



Emmbi Industries Limited  
Q2 FY2019 Earnings Conference Call

November 14, 2018



Analyst: Mr. Dhavan Shah- KR Choksey Shares And Securities Limited

Management: Mr. Makrand Appalwar – Chairman of the Board & Managing Director - Emmbi Industries Limited

Mrs. Rinku Appalwar – Executive Director & Chief Financial Officer - Emmbi Industries Limited



*Emmbi Industries Limited  
November 14, 2018*

**Moderator:** Ladies and gentlemen, good day and welcome to the Emmbi Industries Limited Q2 FY2019 Earnings Conference Call hosted by KR Choksey Shares and Securities Private Limited. 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhavan Shah of KR Choksey. Thank you and over to you Sir!

**Dhavan Shah:** Thank you Vikram and good afternoon everyone. On behalf of KR Choksey Shares and Securities, we welcome you all for the Q2 FY2019 conference call of Emmbi Industries Limited. I take this opportunity to welcome the management of Emmbi Industries represented by Mr. Makrand Appalwar, Chairman & Managing Director and Mrs. Rinku Appalwar, Executive Director & CFO of the company. So, we will begin this call with a brief overview by the management followed by the question and answer session. I now hand over this call to Mr. Makrand Ji for his opening remarks. Thank you and over to you Sir!

**Makrand Appalwar:** Thank you Dhavan. Thank You KR Choksey. Good day ladies and gentlemen from all over the world and welcome to the conference call for earnings of Q2 and half yearly of 2018-2019. This was a very interesting quarter and we had a good stabilizing of various operations at Emmbi, so growth in Q2 was around 22% while the half yearly growth stayed at around 16%. Interestingly, the exports were up by almost 36% on the half yearly basis. So, I am sure you would be still remembering our last expansion program, which was in the field of food grade facility, which has been completely operative and I think that is the reason why you see such a decent increase in the export performance and I am sure you had a chance to go through the wonderful video, which have put on the websites for the new Cleantech facility.

I am again reiterating that Emmbi has been awarded grade A of BRC certification, which is a necessary certification for distributing the food grade packaging all over the world and we are one of the few in the country and globally to receive this grade A certification and that is why the traction for this particular product is very good and the things are moving in the right direction. Secondly, I would like to attract your attention to the Avana website, which has been launched during this quarter, so the focus of this website as you know that this is a new business, it is a B2C business, so it is important for us to attract the new millennial talent, which is going to run this business in the future, which is going to take this business to the next level. So, the entire website is designed with the view in mind that all the millennial talent, which is always purpose driven employees, who want to seek a purpose of whatever they are doing apart from earning money out of the businesses or jobs, which they are doing.

So, this clearly states what can be the purpose of their efforts and lot of interviews and films and other things and a lot of global news and blog sections are added to the website. Just in order to make the world understand the difficulty or the shortage of water and how Avana can play a role and in turn how everybody who is contributing in this foray whether it is in the part of being a shareholder, it is in the part of being an employee, it is in the part of being a supplier or a buyer, so why it is so important, why that is going to make the world little bit more better place when you are connected to initiatives like this. So, it is one of our humble efforts to change the world, we would say one point at a time so that would aid or that will help the Indian farming people or Indian rural community to improve their earning pattern, which has been one of the focused, I would say foray of the Indian government for past couple of years and which is going to stay in the coming time.

Regardlessly, apart from this we are also focused on all our businesses. So, if you see within this 6 monthly, export has stood out to be around 47% of our total revenue while the domestic business has done around 53%. Slight shift in favor of again B2C, B2B contribution has come down to 89% from 91% in last half yearly and the B2C contribution has moved up by 2% and it has gone to 11%. So, what we are targeting is slowly moving our company from purely a B2B company to a combination of B2B and B2C. This will help us to, I would say, monetize or capitalize on the brand, on the value, which we are creating and create the wealth for all our investors and shareholders. The focus would always remain on typically improving the brand side of the company, which will keep on giving us a better view and better I would say presence in the retail market.

Typically, if you have also observed the website, website is also having a counter. So, on the weekly basis that counter will get updated and apart from just the number of ponds it is also calculating the impact, which has been created on the society, which has been created on the number of people, so that would be kind of getting updated on a weekly basis. So that all of you who are interested in this company will kind of online track the development of what is happening here, what kind of good work everybody at the Emmbi are doing and how the things are going to change in the coming time. Typically, export has been growing because of the new facility, which we have promised, so that has come into the action, so that would take up a new shape in the coming time. We are expecting this year to have similar growth in the export models and typical growth expectation 16% was the first quarter.

Generally, historically, our first half has been, I would say a little bit weaker than the second half, so we expect similar behavior this year also. So, our expectation regarding the yearly growth still remains somewhere between 16% to 18% during this year and profits has been growing consistently. We have had improved EBITDA level margins. We have, on year-to-year if you see, around 60 basis points improvement you can see on the EBITDA level and you can see proportionate or appropriate improvements in the net and EPS is also there. So we see and we intend to continue the similar kind of work. We are contained to focus on reducing the inventory as a promise. The new machines and

the new IOT initiatives, which has been implemented has helped that has got down the inventories not to a large way because still the whole project is yet go, but inventory has come down by 3 days and we intend as a promise the business cycle or the cash conversion cycle every year to get down by 7 to 8 days and I am sure that would also happen during this particular year.

So, by and large things at Emmbi are pretty steady, growth in the last quarter as I told initially was decent around 22%, we intend to have a similar kind of structural growth of around 16% to 18% during this financial year. I think, I have covered general layout about the business broadly and now I will open the forum for the questions. Thank you so much.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

**Ankit Merchant:** Good afternoon, first of all congratulations on good set of numbers. My question is related on the raw material front. We have seen that the raw material cost have gone up in this particular quarter, so I want to understand that is basically on behalf of crude prices right?

**Rinku Appalwar:** The raw material, if you just add a 31, 32, and 33 in the notes of P&L, the raw material if you see percentage to CS was 65.84 and now it has come down to 65.52, so you just add this 31, 32, 33 because this time there was no stock-in-trade purchase and that is why- if you add this three it is almost the same rather it has come down.

**Ankit Merchant:** Yes. And related to the finance cost, I believe?

**Rinku Appalwar:** Yes, finance costs have gone up, but that is because of GST amount is pending. Because we are exporters, so we have a refund of GST. So, almost 5 months GST amount is pending with the government and that is why the finance cost has a little bit gone up.

**Ankit Merchant:** Sure and what is the total debt right now?

**Rinku Appalwar:** Total debt if you put in the balance sheet, the long-term debt has come down and the short-term debt is little bit up by Rs.4 Crores, so total will be around 56 plus 35 is around Rs.92 Crores.

**Ankit Merchant:** Sure and do we plan to bring it down further or we will try to maintain it?

**Rinku Appalwar:** Yes, we have. So, a long-term borrowing will go down further, short-term also we are trying to get down, but the GST stuck off out, so let us see if it improves in the next coming quarters, it will also go down.



*Emmbi Industries Limited*  
*November 14, 2018*

- Ankit Merchant:** Sure and we will be seeing the wearing of effect of our MAT creditors also right in this particular year?
- Rinku Appalwar:** Yes, we will be.
- Ankit Merchant:** So, then what will be the effective tax rate going forward?
- Rinku Appalwar:** No, because we are still R&D company. So, if we do R&D spend of around say some amount of rupees, then we can stay same by 22% in the tax rate.
- Ankit Merchant:** Sure, okay. And last question on the exports front, now that the rupee will be benefiting us, and then also our new plant that is a new facility, which has started for exports, so do we see any change in the contribution coming from exports going forward?
- Makrand Appalwar:** Not really, as historically we have been telling that the company, basically the system has been designed to pass on all the shocks, so neither benefit nor loss gets passed on to company, so as our non-speculative practice I do not think this would have a major benefit added to our contribution, it would still remain in a similar level, so because we do not actually, I would say speculate on the currency side.
- Ankit Merchant:** Sure, and just last question, how is the polypropylene prices over the last 6 month?
- Makrand Appalwar:** It has remained quite range bound, \$50 here or there, somewhere around \$1350, right now plus and minus \$50.
- Ankit Merchant:** Sure and what has been our realization vis-à-vis, is that we have been able to pass on that efficiently, or are we facing any delay?
- Makrand Appalwar:** No, that a month long delay is there because we reset our prices on every first, so whatever delay is there that is there, but apart from that we are not hit with this, the mechanism is on the both currency as well as raw material prices, we have a complete pass through mechanism.
- Ankit Merchant:** Sure. Okay. Thank so much, I will get back in the queue if I have more questions.
- Moderator:** Thank you Sir. We have next question from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.
- Priyank Chheda:** Sir, good set of numbers and congratulations for the good set of number. So, my first question again I come back to the discussion that we had in the last quarter, what are the triggers basically that would make Emmbi grow beyond the 15%, 16% that we are targeting and I completely agree that and I am

aware of the fact that we had mentioned somewhere that we are right now into consolidation mode for the last 2 years, but then what are the plans that we are laying out beyond 2020 in any of our products, so that we can grow at much faster rate than what we are growing right now?

**Makrand Appalwar:**

Sure, interesting question and simple answer I would like to give to you. Try to remember a situation when the new age motorcycle like Hero Honda and that time it was Suzuki was launched in India and still the banking was not ready to fund them as an automobile funding, so it took them around 4, 5, or 6 years to let them decide it as a funding pattern, so if you had a chance to run-through our this year's presentation, this quarter's presentation, you must have noted that very specifically we have mentioned that now we have actually hint a tie up with two banks already and there is a very specific scheme, which has been launched by our bank called Maha Bank MB Jala Sanchay Pond Liner Funding scheme, so now this is the first time a specific loan scheme has been created by a bank for funding this product, so we have to really, I would say take a lot of hard work and lot of credit to the finance team that they really went into the debts, they went from pillar to post and created this particular funding scheme, so now what was the biggest challenge in the largest growth driving product was often funding to the farmers, so this is the first time we could manage to get the scheme sanctioned, very soon that scheme will be operational so that was one of the road block, which we got away and that will be one of the I would say a larger enabler for that particular product to kick in buying fastly, so that is one answer to that and apart from that if you have noted earlier the most of the ponds were focused for the irrigation based purpose. The water storage, which is there was purely for the farmers irrigation. Now, last year government has announced that the similar kind of a pond structure should be used for the aqua culture or fish culture cultivation. That means a big market of almost 250000 ponds is opened for us in the states like Andhra and Telangana. So, all these ponds, which have been there, to be having a precise number is some 247000 odd ponds, which are already made in Andhra and Telangana would be our probable now buyers in the coming probably next couple of months that scheme will go down and that will open up for actual, so we have already started our homework, we have started the feasibility studies and we have made some experimental ponds and installations in those areas and we will be, so there are new application consistently getting, so apart from now agricultural, water reservoirs or water reservoirs for fish and pron culture is additional business, which is a extremely large business already developed in India, so that seems to be going to be one of the another trigger point in coming times, which would help us to grow our new business. Thirdly, you must have seen that two years back we spent almost \$3 million equivalent of Indian rupees and we made a beautiful facility, which has been awarded A grade in BRC and globally and so the new GH packaging, the packaging, which is basically targeting the new world or the millennial world has also been worth, so I think I am bullish about this two, three initiatives of the company, which would help us to take this trigger and we would like to maintain, so I do not think we have a plan to grow at 100% or something, but our consistent effort is to have a sustainable growth in the range of around, I like to grow at around 20%, but probably this year we will be somewhere around 16% to 18%, but our targeted growth is 20% and with that rate every three, four years, I think

we will double ourselves, the profits go up, so the entire organization is in rhythm. People are not stressed, people are not having any -- so completely consolidated growth model is there and that is what we intend to maintain in this company, so that even the investors have a better outlook and minimalized risk, so managing the risk, growing is our one of the philosophy, so instead of I would say a sharp trigger or sharp spike in the growth seeing in one year you should expect to see a very steady growth year after year in Emmbi.

**Priyank Chheda:** Alright, one more thing, so clearly again the focus has been the pond liner business and it is growing much faster than what the whole company or consolidated segments are growing. So what we are learning is that there have been drought cases and Maharashtra being one, which has been declared as a drought. So clearly our whole revenue is dependent on the farmers income, what is the sense that you are getting, is there any impact of drought on our pond liner business?

**Makrand Appalwar:** Yes, it is very much going to be impacting our business, but frankly it would not be a very decent to say, but this is going to be in favor of the company because this particular product is going to be used to take care of drought, where water which is required to take care of drought and we are creating a product, which is a water reservoir. So, governments are rather more bullish towards pushing this product now in people, so the schemes like Bank of Maharashtra scheme would be very helpful, which I just told you about or even government has in just few days back if you have noted in Aurangabad district they have announced that whatever water conservation work we were planning to do in next three years will now be completed in next 8 months. So, actually government have accelerated their efforts to do everything or to augment everything, which is pertaining to water conservation or storage or distribution, so in a way I would be again sorry to say, but this drought might little bit be a helpful to push our product I had.

**Priyank Chheda:** And just a last question, if you can highlight further on the agreement between the Emmbi and bank financing, I mean, would we be using the bank network or is it that we would be only providing the farmers and bank would be providing the loan or are we taking up the loan, if you can just brief me on the financing of the farmers?

**Makrand Appalwar:** It is both ways around, we will be using the branch networks and their existing customers to get our product into the market and we would also be our field team, will also be recommending our customers that in case you are not having enough funds to put there and Bank of Maharashtra is going to be with you and they are going to lend you the money to buy Emmbi Jal Sanchay product. So, it is a two-way thing and we would be actually announcing kind of MOU in a short while that what are the things. Of course, that would be making a public announcement, so very soon you should also receive the public announcement for that, but yes, both bank network as well as this we would be actually sharing the customers. We will give our customers to them for borrowing or for getting the loan and they will give us their customers names and addresses and our people will go and talk to them, that

they would have kind of I would say symbiotic relationship of this and just to make it all clear that this has got no liabilities on Emmbi balance sheet. This has been -- Bank will be funding. It is just exactly on the similar way as the auto loan when somebody buys a car, there is no liability on, say automobile company's balance sheet, it is on the individual they are doing, so very similar arrangement has been chalked out.

**Priyank Chheda:** I have a few other questions, but I will come back on the queue.

**Moderator:** Thank you very Sir. We have next question from Keval Shah from Alpha Invesco. Please go ahead.

**Keval Shah:** Thank you for opportunity. Sir, congratulations on decent set of number and on launching of our new Avana website. Coming to question Sir, can you help me understand, if we wish to setup a new Greenfield pond liner plant somewhere, how much would be cash outflow that we would incur?

**Makrand Appalwar:** Well Keval, I would not really help you to tell that because that is not the greatest, but I would say somewhere brand new plant, which is of a viable size should cost you around Rs.100 Crores?

**Keval Shah:** This would be roughly of what kind of capacity?

**Makrand Appalwar:** Well, I think I will reserve those answers; I would not like to really answer on that.

**Keval Shah:** No issues. We have given very good guidance on income statement site, so is there any kind of guidance from cash flow point of view also that you would like to give for next one year or two years that what kind of cash flow will be expected to generate?

**Makrand Appalwar:** Well, I am frankly not really qualified to answer your question at this moment on the conference call, but probably if you write us, we would be able to create some model what we are targeting cash flow, we can help you with that.

**Keval Shah:** Alright. Thank you very much.

**Moderator:** Thank you Sir. We have next question from the line of Mayur Jain from Individual Investor. Please go ahead.

**Mayur Jain:** Congratulations for your good set of numbers and I have visited your website also, you have already consolidated all the videos related to our company, so I thank you for that.

**Makrand Appalwar:** I hope you liked them?





*Emmbi Industries Limited*  
*November 14, 2018*

- Mayur Jain:** Yes, definitely, actually I searched them in YouTube already. Already, you have consolidated them at one place, so thank you for that. My question is right now the Indian currency is depreciated around 10% to 15%, so how much we will benefit, because we have 50% export?
- Makrand Appalwar:** Jain Sir, actually we will not be greatly benefited by either way. The model of the business is created in such a way because it is a very speculative thing. Currency, sometimes goes up and sometimes goes down, or the raw material or the crude oil prices. They go in each directions, sometimes they go up, sometimes they go down, so we have created a kind of situation here, where we have created a very steady platform, so that whether our performance should not be dependent on the external factors like currency or crude oil prices, so historically I have always been telling this that we have been insulated with this external shocks and luckily in today's time it is in favor of us, but what happens if it goes other way around, so it will suddenly wash of all our profits. So in order to avoid that and insulate the company's ability and entire merit based or skilled based numbers only you should get, so to answer your question in one line, there will not be a major benefit or a loss to Emmbi because of any of the currency thing.
- Mayur Jain:** Okay. And the second thing is we have capitalized around Rs.13 Crores in intangible assets, so what is this for?
- Makrand Appalwar:** Rinku, would you like to take this.
- Rinku Appalwar:** No Rs.13 Crores Sir, that was last year, was Rs.4 Crores and this year it is only Rs.1.4 Crores, so I mean it is not Rs.13 Crores. It is incremental, it is not total, so it is last five years total, it is not every year.
- Mayur Jain:** Okay. But depreciation cost has been increased, so what could be the reason behind that?
- Rinku Appalwar:** In the last two years, we have done Rs.30 Crores expansion and that is why the depreciation has increased.
- Makrand Appalwar:** More machines, bigger plant, so more depreciation.
- Mayur Jain:** Okay. And the last question, how much GST amount pending with the government right now?
- Rinku Appalwar:** Almost 4 to 5 months every month.
- Mayur Jain:** Is there any amount for...
- Rinku Appalwar:** Number I would not like to give you, but it is almost 4 to 5 months pending.



*Emmbi Industries Limited*  
*November 14, 2018*

- Mayur Jain:** Okay, 4-5 months. Thank you Sir.
- Moderator:** Thank you Sir. We have the next question from the line of Shashank Kanodia from ICICI Securities Limited. Please go ahead.
- Shashank Kanodia:** Good evening Sir.
- Makrand Appalwar:** Good evening Shashank, how are you?
- Shashank Kanodia:** I am good Sir. Just wanted to ask, at the run rate at which we are growing we will largely exhaust the capacities by FY2020, so what is the plan for the management post FY2020 as far as capacities are concerned?
- Makrand Appalwar:** I think we would be looking for some expansions, so as I told you, that was the plan. Like that was supposed to get exhausted by 2020-2021 that was the plan what we made and we are going in that direction, so in another probably nine months or so, our parts are getting more and more clear that how we want to take this to the next level, so as soon as that is completely concretized we will announce the next level of growth, probably next level of growth of another 6000 odd tonnes of manufacturing capacity will get added. So now probably that is how it is designed, a modular growth of say 6000 tonnes would be added every time when we are kind of there to hit the wall, so that consistent upswing is always there and the most latest machines, the most viable or market required machinery can be added, so that is the intention why we will chose this modular growth model.
- Shashank Kanodia:** Okay. Sir, how much time it will take us for the capacity to come into play as in the lead-time for...?
- Makrand Appalwar:** Around 9 to 12 months. If we go from absolute Greenfield like zero ground breaking to completely manufacturing factory, say around 9 to 12 months.
- Shashank Kanodia:** Okay. So, in the next 6 months you might have a firm plan regarding the further expansion?
- Makrand Appalwar:** Yes, I would say that.
- Shashank Kanodia:** Okay. And Sir, in the opening comments you have mentioned that H2 growth is normally greater than H1 growth right?
- Makrand Appalwar:** Historically, it has been like that if you have observed.
- Shashank Kanodia:** Right, so in that case we should clocking excess of Rs.300 Crores of topline?
- Makrand Appalwar:** Looks like.



*Emmbi Industries Limited*  
*November 14, 2018*

- Shashank Kanodia:** Looks like, fine Sir and thirdly on the balance sheet front, there is some amount of increase in receivables, so is that a general course of business so is there anything exception to it?
- Makrand Appalwar:** No, it is a general course of business. There is a substantial increase in the exports. The export receivables are always little longer than domestic receivables, so I think it has just gone up by 4 days if I am correct, not a humongous amount of this, it has just gone up by 4 days. Exports have gone up by some 36% odd on half yearly basis, so that is one of the reasons.
- Shashank Kanodia:** Sir, just lastly on the margin front, so we have been yearly clocking around about 14% margins, so what is the scope of improvement further going down the line, scope of margin improvement?
- Makrand Appalwar:** We are looking at -- like our target always remains somewhere between 20 to 25 BPS on the quarterly basis on the EBITDA level, some quarters we have been extremely successful, some we were not, but we like to maintain that run rate and we expect in probably next 8 or 10 quarters we will stabilize somewhere around 16%.
- Shashank Kanodia:** So, this may largely come from increasing share of pond liners, which are largely B2C business?
- Makrand Appalwar:** No, both. Even the B2B business last time also I explained that the acceptance of advance composites is increasing month after month or year after year from the Indian side, the most of products we make in the advance composites what we were selling earlier we are able to sell, we are getting better pricing power than what it was earlier because being also an Indian company, technically we are established in the world and that we are at par with the world, so that is quite helpful. So, I would say yes, both the things are going to happen that we are going to have a better pricing power in the B2B business and added share of B2C is definitely getting us a slightly better realization I would say.
- Shashank Kanodia:** Fine, that is all from my side. Wish you all the best. Thank you.
- Moderator:** Thank you. We have next question from the line of Deven Choksey from KR Choksey. Please go ahead.
- Deven Choksey:** Congratulations for good set of numbers. Couple of points I think which I have picked up from the conversation, which was going on the conference call. The important aspect is that I think you have already completed the capex program, in last two years you have almost spent Rs.30 Crores and brought this entire pharma and food grade strategy facilities apart from other capex, which you have done. So as I understand I think majority of the capex is over and on the other side I think you have been systematically bringing down your debt component from yearly for last March 2017 it was around 60 Crores, which has come down to Rs.52 Crores in March 2018 period, so reduction of about Rs.8 Crores worth of debt coming down and you continue to have the operating cash flow in the vicinity of around Rs.30 Crores or so, so certainly I think it makes an notable argument for the long-

term debt to come down since your majority of the capex is more or less is almost getting over and you are getting the benefit out of the capex that you have done, expanded capacity that you have, so do you see there is a proposition wherein I think you have a larger amount of cash flow, do you think the debt bringing down the interest cost, which last year was around Rs.9.5 Crores I think going forward, it can probably bring down further, is this the legitimate way of looking into?

**Makrand Appalwar:** Yes, I would say probably. Deven, thanks for attending the call and giving us opportunity to explain something about us to esteem person like you. The important part is yes and no, both the answers would be there. Yes, because yes cash flow is going to be there, but it might not proportionately bring down the debt because consistently topline and in that case the working capital requirement might go up little, so if you see this particular 6 months, the increase in the topline is to the tune of around 16% or half year, but even if you see in the last quarter it is around 22% while the overall debt increase is just barely I think 1.8% or 2%, so it will be disproportionate. There might be a small increase in the debt or may be no increase in debt, but there might not be that entire cash flow, which is being generated, will be allocated for cutting down the debt. Because some money will definitely also be required to grow the business, so I would probably see it in two ways that there will not be a further addition in debt, so net percentage of debt to the topline it will be substantially reduced, but absolute number might remain little bit reduced or somewhat flat.

**Deven Choksey:** Thank you.

**Moderator:** Thank you Sir. We have next question from the line of Joshua Zhang from Hidden Champions Fund. Please go ahead.

**Joshua Zhang:** Good evening Makrand Ji and Rinku Ji, congratulations on the good set of numbers.

**Makrand Appalwar:** Thanks Joshua.

**Joshua Zhang:** I would like to check with you regarding the banks that you have approached for funding, I think it is a very good effort and congratulations to the team again, but I would like to check on the specifics that under what criteria are the farmers on the ground allowed to apply and under what circumstance would the loan be rejected to the farmers?

**Makrand Appalwar:** Generally, there is a specific scheme now. Basically, there is something called priority sector lending in India, where banks are kind of mandated to lend their money to micro or small borrowers or the rural borrowers or the farmers, so we actually classify under all the three schemes micro and small borrowers, rural borrowers and farmer borrower. So, under all the three schemes -- basically all the three schemes are pertaining to something called priority sector lending, so banks have a kind of mandate that they must lend some percentage of their lending to these kind of people, so this would be done through that and the banks, which we have chosen, Bank of Maharashtra, it has got extremely

dense banks and branch network in Maharashtra, somewhere around I think 9000 odd branches in Maharashtra alone and some 11000 odd branches totally overall India. So, this is one of the bank, which has got a total in deep their penetration during the state where we operate right now and see that has created a kind of pathway. Now, using this, we can reach to more banks, national level banks and get the schemes moved on to. Because this was a kind of a monumental effort to write down this scheme and the best part this scheme has been very specifically cultivated to suite our requirement or our customer's requirement, so even a small farmer of one-and-a-half acres is qualifying and the collaterals are pertaining to what is the crop which is getting generated and the repayment schedules are also 6 monthly, so he does not have to bother much about the monthly repayment, he has to wait for the crop to come and then using the same crop he can pay back. So, this is as good as giving him a convenience fund I would say. So, I am pretty excited about this new development and with such a wide branch network coming to your hand and helping you to support you to push this product further and as one of our participant was mentioning quite a drought-like situation in Maharashtra, so even government is also very supportive, they would also like to and these banks can also collect the subsidies, because it is a nationalized bank. When government will give the subsidy, part of the funding can be off-setted using the subsidy which they have, so the borrower will open an account in the branch and bank will fund us whenever they sanction the loan and in the case when the borrower gets the subsidy that loan can also get knocked out part of that loan through that subsidy, so it has multiple dimensions to it. If you are more interested I would be more happy to share with you more things, you can please write to us, we would answer you in detail about the same, but by and large under the priority sector lending scheme of India that would be done.

- Rinku Appalwar:** And there are three banks who have done it.
- Makrand Appalwar:** Yes, Axis bank and ICICI bank has also sanctioned the schemes, so right now the three banks are already come on the board and we are experimenting that or we are expecting that some more banks would be soon on board and this would help to create a better wave about the product in the market.
- Joshua Zhang:** I see. Based on your industry knowledge, you guys are the only one who has such a scheme or are there other pond liners?
- Makrand Appalwar:** As of now, we are the only one who has such scheme.
- Joshua Zhang:** I see and the reach, you are working with this bank it is specific to state or in the future say you expand to other state in India, you have?
- Makrand Appalwar:** Frankly, Axis bank and ICICI Bank is kind of a national bank. They are almost present everywhere and Maharashtra bank is not having a great deal of branch structure out of Maharashtra, but there is no limitation like, they have not said that this would be only funded in Maharashtra. It is about our

product and Indian farmer, so if some farmer from say Rajasthan or Madhya Pradesh wants to borrow through this bank there is no such limitation to put by the scheme that only the farmers from Maharashtra are allowed to borrow, it is a national scheme.

- Joshua Zhang:** Thank you. Congratulations again.
- Moderator:** Thank you Sir. We have next question from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.
- Priyank Chheda:** Thanks for the opportunity. I required some data points. Sir, can you guide me what was the volume growth in this quarter?
- Makrand Appalwar:** Volume growth was 12%. I would say half yearly data I have right now, so value growth was 16%, volume growth was 12%.
- Priyank Chheda:** And we are broadly present in Maharashtra and Rajasthan, we were trying some new state may be in south and central, if you can give me update on what is the success rate and are we planning for some new states going ahead for our pond liner business?
- Makrand Appalwar:** Yes, I would not like to spell the name of the state right now because now it has become very frankly business secret, which I will not like to reveal right now which state, but couple of states, which we have already experimented as I told you, kind of trial ponds have made successfully and we have studied the echo system, so very soon you would see something happening in one of the other states.
- Priyank Chheda:** Okay. Regarding the advanced composite and the specialty packaging, I am missing new product launches for the last couple of quarters, if you can help me, are there any new product launches that we have come up in this segment?
- Makrand Appalwar:** Frankly, a couple of them are in the pipeline, probably in the next two quarters you should be able to see them, but right now in the past six months we did not add any new product launch in this two sectors.
- Priyank Chheda:** Okay. On the exports front, globally we are supplier to the auto companies and lot of diversified customers, are we seeing some kind of slow down coming up in the exports front. I remember in last conference call you had highlighted that the opportunity that India has given the breakdown in China and the capacities that are getting shut down in China, so I just require an update on that?
- Makrand Appalwar:** Probably I will stay on what I said last time also and that also reflects in our performance of export, so I would say that it has been quite a conducive environment for companies in India and we would be continuing to do our best efforts to push more and more material in exports, so that we can earn

some very expensive foreign exchange for this county and we are doing that and we have been growing decently for six months, I think we have done a fantastic job when it comes to exports.

**Priyank Chheda:** Okay. What are the utilization rates for this current quarter?

**Makrand Appalwar:** Quarterly, I think we have almost crossed 75% of this, more I think, towards nearing 80%, but I do not have exact numbers, but if you want we can mail it to you.

**Priyank Chheda:** Alright, just a suggestion that I had on the thing that a very good presentation that you share on the quarterly basis, we have in the slide 10 the market opportunity size across the business segments that we are present. Why cannot we just add the market opportunity size pertaining to India, you have been mentioning pertaining to global market size, but then it would be great if we have such a big pond liner business opportunity particular to the India business also?

**Makrand Appalwar:** I wish to do that, but the challenge is there are not very large bit of statistical institution in India, which are actually publishing this data on the commercial market wise this. So, we have a internal guideline, but we do not have anything to support our this because we can give you as an Emmbi data source, but there is no Indian corporate or a data house, which is mining this data and releasing some such things. Because, pond lining itself is such a new topic in this county that many people even do not understand what is the need of it, so I am sure you will appreciate this fact and I think in the next couple of years you would be able to see these kind of things happening better in this country and then taking you suggestion we might start a section where we say that it is a Emmbi research data, so that we do not have any outsider to validate it, it is going to be our inside data, so let me check it is a great suggestion we might really like to work on it so that it gets you some kind of sense where we are heading in India.

**Priyank Chheda:** Sir, what is the current run rate of pond per hour and what is our target to reach that?

**Makrand Appalwar:** Around 5.8 plus nearly per day not hour, I will say 6 hours per day.

**Priyank Chheda:** Alright, Sir you have been very vocal about that you are also bottom line focused along with the revenue growth focus that we have. If had to just take a revenue growth basis, the net of GST, so we have been not keeping a pace on the growth front in terms of revenue vis-à-vis, the net profit for this particular quarter and majorly what I understood was because of the higher taxes and the feel pressure on the EBITDA margins quarter-on-quarter, so do we mention that for the full year if we plan to grow at 16% to 18% it would be much higher for the bottom line growth?

**Makrand Appalwar:** It is a very complicated question for me to understand, there is a lot commentary initially, but if I correctly understood what you wanted to say is I have been always saying that we are focused on growing our profits more than only growing our topline. So, I would like to, yes, reiterate that yes,

that is right, I like that along with making a larger topline, we must always make money, we should not sell at a discounted rate. Sometimes with the business I cannot just promise that every quarter we are going to have this much of increase, when specially there is a spurt in the growth, like typically we had this 36% growth in our exports, which has pushed up growth, so sometime that kind of a compromises some profitability. So, we have not reduced any profitability, if you have seen also, this year also there is a growth of 20% in the bottom line, when it is 16% growth in topline, bottom line growth is already 20%, but I would have been happy if it would have been somewhere around 24% that is 1:1.5 times, so by and large if you see the number are, the focus would remain same and in the future also yes, our growth focus would always remain on the bottom line because ultimately everything matters how much is the bottom line.

**Priyank Chheda:**

Thanks a lot.

**Moderator:**

Thank you Sir. We have next question from the line of Siddharth Bhattacharya from Anvil Wealth. Please go ahead.

**S. Bhattacharya:**

Thank you for the opportunity. I just wanted to understand the margin profile that we have across the segments, if not quantitatively, may be qualitatively you could help us understand that because I see that the product mix is estimated to change a lot over the coming two, three years. I just wanted to understand how that will affect our overall PAT numbers and profitability numbers?

**Makrand Appalwar:**

Actually, I just commented on that if you have noted, we are targeting that around 20 BPS of EBITDA level improvements on the quarterly basis and in the next 8 to 10 quarters we expect that the margins on the EBITDA level should stabilize somewhere around 16%, now about a very detailed sector wise calculation I think this is not the greatest of the place to announce that. So, I will reserve that as a answer, but I have given you the guidance that we are expecting in around 8 to 10 quarters somewhere around 16% to stabilize considering the new and we have given you the new pattern what we are expecting to set, so you would be actually able to extrapolate what I am trying to say.

**S. Bhattacharya:**

Correct. I also wanted to understand for the pond liner's segment, which is part of the water conservation division, how much material is used let say per unit size of pond and is there a service component?

**Makrand Appalwar:**

An average size of a pond uses around 700 kg of a material.

**S. Bhattacharya:**

And there is some installation fee also that you charge?

**Makrand Appalwar:**

Yes, of course. Likely, it is 2-way thing, one is the product cost and another is the installation cost, which is a service activity. So, you must have remembered couple of presentations back we have given some robotic machine, which we have developed using the help of one of Swiss company. That



is basically, for now, we have almost more than 12 machines operating in the field, which are actually sealing the ponds of our people, so in one of the videos or many of the videos you would be able to see actually that robotic machine running on the fields and trying to seal the ponds.

**S. Bhattacharya:** I will check those out certainly. Also in terms of our capacities, are our capacities fundable? Is it the same plant that is used for manufacturing products for the various sectors like specialty sectors?

**Makrand Appalwar:** Yes, to a large extent, but let us say you try to use the specialty packaging machinery for making the pond liner then we compromise great deal of efficiency, but technically they are similar kind of a processes, so with some modifications if required we can actually create the entire factory for producing anyone vertically.

**S. Bhattacharya:** So, we should look at your capacity number as one number instead of?

**Makrand Appalwar:** I would say that.

**S. Bhattacharya:** Okay. And in a water conservation division, I am just thinking - once the pond liners are installed in various fields, will there be sort cannibalizing our portable water segment in a way because..?

**Makrand Appalwar:** No, you have see this, they are different kind of storage requirements, smallest of the pond is 4 million, like 40 lakh liters and portable sector, portable water is just from 50 liters to 2000 liters.

**S. Bhattacharya:** I know, but technically you could just filter the water and sort of use it?

**Makrand Appalwar:** No, see ponds are in a farm, portable water is required in houses, the requirement like -- and even if you want to bring the water from pond to your home still you need some flexible tank or something like that. You do not go and drink like, you want to walk 5 km and go and drink the water and come back, you will anyway bring it to home and store it.

**S. Bhattacharya:** Correct. Got that. In terms of patents, we have 15 plus patents to our name, so have they been already granted?

**Makrand Appalwar:** No, they have been registered, not granted.

**S. Bhattacharya:** In company's name itself or?

**Makrand Appalwar:** Yes, in company's name. As an inventor it is having individual names, but patents will be owned by company.

**S. Bhattacharya:** Finally Sir, I wanted to understand, your exports would be majorly from the advance composites?

- Makrand Appalwar:** Large component of our export is from advance component.
- S. Bhattacharya:** So, what would be the difference in margins, let us say, to an exported product versus the same product in the domestic market, would there be...?
- Makrand Appalwar:** Frankly, advance composites, there are very few takers in India because the products are so sophisticated, we are still probably not ready for that kind of product in this country. Like, their safety norms are too weak, our hygiene norms are too weak, like in India even now food grade bags like largest of the corporate also do not really bother to use that, so I would not really be able to give you that sense because there is no big market only in India.
- S. Bhattacharya:** For specialty packaging, would there be?
- Makrand Appalwar:** Yes, there is a substantial market in India, so India is again little bit less payer than the global market. It has been, Indian buyers are I would say the smartest of them.
- S. Bhattacharya:** Okay. Thank you so much for answering my questions.
- Moderator:** Thank you. We have the last question from the line of Ashok Shah from LFC Securities. Please go ahead.
- Ashok Shah:** Thanks for taking my questions. Sir, my first question is related to application of GST on pond liner, is it 18% or it is lesser?
- Makrand Appalwar:** 18%.
- Ashok Shah:** So, have you approached the finance minister to reduce because basically it is used for the farmers?
- Makrand Appalwar:** Yes, we have approached.
- Rinku Appalwar:** It was 28% Sir.
- Makrand Appalwar:** It was 28%, if you remember, when GST was launched they initially put it in 28% as a luxury goods and then we brought to their notice that is something is wrong there, you need to relook into it, then brought it down to 18%. We again represented and actually we are giving a subsidy that means you are addressing this product as a product of basic need and you are charging 18% GST to it, so we have already represented, but because they already have so much of a large issues in front of them that slowly they are working on that, I am sure sooner or later this will come into their focus and something better will happen.

- Ashok Shah:** So, in the next few months, budget will be also coming, please approach them because it is for our farmers, so it should be less than 5% or 5%?
- Makrand Appalwar:** Sure Ashok Sir. If you have to invest, please tell us, we will do it both together.
- Ashok Shah:** Secondly, regarding pond liner, this is the season, season is over or season is started?
- Makrand Appalwar:** No, it is nothing like season is over except the two months of rainy season where it is raining very heavily and we are not able to install. That is the only off season. Rest all the 10 months, it is all season.
- Ashok Shah:** But actually, water comes easily, so before the rainy season all the farmers would be establishing ponds or what is the situation?
- Makrand Appalwar:** Farmers, only do not pick up rainwater, they also pick up river surplus, they also pick up the canal surplus, so in the winter season there is a lot of discharge of canals right? This big massive project, like Bharka-Nangal, so they release the water for irrigation, so whenever the irrigation water is released they put the pumps and fill up their ponds, so ponds are filled up using multiple water sources, one of them is rain water, other is river overflows, other is the canal overflows, fourth is basically ground water, underground well water where during rainy season wells flood, so multiple things are there, they are not only dependent on the rain water.
- Ashok Shah:** So, presently, currently we are making five ponds what could be our highest we can make over the next two years?
- Makrand Appalwar:** We are targeting 1.1 hour in about next two to two-and-a-half years' time.
- Ashok Shah:** So, it will be 12 ponds approximately per day?
- Makrand Appalwar:** No, 24 ponds per day.
- Ashok Shah:** 24 ponds per day. So, currently can I assume that our capacity utilization currently is 25%?
- Makrand Appalwar:** Roughly, I would say that.
- Ashok Shah:** And on the similar basis are we trying to take US market or new market for the pond liner plastic?
- Makrand Appalwar:** Yes, we are.
- Ashok Shah:** So, which countries we have exported?

- Makrand Appalwar:** I would not announce that here, but yes means I would say that if I export driven product also.
- Ashok Shah:** So, do you see this is a major market after Indian farmers because instead of going to many states in India we should try to go to other countries where the demand is good or similarly way we have grown?
- Makrand Appalwar:** Yes, we are trying that. Globally, the market size is more than \$5 billion for various type of ponds and canal linings and India is in a very mason stage, out of that 5 billion India is probably not even counted in the global market batch, so yes there is a massive requirement of lining product all over the world and we are definitely trying and meeting people, convincing companies that this is one of the best type of lining one should use and it has been tested in the most harshest weather conditions, which are Indian condition, where sun is one of the harshest in India vis-à-vis most of developed countries or Western countries. So, to answer your question, yes, there is a global market and yes Emmbi is trying harder to establish this product all over the world, but again this is the new product for the world also, this is a new type of lining. What world uses was typically an EPDM, rubber or PVC, we have come up with a new blend, which is we have come up with the new polyethylene, so they are going to take some time to understand what is this product and slowly that will happen.
- Ashok Shah:** So, can you just guide me how many foreign companies are working in India?
- Makrand Appalwar:** I know based on my knowledge two definitely I know, which one is American and Canadian and apart from that I do not know anybody else who is a foreign company, which is working in India.
- Ashok Shah:** They are working since many years or it is only three to four years?
- Makrand Appalwar:** They are also I think working for last couple of years, may be more four or five years.
- Ashok Shah:** Okay. Thank you. And regarding this our plastics what was the capacity utilization during the last quarter?
- Makrand Appalwar:** I think it still not that substantial, but slowly it is picking up, it will be showing in a year and I would say capacity utilization is more to be watched at, so that is the number we will announce. I would also like to extend our invitation for the Kisan exhibition, which is there in the month of December starting from December 12, 2018 till December 16, 2018, and Emmbi is displaying there. We have a nice big booth there, I would welcome all the participants. That would give you a better feel of the market, better feel about the product and our placement, our offerings, so I would love to welcome you all to the Emmbi stall in the Kisan exhibition in Pune from December 12, 2018 to December 16, 2018, we will send you a separate invitation, but kindly accept my personal invitation for the same.
- Ashok Shah:** So, you will be present over there?



*Emmbi Industries Limited*  
*November 14, 2018*

- Makrand Appalwar:** No, I would not be this time, but on the first day definitely I am there.
- Ashok Shah:** Okay. Thank you Sir.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Dhavan Shah from KR Choksey for closing comments. Sir over to you!
- Dhavan Shah:** Thanks everyone for joining us on the conference call of Emmbi Industries. Makrand Sir would you like to add any closing comments?
- Makrand Appalwar:** No, I think I am good. Thank you so much. Thanks for joining in. We really appreciate your time and we will keep on briefing you if you have anything more to be asked or to be informed, please feel free to speak to us, talk to us, you are most welcome to visit the factory or the office. We are more than happy to welcome you at both the places. Thank you so much. Have a great day.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of KR Choksey Shares and Securities Private Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.