BOROSIL®

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November 17, 2023

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 **Scrip Code: 543212**	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block - G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 **Symbol: BOROLTD**

Dear Sirs,

Sub: Transcript of Institutional Investors and Analysts Conference Call

Please find attached transcript of conference call with Institutional Investors and Analysts held on Thursday, November 09, 2023.

The aforesaid transcript is also available on the Company's website at www.borosil.com.

You are requested to take the same on records.

Yours faithfully,

For Borosil Limited

ANSHU ARVIND AGARWAL
Digitally signed by ANSHU ARVIND AGARWAL
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Anshu Agarwal
Company Secretary & Compliance Officer
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Encl: as above

"Borosil Limited

Q2 FY '24 Earnings Conference Call"

November 09, 2023

MANAGEMENT: **MR. SHREEVAR KHERUKA – VICE CHAIRMAN, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BOROSIL LIMITED**
MR. RAJESH CHAUDHARY – WHOLE-TIME DIRECTOR – BOROSIL LIMITED
MR. ANAND SULTANIA – CHIEF FINANCIAL OFFICER – BOROSIL LIMITED
MR. BALESH TALAPADY – VICE PRESIDENT-INVESTOR RELATIONS AND BUSINESS ANALYSIS – BOROSIL LIMITED

MODERATOR: **MR. RAHUL DANI – MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Borosil Limited Q2 FY '24 Earnings Conference Call hosted by Monarch Networth Capital. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Rahul Dani from Monarch Networth Capital. Thank you, and over to you, sir.

Rahul Dani: Good afternoon, everyone. On behalf of Monarch Networth Capital, we're delighted to host the senior management of Borosil Limited represented by Mr. Shreevar Kheruka, Vice Chairman; MD, and CEO; Mr. Rajesh Kumar Chaudhary, Whole Time Director; Anand Sultania, CFO; and Mr. Balesh Talapady, Vice President, Investor Relations. We will start the call with opening remarks from Mr. Shreevar, and then we'll move to Q&A. Thank you, and over to you, Shreevar.

Shreevar Kheruka: Thanks, Rahul and Monarch for arranging this call. Good afternoon to everyone of you. The Borosil team is delighted to be communicating with all our investors once more. Borosil Limited's Board approved the company's financial results of Q2 and H1 FY '24 on November 8, 2023. Our results and an updated presentation have been sent to the stock exchanges and have also been uploaded to the company's website.

Our consolidated revenue from operations during the first half was INR562.6 crores as against INR487.6 crores. That is a growth of 15.4% over the same period last year. During the half year, the company achieved a consolidated EBITDA that is before exceptional and one-time items, including investment income of INR81.1 crores as against INR71.4 crores last year. The EBITDA margin was 14.4% as against 14.6% in the corresponding period in the previous year. Profit before tax during the first half was INR41.3 crores as against INR59.8 crores in the first half of last year.

Last year, during the first half, we had an insurance claim, resulting in an exceptional gain of INR5.1 crores, whereas this year, we had a one-time expense of INR2.8 crores towards due diligence expenses of acquisition opportunities. Also, the investment income is lower by about INR2.8 crores during this year versus last year as compared -- and also depreciation and finance costs are higher by about INR20.3 crores, primarily due to the new Opal furnace being commissioned during Q4 FY '23. During the first half FY '24, Borosil recorded a consolidated profit after tax of INR29.9 crores as compared to INR44.7 crores during the same period last year.

Coming to our business side performance, Borosil Consumer business comprising glassware products and non-glassware products under the brand Borosil and its opalware range under the brand Larah started with a strong performance of the sales of INR411.2 crores as against INR358 crores during the same period last year. That is a growth of 14.8% over H1 FY '23.

Here, I would like to highlight that the sales and growth for H1 FY '24 compared to H1 FY '23 should be interpreted in the context of Diwali festival being postponed by one month this year. Sales of glassware products remained flat at INR88.1 crores as against INR87.6 crores in H1 FY '23. Non-glassware products grew by 13.9% to reach a turnover of INR165.1 crores during H1 FY '24. We saw good growth across all our ranges and all channels. Non-glassware sales of the Borosil brand now comprise about 65% of revenue. Our opalware brand Larah achieved sales of INR158 crores in H1 FY '24, a growth of 25.9% over last year.

Borosil's Consumer business over the past few years has been substantially derisked from being primarily in one category that is microwavable glass products, and we have built successfully three strong pillars, which provide a solid platform for future sustainable growth. Each of the three verticals of glassware and non-glassware and opalware have achieved reasonable size, and we are confident to grow all these further as penetration and frequency of use in these categories grow.

We continue to introduce new products and designs for everyday use in storing, preparing, cooking, heating and serving. Our recent introductions include air fryers, hard anodized pressure cookers, opalware lunch boxes and storage containers, cooking gas stoves, chopping boards and entire range for chopping. The EBITDA margin for the Consumer business was 16.6% as against 13.8% during the first half of last year. We have seen a softening of direct costs, including fuel and raw material prices throughout the first half. We continue to observe rises in the margin as sales rise, and we have operating leverage kick in.

Nevertheless to raise customer awareness and increase brand presence the company will continue to invest in marketing for both Larah and Borosil. Right now, our main goal is to grow our brand franchise. It is upgrading and converting customers from plastic, melamine and steel to glass storage and opalware as well as bringing more people in the category of microwavables. We keep bringing in new items to broaden our selection including portable high-grade steel products and home appliances.

We want to establish Borosil and Larah as a go-to brand in the contemporary Indian kitchen for everyday storage, preparation, cooking, heating and serving needs.

Moving on to the Scientific Products division, net sales during this first half of FY '24 were INR151.4 crores, which is a growth of 16.8% over the same period last year. This includes sales of INR15.6 crores from the recently acquired process chemistry business of Goel Scientific of about five months.

Our Scientific Products business comprise four product ranges now, laboratory glassware, laboratory instrumentation under the brand LabQuest, primary glass packaging for Pharma customers under the brand Klass Pack and the recently acquired process chemistry business.

During H1 FY '24, lab glassware sales were INR88.2 crores that is a growth of 5.9% over last year. LabQuest instrumentation was INR12.5 crores that is a growth of 14.7%. However, Klass Pack had a slight degrowth of 0.7% with the sale of INR35.2 crores and Goel Scientific, as already mentioned, was INR15.6 crores.

We have identified several strategies to drive long-term sustainable growth in our Scientific division. The government's initiative to procure through the government e-marketplace is gaining momentum. This channel mitigates receivables risk and could potentially streamline order processing directly from government agencies to Borosil. The expansion into new product categories leverage our expertise in lab glassware and provide cross-selling opportunities. The company is actively expanding its customer base, and we are looking to go into new industries such as food, which have not been traditionally our customers before.

Additionally, we are also establishing an OEM business line to supply critical items to some customers. With these initiatives, Borosil is well positioned to maintain its dominant position in the domestic market. Furthermore, the company is also experiencing healthy export sales growth of lab glass products as well as vials.

In lab instrumentation, Borosil Technologies is committed to expanding its product offerings and customer base. Recent advancements include the introduction of a mini pilot lab reactor, bottle top dispenser for hazardous acids and a range of products catering to nutrition and environment sectors.

Leveraging its established customer relationship in the lab glassware business, Borosil aims to enhance customer penetration for LabQuest products. Additionally, the team's recent launch of process system has opened doors to new customer segments, including API and bulk drug manufacturers as well as chemical producers.

In the Pharma Packaging business, while we successfully gain through new customer acquisitions, our Q1 results reflected a decrease in revenue on a year-on-year basis from a few existing clients. However, Q2 has grown by 22.8% on a YoY basis. This is a promising sign. We believe, going forward, we'll be able to maintain this momentum. However, if you look at the entire half one, we are still slightly lower this year versus last year in the Pharma Packaging space.

Through Klass Pack limited, our subsidiary, the business purchased 94.73% of the shares in Goel Scientific in FY '24. With this transaction, Borosil's Scientific business will benefit from multiple synergies. It will expand our current product line by adding complementary products that can benefit from our strong sales and distribution network as well as our brand. This is the combination of Borosil's R&D capabilities as well as Goel Scientific's specialized glass blowing talent will allow the company to provide its clients top-notch goods that are created & that are manufactured in India.

Deeper market penetration, entry into new markets, improved product offering and an inventive range of products will allow us to benefit and drive synergies from the merged company. EBITDA margin for Scientific products during H1 FY '24 was 9.4%, which is a substantial decline as compared to 16% in H1 FY '23. This is mainly driven by the losses, we have had in LabQuest as well as in Goel Scientific. And the reasons are slightly different. In the case of LabQuest, we've been investing in growing our technical team and R&D expenses are more than proportionate than the increase of revenues. It's a very nascent business. It's a young company, and therefore, it will lose some money as we go through the investment phase. However, as the company grows, and the product range increases, these expenses will normalize and it may take another one year or two years for this to happen. The cost of prototyping will also reduce as a percentage as we scale the business.

In Goel Scientific, margins have declined because of lower sales and higher fixed costs. However, it's the first five months that we acquired the business. There are many synergies that are yet to be put into place. And it will take some time for the culture adoption to also happen. So we expect much better results going forward.

As far as Klass Pack is concerned, EBITDA margin has declined in this year compared to last year, primarily owing to -- again to lower sales during the period. The gross profit was also lower owing to increase in direct costs that could not be passed on to customers. However, we see the situation has improved in Q2 compared to Q1 and we should see even better Q3.

And we are speaking with many customers who have potentially large order volumes and we hope these should kick in, in the next quarter or two.

Coming to capex, the new borosilicate pressware facility of 25 tonnes per day in Jaipur is estimated to be commissioned in Q4 FY '24 -- in the early part of Q4 FY '24.

Coming to other corporate action, in previous communications we detailed our intention to reorganize the company's operations into two distinct entities, which were both traded on the stock exchange through a comprehensive arrangement scheme. The appointed date for the scheme is 1st April 2022.

We are very pleased to inform you that the NCLT Mumbai bench vide its order has sanctioned the Composite Scheme on 2nd, November 2023, and we have received a certified copy of this order on 6th November 2023. As a next step, we need to file certified copy of NCLT order with the "Registrar of companies" to make the scheme effective, and we believe listing of Borosil Scientific Ltd will happen sometime in the month of January 2024.

We continue to be very optimistic about both the Consumer and Scientific businesses' medium-term prospects. Even though there may be occasionally slow growth along with cautious consumer behavior, we expect strong growth in our industry due to positive long-term tailwinds. Our main priorities will be expanding our customer base, launching cutting-edge new items and streamlining our supply chain as well as marketing channels. We will continue to make investments to bolster our brand's feasibility.

To guarantee steady growth in the Scientific sector, we intend to leverage our dominant position in lab glassware. Our goals are to increase our pharma packaging offering to Klass Pack and support the growth of instrumentation industries through LabQuest mainly import substitution. And we endeavor to get double-digit revenue growth for this business in the medium term.

With that, I'd like to throw the floor open to questions. Thank you.

Moderator: The first question is from the line of Rahul Dani from Monarch Networth Capital.

Rahul Dani: Shreevar, thank you for detailed explanation and congratulations on a good set of numbers. Shreevar, just coming to consumer, Diwali has been shifted this year. So how do you see the overall demand trends? I believe in today's interview you were seeing some slowdown. So just wanted to get some understanding how do you see the demand condition in the consumer side of the business? And how do you see the margin sustaining in this division?

Shreevar Kheruka: Yes. So look, when I say slowdown, frankly, we had -- given last couple of years, we had expected the growth to be higher than what we are seeing. So that's -- in that context, I would say there is a slowdown compared to expectations. However, I think we've done fairly well. If we look at even the first six months, we have had a growth of roughly 15%, 16% on the consumer side of the business. And if I look at what's happening in the market with other listed players, we may be slightly better off than them.

That being said, there is definitely even at Diwali time, there's been -- the momentum has been not as expected. And it's hard to really know what the reason is. But I see that there is some pressure on sales. Maybe it's the opening up of the market a lot more opportunity available for customers to buy many more goods than in the last couple of years because of COVID supply chain were in trouble. So now that's all gone away. So maybe that's what it is.

Margins, I see -- margins continued improving as we have -- as already mentioned operating leverage has started kicking in and as we grow our sales, even though at a slightly lower pace than what we had internally thought that operating leverage will continue to kick in and margins will keep growing. So I'm not so concerned about margins frankly.

Rahul Dani: Sure. And just on your opalware division, what kind of capacity utilization have you reached? And also we're hearing Cello is also setting up a new capacity for opalware. So do you see enough demand for opalware? Or do you see some kind of pricing pressure to also to come in opalware?

Shreevar Kheruka: Well, I mean as far as our capacity utilization is concerned on the Opal side of the business, our -- I think we'd be closer to 75%, 80% now, okay, which is quite good. And we hope that we can come -- you really -- the business start making a lot of profit in the last 20% of sales. So we hope we can achieve that in the coming year, which is -- I mean, even this number is quite good because we doubled the capacity in the last year. So as we close the year, if we are -- if we achieve 75% even, I think that would be very attractive from a performance perspective. And I hope we can do that for this year. And next year, we should tend closer to the 100% level.

As far as competition is concerned, -- there's obviously competition. But I'm not sure that the pricing is coming from other Opal players or whether it's coming from other product categories, such as, like I said, bone china or melamine. I think the pricing pressure is there across all categories and not specific to any one player that you may have mentioned here.

New capacity. I think whatever they come up with this already but some announced a while ago, and I don't think there's any news further over that which is my information on that.

Rahul Dani: Sure. Just a last question from my side. In the Scientific division, the profitability has improved. How do you see this for the year -- for the full year? What kind of margins can you expect in this Scientific division?

Shreevar Kheruka: See in the Scientific division, there are basically three drags of profit there. One has been LabQuest and that is mainly more investment-driven. And that -- okay, to put it out of the way, when we say set up a new capex on our Consumer side, we're spending INR200 crores, INR300 crores, INR400 crores on capex. And then that is going to be a gross block. In the Scientific division, that's not the case. We are putting in the same kind of thought process in new product except you're not putting it in plant and machinery, you're putting it in a way of people and knowledge. So it doesn't show -- you can't put it -- as capex, but the fact is that you're just building capability which is the same thing like putting up a new furnace, you're building capability.

But unfortunately, the accounting standard is that you have to write it off. So that is a drag on the P&L for sure in the short term as far as LabQuest is concerned. However, on the flip side, when you get through that period and you are able to leverage that knowledge you've built and you're able to sell those products at some scale then these -- suddenly the margins look very good because you got to have -- you have no gross blocks. So your return on capitals are looking very interesting.

So that is one big drag for growth of our profit margin there on the Scientific side. The other one, like I said, before is that Goel Scientific we acquired the company. There are certain challenges in terms of cultural integration and in terms of, let's say, improving sales, driving synergies, which I think will take some time, which is the case with any acquisition. And that in the initial period has also dragged our profit down.

And on Klass Pack, I think there this is more a business issue which we need to resolve for, which is lower pharma packaging demand. So out of three, two issues that are well within our control, pharma packaging demand is not really within our control. So the first two issues, I think, will help us rebound and in fact -- let's say, whatever our steady-state margins where, we should be able to really surpass them in the next -- I don't know about next six months, but definitely in the next 18 months, I think that should happen.

Scientific business is something which is a very attractive business from a cash flow and from a steady-state return on capital employed perspective, disruption is also lower here. So it's a very good defensive business and we will continue growing that business to the best we can. And I think the margin profile, like I said, will bounce back to the norm if not higher than the norm once these two issues that are highlighted come under control.

Moderator: The next question is from the line of Priyank from Vallum Capital.

Priyank Chheda: And many congratulations for scaling up the opalware side of your capacity. If you can highlight how has been the growth in the markets within domestic and exports? How has been the growth over there? And which channel you have seen the most aggression coming up with your new sales -- new capacity getting consumed?

Shreevar Kheruka: Look, I think for us, we are primarily a domestic player. Of course, we have exports, and we do sell in various markets globally. But I would say 90% of our revenues comes from domestic. So while we are trying to scale up our export business, the numbers are not as big and worth discussing at the moment. But on the domestic side, we have seen growth actually across virtually all channels, whether it's trade or large format retail.

Large format retail was very badly impacted for many years, last three years, four years. So right from COVID, then some changes in the industry with the leading players shutting down or going into bankruptcy. So we see some bounce back there. And -- even e-commerce, of course, has been strong.

So I would say it's fairly broad-based growth on the opalware side, and that's the reason we have been able to consume some amount of our capacity that we -- a reasonable amount of our capacity that we've added. Also, I would say it's driven -- we've introduced some new products, which have also helped.

So overall, I'm quite satisfied. Like I said, if the market has been a little bit better, I think, it would have been -- it would have just given us a little bit extra edge, but unfortunately, that's not been the case yet. But we are always here to continue trying. And I'm sure we will be able to consume the entire capacity in the next -- like I said before, by next year.

Priyank Chheda: Perfect. Sir, our ground channel checks do suggest that market leader also has a large capacity unutilized and they have been aggressive in the modern trade. But when you say the competition and consumer having more choices available now, have you seen any significant change in the industry competitive landscape as well as if you can elude more on the price changes within bone china, melamine, are they hurting more? Or is it the industry themself having more supply and having a higher competition? Or there is no change as such?

Shreevar Kheruka: Look, at the margins there may be something plus/minus in some specific markets or in some specific product. But broadly, I don't see any substantial changes in the industry itself. Yes, I do believe that this year, there has been higher unorganized players in general in all spaces. And, therefore, there has been competition more from the unorganized sector. That's my belief. I don't have any data, frankly, to back it, but this is an anecdotal kind of point I'm sharing with you.

And that has been more of a challenge versus our direct competitors doing anything on pricing. I don't believe that -- they're all very, I would say, responsible players and they're all very organized, and I believe that they continue acting in that fashion. So I don't see that as a stress at the moment.

Priyank Chheda: Perfect. And sir, just on the clarification, when you say our capacity is 84 tonnes per day which roughly adds to 30,000 tonnes. This would be a nameplate capacity, right? How much of the capacity or the production that we can have at the optimal level? If you can help us with that.

Shreevar Kheruka: About 80% of that.

Priyank Chheda: 80% would be an optimal level.

Shreevar Kheruka: Yes.

Priyank Chheda: And in the existing plant, do we have any further space to add further any furnace or once this comes for a shutdown or maintenance, we will have to move for a greenfield, right, in case we want to add further capacity?

Shreevar Kheruka: So in the same plant, our third furnace for borosilicate glass is coming. So that is already coming at the same plant. And that also, we are putting up 25 tonnes per day plant. We can increase it to 42 tonnes okay, in the same plant. But, yes, beyond that third furnace to put a fourth one, we have to -- if the time cost of that, then that may have to be at a different location. Any land available -- there's land available, we could also buy -- put it there. But even strategically, we may wish to put it somewhere else.

Priyank Chheda: Right. And that's applicable for opalware division also?

Shreevar Kheruka: That's right. Because, yes, the opalware and the glass pressware both are at -- in Jaipur only. They are the same plant.

Priyank Chheda: Got it. Sir, if you can help us, how much would be our loose sales within the opalware category? And how many new designs do we generally come up in a year, if you can help us on the opalware side?

Shreevar Kheruka: I'm sorry, I don't understand what does loose sales mean?

Priyank Chheda: I'm saying a non-set -- dinner-set which is sold, there would be a place which are sold in a stand-alone basis. I mean loose packets which are also getting sold. Do we have any segment sales over there?

Shreevar Kheruka: I don't think we have anything of any nature like that. That's -- I mean we could be selling whiteware, which is -- I don't know if that's you mean by looseware, but whiteware is sold, which is just without a design, but it's sold in proper packaging and everything. So I'm not sure what you mean by looseware. But we are selling, I would say, even whiteware sales are very low for us, mainly we're selling dinner-sets and gift sets per se.

Priyank Chheda: Got it. And how many designs we plan to introduce every year?

Shreevar Kheruka: There is no -- I mean, it depends on customer feedback, but we have, I would say, at least 20, 30 designs every six months come out at least, maybe more.

Priyank Chheda: Got it. And just last question on how has been the Diwali sales while we have been into this month, if you can help us with that?

Shreevar Kheruka: So I believe I already addressed the point that sales have not been -- I mean you look at the -- if you look at the first two quarters and sales have been more or less in line with that maybe there's been some bump-up for Diwali. But I can't say it's been a bumper Diwali nor can I say it's been a disaster. So it's going okay. I obviously can't share exact numbers with you.

Moderator: The next question is from the line of Pratik from Girik Capital.

Dhaval: Yes. This is Dhaval from Girik Capital. Nice to see the ramp-up that's happening in the opalware. Sir, my question is on the balance sheet front. First being the investment, there is a markdown of around INR4 crores compared to March. And there is also an expansion in the working capital. So if you could help us understand what is that -- is it seasonal? Or what is it? Yes.

Shreevar Kheruka: As far as working capital is very clear. There is -- it's a seasonal thing because end of September would be the highest level of working capital and that also is mostly inventory, frankly. At the end of September, inventory would be at the highest point because Diwali is in November. So there's no -- if you compare September to September last year, there would be some change, but not that material. Coming to the markdown -- this, I'll let my CFO answer this question.

Anand Sultania: The markdown on the investment is temporary, I think should get...

Moderator: Sorry for the interruption, sir. Can you please come closer to the speaker, your voice is very low.

Anand Sultania: Markdown on the investment is a temporary markdown. In a real estate fund, basically, where we had invested maybe about seven years, eight years back, and we believe this markdown should go in the next three month to six months.

Dhaval: Okay. So you will -- there'll be a markup again is what you mean?

Anand Sultania: Yes. I mean -- I think we have spoken to the fund manager. I think it's temporary in nature, and we should again be able to markup basically this by the end of this year.

Dhaval: Okay. And this other current assets has gone up from INR33 crores to INR58 crores. What is it -- what is leading to this increase compared to March?

Anand Sultania: This is primarily on account of our GST credit because we have done a lot of capex now, and we have accumulated a lot of GST credit. It's primarily because of that.

Dhaval: Okay. And how do we see the debt on the books currently and going forward post the demerger, how will the debt be on the Consumer side of the business and the Pharma side of the business?

Anand Sultania: So the overall debt on the business as on 30th September is about INR215 crores, and we have about INR90 crores of cash. So net debt is about INR125 crores. The borrowing will be primarily on the Consumer business.

Dhaval: Okay. And so -- and on the capex front, how are we placed for this year and the next year on the Consumer side?

Anand Sultania: I think most of our capex is done this year. I think maybe about INR30 crores, INR40 crores is left for this year which is primarily because of the borosilicate furnace. And next year, as far as the project is concerned, we don't have any capex. It will be -- all be maintenance capex only.

Dhaval: Maintenance capex, Okay, okay. So that would be roughly equal to the depreciation amount?

Anand Sultania: Broadly.

Dhaval: Broadly. Okay, fine. So now we did around INR130 crores purchase of plant and machinery, another INR30 crores, INR40 crores will be spent in the current year. And we paid around INR20 to INR23 crores for the -- towards the purchase of as an acquisition. And the entire payment is done, right, for the acquisition?

Anand Sultania: Yes.

Dhaval: Okay. There's nothing further pending. Okay. Okay. Okay. So then our debt should be then -- should be this peak number, right, INR215 crores ?

Anand Sultania: I don't think that we need to take further debt.

Dhaval: Okay. From at least a 1-year perspective, this should be the number.

Moderator: The next question is from the line of Manav Vijay from Deep Financial Consultant. Please go ahead.

Manav Vijay: Sir, I just want to ask you, first of all, if you can tell us, so of the roughly INR190 crores of CWIP, that is standing in books as of now. So some, I believe, would be for the pressware, which you already mentioned will become operational in quarter 4. If I remember that correctly, sir, pressware was roughly INR100 crores of capex, rest INR90 crores stands for what?

Shreevar Kheruka: So again...

Anand Sultania: Yes. So the overall CWIP includes basically one is your borosilicate as you rightly said. And then there is a solar project which is a 6.5 megawatt solar project that we are doing in the state of Rajasthan. So that capex is around INR40 crores. So that is also something which is a part of the CWIP, and that will be -- that has been -- just been commissioned as we see.

Manav Vijay: Okay. And this 6.5 megawatt will help you to have what kind of savings in your power cost?

Anand Sultania: Or maybe approximately about maybe INR6 crores, INR7 crores a year.

Manav Vijay: INR6 crores, INR7 crores a year. Okay. And this pressware will become operational in quarter 4? What about the borosilicate capex when that will become operational?

Anand Sultania: Yes. So the project will be commissioned somewhere in January 2024, and which is where we will capitalize this entire project once the commercial production is in place.

Shreevar Kheruka: It's the borosilicate. That's the same.

Anand Sultania: Yes. That's where is the borosilicate, that's it.

Manav Vijay: Okay. And tubing project anyways is -- as of now is on a back burner?

Shreevar Kheruka: That's right.

Anand Sultania: That's right.

Manav Vijay: Okay. Perfect. My next question is, sir, as of now, on a roughly INR650 crores to INR660 crores of gross block, we are doing -- so we have roughly around INR64 crores kind of a depreciation, which is actually 10%. Now within this year, another roughly INR200 crores will get added to the gross block. So that -- so we move probably INR850 crores, INR860 crores. So next year, would be around INR90 crores of depreciation? Would that be a safe number to work with?

Anand Sultania: No, sorry, how have you arrived at that INR90 crores number?

Manav Vijay: So basically, as of now, we have around INR660 crores of gross block, okay? Approximately INR200 crores will get added to the gross block in this year. That takes up to around INR850 crores to INR860 crores. We have INR16 crores of depreciation in this quarter. On an annual basis, it becomes INR64 crores. So approximately 10% of your current gross block?

Anand Sultania: Yes.

Manav Vijay: Now when you add INR200 crores further to it, so 10% depreciation on that as well for the next year. So INR85 crores to INR90 crores, is that a safe number to work for depreciation?

Anand Sultania: Yes, you can assume the numbers.

Shreevar Kheruka: Yes, broadly you're right. Yes.

Manav Vijay: Yes. Okay. Perfect. And the last question is, sir, if you can also tell us the tax rate for this year and next year?

Anand Sultania: We have a 25% tax rate for this year as well as for next year.

Manav Vijay: 25%?

Anand Sultania: 25%, yes.

Moderator: The next question is from the line of Aditi Bhatted from Niveshaay.

Aditi Bhatted: Congratulations for the set results in quarter 2. Sir, I wanted to understand in the Klass Pack division, we have already completed the capacity expansion -- the investment in the capacity expansion. And we don't see any further demand from domestic markets in Klass Pack is it? Or do we -- are we targeting on some export demand for the same?

Shreevar Kheruka: Yes. Look, export sales have been going quite well in Klass Pack. Unfortunately, they've been hidden by the domestic reduction in sales. So domestic market for injectables has slowed down. In fact, two of our main customers have had challenges, one with U.S. FDA kind of issues. And the other had moved their product to DPCO product, which means that they want a lower cost option. And that's the reason we've had some reversals there. So we are looking at other customers, and we continue to kind of try and find alternative usages for our product, both domestically and in exports. And yes, unfortunately, we've done a lot of capex, but our capacity utilization is very, very low at the moment.

Aditi Bhatted: So sir, from the current facility, what would be the capacity utilization for Klass Pack? Are we utilizing completely or even that is underutilized?

Shreevar Kheruka: No. We -- see the capex is already deployed. So now the capacity has gone up and we would be utilizing less than 50% of our capacity at the moment.

Aditi Bhatted: That's including your capex, right?

Shreevar Kheruka: Yes. Maybe around 40%. Yes, that's the issue.

Aditi Bhatted: Okay. I got it. And how do you see the growth market for opalware because we were targeting good export demand for opalware from Europe and other areas also. So do we see -- so is it in line with our expectations?

Shreevar Kheruka: Yes. So exports, as I already mentioned earlier, it's roughly 10% of our business and it's growing at the same rate as the domestic business, meaning that 10% share has been protected. And we have been focusing more on domestic market in principle because we get higher realization here. But exports also we've been trying to grow our brand in the Middle East. We got good traction there and in some parts of Europe, as you mentioned, we are selling as OEM. And the demand is growing well, but I can't say that we are looking to sell a large chunk of our capacity. It will be in the range of 10%, maybe to 15% only in the export market.

Moderator: The next question is from the line of Hitesh from Kosha capital. Please go ahead.

Hitesh: Sir, could you give some more details on what is happening in Goel Scientific? When do we expect the integration to be complete and by when do you see a break even? And also what is the steady-state margin that probably we can have from this vertical?

Shreevar Kheruka: See Goel Scientific -- we acquired the company end of April, early May. It's been about five months or six months that we acquire the business. There are many things that we need to put in there, for example, SAP, we have deployed SAP there to get the information flow to be on a daily basis. There are things which are -- there are basic things in terms of the sales processes, the production processes, all of it takes time moving from one culture to another culture or it just takes its own time. Lot of training has been done to the people. So my view is integration will be take another six more months to get this into the same kind of setup that we have here at Borosil.

As far as the margin profile, it actually is quite attractive. So if you see the gross margins are good. The problem is that there is a lot of -- the leverage we need to get in terms of the product and selling -- there's a lot of opportunity, which is not being captured yet. For example, the sales team doesn't exist in the east of the country. We want to expand sales in the east, even in the south of the country we need to improve our sales in Hyderabad. That's a market where there is a lot of potential.

So on all fronts, whether it be sales, whether it be operations, whether it be procurement even there are challenges, which we are addressing. But we have to take the team along. There's a training aspect associated with this. There's a culture aspect associated with it. So I think six months is what it will take.

Margin profile, I've had to benchmark, it would be similar to our Lab Glassware business in terms of relatively good margins -- high margins, but at the moment we don't see them because of the -- they are operating at a much lower level of efficiency than I compared to what we are used to. And we'll get there. It's just we have to go through this time.

Hitesh: Sure. Got it. So it's an order book-driven business, right, where you will have requirements from the clients and then there would be an execution phase also. Could you share what is the current capabilities that you have, what is the scale that it can attain? And what is the current order book that this division has?

Shreevar Kheruka: We acquired the company at about INR50 crores roughly of revenue, INR50 crores, INR55 crores, I can't remember the exact number, but in that range, okay? And I think with the current capacity, we should be able to do more than INR100 crores. At the moment, we are doing hardly INR4, INR5 crores a month. So we have a long way to go.

Hitesh: Got it. And sir, the next one is on the Pharma Packaging because I think this is one vertical where we have been on an investment mode, right, since you acquired there are a lot of process issues which we got corrected, then we had some low-margin clients which we read out. And right now, the scale that we see is actually the lowest -- post-COVID this is the lowest that we have. So I mean what are the challenges that you are facing in this business? And when can we really see a big turnaround that we spoke about when we initially acquired this business?

Shreevar Kheruka: So if you see the journey of this business, we acquired it again with a turnover of some INR28 crores, INR30 crores, if I remember correctly. We scaled it all the way up to INR110 crores within four years of acquiring it. And then in the last two years -- 1.5 years actually, so we obviously, in order to scale it up, we invested in capex, we invested in better equipment, a lot of camera inspections so to match the needs of our customers, automation and so on. We definitely had a setback in the last 12, 18 months, and it's not grown in the way that we had expected it to grow. So I think there was some miscalculation there from our side.

As far as the future is concerned, like, I already mentioned earlier in this call, exports have been doing very well. It's unfortunately that effort has been hidden because domestic sales have declined, and therefore, the export growth has not been visible. So we do see good potential in the exports at very nice margins. And that exports will hopefully lead the way.

The second is, even on the domestic side, there have been three, four, five large customers that have onboarded us. Obviously, whenever customers start, they start with small volumes and it picks up. It's just -- it's a painfully slow process, and we're going through that process at the moment. But I do expect that we should come back to -- firstly, the first target is to come back to at least the level of scale we were 1.5 years ago and then to go past. I think we are in it for a couple of years at least in this journey.

Hitesh: The margins that our competitor makes over here about 20%, 25%, that is still doable according to you or...

Shreevar Kheruka: They have a lot of benefit on sourcing. The tubes, okay? So they may be at we would be about 5% lower than them.

Hitesh: Correct. And no update on this tubing facility that we thought we would be having, right?

Shreevar Kheruka: Yes, this -- we have -- there's a lot going on at the moment in terms of scaling up all these with acquisitions, with our opal furnace 2, with our borosilicate new furnace coming in. So we decided that we should first stabilize our current -- whatever capital already we've deployed before taking further capital calls. So probably, this will get delayed by 12 months or so further.

Hitesh: Okay, sure. Sir, and lastly, on Borosil Technologies because that is one segment where we have been ramping our team quite aggressively. And I'm sure that, as you rightly mentioned in the opening remarks, this is to scale up your technical expertise where you're building new products. Do you see -- do you think that you already have that base now where probably there will not be a further investment needed on the people front and we should at least have that benefit of scale in our numbers going forward?

Shreevar Kheruka: Yes. Well, I think we've -- this year itself sometime in Q3 or maybe Q4, I expect to breakeven in that business. And that is something that I believe that once we achieve that as the first kind of -- let's say there's a next step in our journey. And even currently, there are many, many new products being developed over there. And each product may not have a huge potential, but all of them put together do have large potential. And therefore, the whole idea of them is that once you break even, then the journey should be aggressive growth from there because you kind of covered your fixed expenses.

And now it's a question of the marginal costing. But the selling prices are -- the gross margins are attractive in the business. So therefore, once the fixed costs are covered operating leverage is large. So this should kick in from next year. And I'm very bullish on this. And it's all import substitution. Government of India also is -- through its research labs and all our -- procure a lot of these products. So as we go more for Make in India, we have a national edge here. So maybe from next year, you'll start seeing some benefit from this.

Hitesh: Right. So those 80% less gross margins, which you used to speak about when you incubated this division, that remains even with these new product developments that we have done and the margin profile should be as good as our labware there that we have?

Shreevar Kheruka: In fact -- so look, gross margins to 70% to 80% many of our products would have, okay? Some are lower, of course, but the potential is there. And it's a question of how that value proposition for the customer. How do we kind of build that, tweak that? So we -- I believe at least that this business has better margins than even glassware. If we can scale it. The question is, can we scale it? And I hope the answer is, yes.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Shreevar Kheruka: Well, thank you all for your interest and all the questions that you asked, and I will look forward to seeing you in the next call. Thank you.

Moderator: On behalf of Monarch Networth Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.