it adds higher per kg addition.

Dhruv Bhatia: Okay and could you also give you mentioned that 6% of your revenue is from the FMCG and foods, could you mention what the end of the year number was for paint as well as lubes?

J. Laxmana Rao: I am sorry the percentage sales of paint and lube you mean?

Dhruv Bhatia: That is right.

J. Laxmana Rao: It is around 62% in paint and 32% in lube. It was 63% and 33% last year, it is now 62% and 32%. They both came down by 1%, 1% and food has gone up by 2%.

Dhruv Bhatia: Sir, also the RAK plant I mean will you be because since you cater to Castrol 100% requirement for India as well as their Middle East requirements will you be moving the Indian I mean with the requirement of UAE from India to the UAE plant?

J. Laxmana Rao: Yeah India and the UAE we will be sending some of the consumables like pouch and handles and IML labels especially and also HDL labels which we produce ourselves in Hyderabad. So there will be continuous supplies of this consumables to our Dubai Plant, RAK plant.

Dhruv Bhatia: And since Asian Paints is also putting up a plant in Oman is that I mean have you already got orders from that Asian Paints Oman plant yet?

J. Laxmana Rao: No, we are in touch with them, they already visited our booth and we have recently at their head office they have given an instruction to all their plants in the Middle East to look at Mold-Tek and start developing the packaging with us. So there will be opportunity from Asian Paints also in Oman not only Oman, they have instructed even UAE, Muscat I think three, four countries their presence is there in that part of the world. So all those three units have been instructed by their Head Office to consider Mold-Tek and they already given a samples we are working on commercials. So our relation will continue there also.

Dhruv Bhatia: And this year I was just seeing the balance sheet where the loans and advance have increased from Rs. 13 crores to Rs. 24 crores. Could you just give us I mean what has led to?

J. Laxmana Rao: Basically they have come down considerably because the QIP funds were blocked in.

Dhruv Bhatia: Up from Rs. 13 crores to Rs. 24 crores?

J. Laxmana Rao: Yeah, what I am saying is it was Rs. 55 crores a year before it comes down because the QIP funds were put in the working capital to save interest. And now that we have started using those

funds and invested almost Rs. 38 crores, slowly gradually the working capital outstandings are increasing.

- Dhruv Bhatia:** No sir. I am not talking about the working capital. I am talking about the loans and advances which is I think, is it because of?
- J. Laxmana Rao:** You mean the loans and advances given to the third party?
- Dhruv Bhatia:** Yeah, why is that increase I mean double is it because of the....
- J. Laxmana Rao:** The advances that were given to machinery like Japanese machines of Sumitomo and Mitsubishi we are buying for our RAK plant all were paid in Feb-March and the machine started arriving in May-June.
- Dhruv Bhatia:** And the last question from my end, this quarter just to look at from the quarter point of view, what is the reason of the employee cost going up 24% this quarter?
- Management:** Yeah one of the reasons is few of the employees are now transferred to Dubai and a couple of them are paid salaries in that and obviously when our capacity utilization enhances some of the employees were already taken who have been under training here and that is the main reason. And increments during this quarter our fourth quarter is main time when the increments were generally given.
- Moderator:** Thank you. The next question is from the line of Nayan Shah from GEPL Capital. Please go ahead.
- Nayan Shah:** If I see the balance sheet, the short term borrowings have gone up substantially from Rs. 3.53 crores to Rs. 18.61 crores. Overall if you see the debt-to-equity has come down but there is a sudden spurt in short term borrowings. Can you throw some light on that?
- J. Laxmana Rao:** Short term borrowing means working capital you mean to say?
- Nayan Shah:** No, not working capital the normal short term borrowings?
- J. Laxmana Rao:** Short term borrowings have gone up.
- Nayan Shah:** In current liability from Rs. 3.53 crores to Rs. 18.61 crores?
- J. Laxmana Rao:** Yeah, these are bank borrowings basically they are what they are termed as short term borrowing is basically working capital only. So as I said the funds were withdrawn to utilize for the projects in RAK and India so the outstandings of all the banks working capital limits have gone up. These funds have come down these borrowings have come down when the QIP funds were lodged here and now they are being used for the projects. So they are gradually going up. In the previous question, I was answering this part instead of advances now the correct question is yours. So this

is the increase in the working capital borrowings from the banks. They have mentioned it under short term borrowings.

- Nayan Shah:** And if we see last four quarters prior to this quarter the sales volume had dipped right and in this particular quarter the sales volumes has increased by 22.6% the volume tonnage I am saying, right?
- J. Laxmana Rao:** Correct, last quarter also there was a rise of about 9%. In Q2 it was a small dip actually and in the Q3 there was a 9% rise, 9% to 10% rise and in Q4 it is 22.6% rise. Overall year ended up with 6.6%.
- Nayan Shah:** I think in Q2 only you had guided by the end of financial year we will be slightly zero to at least maybe some volume growth will pick up, right. So it is on line you can say. If you can split the volume growth for me how much has come from paint industry for this particular quarter because?
- J. Laxmana Rao:** Yeah, particular quarter most of the growth has come from paint and food industry only. Lube industry was more or less stagnant. So paint growth from all the three major clients of ours that is Nerolac, Asian Paints and AkzoNobel has grown considerably in the quarter of Jan to March. Apart from the food and IML food industry also added some small numbers because as it is it is only 6% so they also added decent growth numbers.
- Nayan Shah:** So out of that 4,562 tons done in this Q4 how much will be this edible oil and food?
- J. Laxmana Rao:** Edible and food is only just it must have gone to 7%, 8%.
- Moderator:** Thank you. The next question is from the line of Abhishek Chauhan who is an individual investor. Please go ahead.
- Abhishek Chauhan:** So this IML which you were talking is used for paint and lube also or only food grade products?
- J. Laxmana Rao:** No, it is also used in paints and lubes. That is why I am saying the volume is 44% our food and FMCG is hardly 6% that means 38% is coming from paint and lube containers.
- Abhishek Chauhan:** Okay and margins are higher?
- J. Laxmana Rao:** Yes, in IML products the margins are much better.
- Abhishek Chauhan:** The crude again going up?
- J. Laxmana Rao:** As I explained to you crude has no impact on of course it will have an impact on the raw material indirectly but raw material price rise has no impact on us because we will be passing on the price rise every monthly to our clients. Similarly, when the price comes down we pass it on to our clients.

Moderator: Thank you. The next question is a follow up question from Pranay Vishvakarma from Edelweiss. Please go ahead.

Pranay Vishvakarma: Sir, I just wanted to know with total investment of around Rs. 20 crores in RAK what can be the turnover at full capacity that is around 75% to 80% of capacity utilization?

J. Laxmana Rao: It would be in the region of Rs. 50 crores to Rs. 55 crores in the year three you can say.

Pranay Vishvakarma: That is we are talking about financial year 2019?

J. Laxmana Rao: Yes.

Moderator: Thank you. We have a follow up question from the line of Nayan Shah from GEPL Capital. Please go ahead.

Nayan Shah: The raw material prices has come down, right from Rs. 101 per kg to Rs. 83 per kg for full year, right? Can you throw some light how is the raw material prices for this particular quarter last quarter that is Q4?

J. Laxmana Rao: Q4 it was Rs. 74.5 per kg.

Nayan Shah: Okay the average price was Rs. 74.5 per kg?

J. Laxmana Rao: 2015-16 Q4 is Rs. 74.5 per kg and currently the raw material price in the month of May is around Rs. 84 per kg to Rs. 85 per kg.

Nayan Shah: So it has increased nearly 15%?

J. Laxmana Rao: Yes.

Nayan Shah: And how do you see it going forward may be two quarters down the line Rs. 75 to Rs. 100?

J. Laxmana Rao: We cannot predict but I think it will be in this region of Rs. 85 plus or minus Rs. 5. Today in fact they have reduced the price I think by yesterday they reduced Rs. 1 some Indian Oil has reduced by Rs. 2. So it is now Rs. 83, Rs. 84 again. So there is a fluctuation happening couple of times in a month. Earlier it used to be once in a month or once in two months now it is happening couple of times in a month. But I think Rs. 80, Rs. 85 should be the price range if the crude remains around \$45 to \$50. Beyond \$50 probably it will again climb up to Rs. 90. Otherwise below \$50 crude I think the raw material should not go beyond Rs. 90.

But generally logic would not help in the plastic raw materials because if you notice last year crude was much below \$50 but there were occasions when the raw material price went up to Rs. 100 also. And it went up to Rs. 70 in January of course at that time crude price also fell down.

So sometimes it follows the pattern or sometimes it will have a lag. But at this current range I do not see much price going up beyond Rs. 90.

Nayan Shah: Also earlier in the con call you mentioned some orders coming from HP, BP, IOC, right?

J. Laxmana Rao: Yes.

Nayan Shah: Can you quantify how much it can contribute to topline for FY17?

J. Laxmana Rao: The order values are in the region of Rs. 35 crores to Rs. 40 crores for two years but typically public sectors stretches that so assuming it stretches over 2.5 years I think we should be able to get between Rs. 12 crores to Rs. 15 crores, at least Rs. 12 crores additional order in the year 2016-17 from PSUs.

Moderator: Thank you. The next is a follow up question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia: Sir, just wanted to understand when you say that Rs. 20 crores to Rs. 25 crores CAPEX for FY17 of that Rs. 10 crores you said was for phase 2 of the RAK plant, right?

J. Laxmana Rao: Yes.

Dhruv Bhatia: What will be the rest Rs. 10 crores to Rs. 15 crores because you have already acquired the land in Vizag are you expecting the plant to be commissioned this year?

J. Laxmana Rao: No, that will be a bigger plant actually. If things go well and that has to be set up by 2018 so it has time. But land has to be acquired. We are taking only the land part of it and we will be adding lot of food and FMCG, molds and robots during the current year. As I said we are in talks with Procter and Gamble; Ariel is going to happen very soon hopefully. And other food products also require investments in Indian plants itself. So we have kept about Rs. 6 crores to Rs. 8 crores for that account.

Dhruv Bhatia: So what exactly would be these investments are they I mean some new technology or what will be these investments that you will require?

J. Laxmana Rao: These investments would be for molds and robots.

Dhruv Bhatia: But is it not that something that you develop in house itself?

J. Laxmana Rao: Yeah, but that cost it is not that all the electronic parts all other parts have to be imported from Germany and other parts. So there is cost of those investments.

Dhruv Bhatia: So basically it will be Rs. 10 crores for RAK, Rs. 6 crores to Rs. 8 crores for the Molds and Robots and the rest would be for Vizag plant the land acquisition?

- J. Laxmana Rao:** That is it.
- Dhruv Bhatia:** And sir, for FY18 any color on that I mean it will be a similar type of CAPEX?
- J. Laxmana Rao:** I think going forward I cannot quantify but there are very good opportunities we are getting from our various clients who are asking us to set up plants near to their expansions. It could be from Asian Paints, it could be from Nerolac and also AkzoNobel. So going forward from 2017-18 to next two, three years there could be every year one such opportunity which would again require Rs. 20 crores to Rs. 25 crores of investment every year.
- Dhruv Bhatia:** Sir, all of these will be I mean since your debt-to-equity is comfortable so all of this will be through raising debt or will you be looking at some other?
- J. Laxmana Rao:** Yeah, as of now at least this year and even next financial year we do not have other plans. I think debt and internal generations would be enough to take care unless a major requirement arises.
- Dhruv Bhatia:** For the next three years the plan that you have in place of Rs. 25 crores to Rs. 30 crores of CAPEX almost every year because I would not believe the internal accruals as well as the free cash flow will be enough to service the CAPEX requirements. So is it that you will be only looking at debt or would you be looking at any other forms of capital raising at the moment?
- J. Laxmana Rao:** No, as of now we have absolutely no significant debt in our books and as it is our internal generation I like to differ from you. In spite of a healthy dividend what we pay we still have considerable amounts like this year itself we have almost Rs. 20 crores inflow is coming from operations. So going forward also it will go up. So there will be enough money generated within the company and debt is also easily available because today our long term debt is almost nil. So I do not see a reason for raising equity or other instruments at least for the next couple of years.
- Moderator:** Thank you. The next question is from the line of Jaaneel Jhaveri from JNJ Holdings. Please go ahead.
- Jaaneel Jhaveri:** I just wanted to know for how far are the competitors now in terms of IML, can you speak a little bit about the competition?
- J. Laxmana Rao:** I may not be knowing the reality in terms of where they are in IML. But I hear they have been buying robots, they bought robots last year, three years ago. But I do not see my immediate competitors in the pail industry doing any real activity. But there are other food industry side there are a couple of players I mentioned last time also Milton and Cups and Cones in Delhi. There may be another couple of small players who must have come with IML in the sense for smaller containers you can buy a kind of a total project like machine mold, robot and label from import from Taiwan or some other such countries and produce it for one particular client.
- So such units are coming up here and there but my major competitors like Hi-Tech and Jelly and Parekhs they are I think as far as the supply positions I see from them they are not really moved

much in that direction. But unless they really come out and start supplying I would not know what there internally happening.

Jaineel Jhaveri: And sir, I had also one more question. So in terms of setting up plants is there is a possibility of setting up a plant at the site of the customer say for example if Asian Paints cannot we just setup a line in their facility as opposed to having a separate plant for them?

J. Laxmana Rao: See no clients would like to have us in their same premises. They would like us to be nearby for various statutory and other compliances. So it is not that anybody thinks about having in the same premises. We are within the radius of 10 kilometers they will be fine. Basically why they want nearby is to save on transport cost and have an assured supplies. Because these containers occupy huge space and different brands and different varieties are required at a given schedule plan as per their filling plans. So if they are away and there are disruptions in supply their entire material which they mix and try to sell can get affected. So that is why they prefer to be have us closer not right in their premises.

Jaineel Jhaveri: And sir, last question. You mentioned something about the lid and the utilization of those machines being only at 40%. So is there is a possibility of may be outsourcing that work?

J. Laxmana Rao: No, see that lid though it looks simple it has a very crucial function. It has to be air tight, it has to be leak proof and the dimension and tolerance of the lid has to be closely monitored. So just because it is occupying giving us a lesser output in terms of tonnage outsourcing it can lead to lot of quality issues. So it is not we cannot do that. Actually many people think our containers are very easy and anybody can produce but when you look at the quality and on automatic line filling the tolerance what we maintain are like almost engineering products.

So it is not easy. There may be some containers which do not require such kind of close tolerances and consistency. I am not saying that every injection mold the content that is very closely tolerated but for our industry where we are in in the paint, lube and food the demands and specs of the containers are very high. And it is not easy for everybody to produce it.

Jaineel Jhaveri: And sir, last question. In terms of as your IML contents goes up in terms of revenue do you see your return ratio like your ROC and ROEs improving or do they stay the same?

J. Laxmana Rao: See they will certainly improve but if you see why they stuck around 20% is consistently we are expanding capacities adding new machines and they reflect in the balance sheet or P&L at the end of the year but they do not contribute anything to the sales during the year. So on the ROC and ROE the numbers looked start improving as these investments start yielding results. So going forward I think may be after couple of years you will see certainly a jump in ROC and ROE.

Jaineel Jhaveri: And what other levers do you have right now to increase these ratios or improve these ratios? What other levers are you seeing in your business?



- J. Laxmana Rao:** See the other levers were as it is RAK could be one area where we hope and until now we found that there is a better prospect of higher returns on per kg basis or per rupee invested. But I cannot comment on it unless I see few quarters. So that is one lever I am hoping. And as I said food industry contributions can be much better than paint and lube because in food industry there are not many players who can compete with us in IML, that is one. Second is being volume less business high volumes always give a better return on investment. So that is the area where I see improved returns coming in.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from Geecee Investment. Please go ahead.
- Mithun Soni:** I just missed one question. You said what would be our like so of the 24,000 tons capacity what we have we can run at about 75% to 76% utilization for FY17, is that correct?
- J. Laxmana Rao:** Yeah, the current 24,000 tons and even the 3,000 tons what was added makes it to 27,000 tons on that achieving 70%, 75% is certainly possible in the year 2016-17.
- Mithun Soni:** And one issue will be I think in July as?
- J. Laxmana Rao:** That could be you may not able to get more than 30%, 40% because as it is three months have gone and the rest of eight months it will be more of developing the market and catching up with the quality and other systems. So I would not be aiming at more than I will be happy if we can achieve at least 30%, 40%.
- Mithun Soni:** So in future also like how much capacity addition we keep doing and what will be the normal CAPEX when you set up the brownfield plant?
- J. Laxmana Rao:** CAPEX of every Rs. 20 crores would be adding a sales turnover of around Rs. 60 crores that is a rough benchmark I can say. Sometimes in RAK being little expensive area may be it would be less than three but in India we can certainly see 3 to 3.5 times.
- Mithun Soni:** So the Rs. 20 crores CAPEX gives us how much capacity?
- J. Laxmana Rao:** Rs. 20 crores in India can give us about 4,000 tons.
- Mithun Soni:** Which can operate at about 75% odd utilization?
- J. Laxmana Rao:** Yes, 3,000 tons, 3,200 tons you can reach in the third year but what happens is when you are adding additional there you would not be spending again Rs. 20 crores, you will be spending hardly Rs. 10 crores. You can enhance it from 4,000 tons to 8,000 tons.
- Mithun Soni:** So from the existing locations where we have the plant both in RAK as well as India what is the potential to add to take the total capacity to?

- J. Laxmana Rao:** See everywhere based upon the regional demand we keep adding. In Satara we added because Asian Paints have asked us to expand we expanded and in Daman we found that the regional buying has increased so we enhanced at Daman. We have enhanced at Hyderabad Annaram that is mainly for the food edible oil square containers and food. Because currently all our food products are produced at Hyderabad. Just now we started one line at Satara. So gradually let us say in Daman also if there is a need we can add two or three lines for food products. So that will be at a marginal cost.
- Let us say Daman so far we have spent let us say I do not have the number may be let us say Rs. 20 crores, Rs. 25 crores next year may be that is giving around 7,500 tons is the current capacity there. So let us say we spent Rs. 30 crores to create it. Next Rs. 5 crores can add another 2,000 tons there. I do not need to spend again Rs. 10 crores to get the 2,000 tons which is a general norm if it is a greenfield project. If it is an existing project with half the funds itself we can get the capacity.
- Mithun Soni:** So in case of the paints and lubes where we are already doing business with Asian Paints so wherever they are expanding they will ask us to expand this is an ongoing business. But in case of the other areas like food and everything is it that the market is moving more towards these types of products or it is just that you are taking some market shares?
- J. Laxmana Rao:** Both the things actually. Market share we are taking away as and when our existing clients shifted to IML but in the food it is a completely a virgin market because most of our Indian containers food products are in sachets and in some kind of low molded containers they are not in world standard itself packaging. If you look at even a country like China if you travel and see there the IML has got up very well. Now I would say IML consumption is at least 50 times more than what or may be 100 times in that country compared to India. So there is a long way to go in IML food containers.
- Mithun Soni:** So for us what is the broad outlook you like to give over the next three to four years for us in terms of where do we see our output or capacity or volumes we think we can do?
- J. Laxmana Rao:** In food?
- Mithun Soni:** In food or in totality, food, paints, lubes everything?
- J. Laxmana Rao:** Total now we are at 44% I just answered to some other gentleman now.
- Mithun Soni:** You mean to say the total in terms of like say this year we did about 18,000 tons so what sort of outlook we think we can achieve or what sort of growth basically both coming basically from the organic growth as well as taking new markets and new products and everything. So what sort of volume growth we think we can achieve on 16,800 tons what we have done?
- J. Laxmana Rao:** We have done around 16,880 tons and we are even get as I mentioned to you a CAGR of between 15% to 18% in the coming years.

Mithun Soni: At the volume level?

J. Laxmana Rao: Volume, I am talking about volume because in rupee terms I can never.

Mithun Soni: I agree to that. And as the mix you said is the mix you change that is where the margins can change?

J. Laxmana Rao: Yes.

Mithun Soni: One last question on the margins. You said the regular HTL products the margins are in the range of 13% to 14%?

J. Laxmana Rao: Not HTL it is screen printing.

Mithun Soni: And IML is 4% to 5% higher than this one so it will be in the range of about 17% to 18%?

J. Laxmana Rao: Yeah, IML or HTL more or less we have similar margins.

Mithun Soni: And food is in the range of 20% to 22%?

J. Laxmana Rao: Exactly.

Mithun Soni: And is this just because the product is more customized and the quantities are lesser, is that the reason or what is the reason why we are able to make better margins here?

J. Laxmana Rao: One of the reasons is the product is superior within decoration and hygiene standards. Number two is we are the fully integrated company we manufacture the label ourselves, we even manufacture the robots ourselves. We are the only packaging company in the world is producing its own robots in house. So that advantage is what gives us for better realization. So that will continue for some more years at least.

Mithun Soni: So that is differentiation which helps us to get to sell the margins?

J. Laxmana Rao: Yes, now let us for example Ariel we are developing a product more or less may be in a month's time there will be confirmation from P&G. There we are developing entire system. The molds we are developing, and we are developing the robots that suites to the shape of the container we have planned for them. So we are such people in packing industry I mean such companies are very I cannot name a second company as of now in India. So we have such complete integrated stabilities in giving a total solution in packaging right up to developing its technical needs like robots, molds, labels. And first of all to give a concept right from concept to their marketing till delivery. So we are one kind of a different company.

Mithun Soni: Last question on the working capital side debtor days would be in the range of about 60 days for us?



J. Laxmana Rao: Working capital debtors you mean to say?

Mithun Soni: Yes, debtors.

J. Laxmana Rao: Yeah, our typical debtors are 45 days to 60 days.

Mithun Soni: And on the credit side how is the situation?

J. Laxmana Rao: Credit side if we take credit from raw material suppliers we end up paying heavy interest rates. So we always on cash with raw material. Consumables and others we will get typical trade credit like 30 days to 45 days.

Moderator: Thank you. We have the last question from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.

Suvarna Joshi: Sir, just one follow up I had. You mentioned about the Asian Paints contributing still a sizeable number and they have not yet shifted to IML. So how are the planning to reduce this particular dependence on Asian Paints? Are we looking at other paint companies like Kansai and Berger and AkzoNobel or are we going to continue with the status as it is right now?

J. Laxmana Rao: No, I told you they have shifted to HTL now at least which is a step forward and in HTL also there are reduction of labor, space is reasonably good compared to screen printing. I would say it is 75% better than screen printing if IML is 100% better. So that is a step they have taken recently. So slowly they are shifting to HTL and I am still pitching to asking them to change to IML but they have their own internal reasons like single supplier and other concerns. But in future probably there is a possibility that once the other suppliers also come out with the ability they might go for it.

Suvarna Joshi: And sir, just if you can like last con call you mentioned that edible oil industry has a potential of about Rs. 900 crores as such in India. So could you just help us understand what could be the potential for the paints industry and lubricant industry in India?

J. Laxmana Rao: Paint industry I think I already mentioned to you the overall it is just the including the what you call unorganized sector can give a pail demand close to Rs. 2,000 crores to Rs. 2,500 crores. Organized sector could be in the region of Rs. 1,500 crores to Rs. 1,600 crores and unorganized is another Rs. 700 crores to Rs. 800 crores. So it should be between Rs. 2,200 crores to Rs. 2,500 crores which is my guess. Lubricants is much smaller. It must be less than Rs. 800 crores to Rs. 900 crores.

Suvarna Joshi: And we maintain a market share that we hold in the lubricant space which is about 80% as such, right?

- J. Laxmana Rao:** I would not say 80% because in the public sector if you count then it will be much less. I am talking in the private sector like other than PSUs we are very high like say 75% to 80%. But that you have to exclude PSUs and unorganized sectors.
- Moderator:** Thank you. I will now hand the conference over to Mr. Kshitiz for closing comments.
- Kshitiz Prasad:** I would like to thank the management for giving us the opportunity to host this call. Thank you.
- J. Laxmana Rao:** Thank you very much all the participants. Thanks for your patience and interest in our company. I look forward to talking to you in the coming quarters.
- Moderator:** Thank you. On behalf of Emkay Global Financial Services, we concludes this conference. Thank you for joining us and you may now disconnect your lines.

