BOROSIL GLASS WORKS LIMITED

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December 08, 2016

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Sub: Transcript of Institutional Investors and Analysts Conference Call

Dear Sirs,

We enclose a transcript of conference call with Institutional Investors and Analysts which was held on November 28, 2016.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Borosil Glass Works Limited

Gitayadav

Gita Yadav
Company Secretary

Encl: as above

"Borosil Glass Works Ltd Q2 FY 17 Post Results Conference Call"

November 28, 2016

MANAGEMENT: **MR. SHREEVAR KHERUKA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, BOROSIL GLASS WORKS LTD**

MODERATOR: **MR. ABHISHEK RANGANATHAN – AMBIT CAPITAL**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Borosil Glass Works Limited Q2 FY-'17 Post Results Conference Call hosted by Ambit 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 "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Ranganathan from Ambit Capital. Thank you and over to you sir.

Abhishek Ranganathan: Good Afternoon, Everybody. We have Mr. Shreevar Kheruka – M.D. and CEO of Borosil Glass Works with us to discuss this Quarter's Earnings, I am grateful to Mr. Kheruka for giving us the opportunity of hosting this call. Mr. Kheruka will open with brief remarks and then the floor will be open for questions-and-answers. Over to Mr. Kheruka and thank you very much again.

Shreevar Kheruka: Good Afternoon, Ladies and Gentlemen. Welcome you to the Borosil Quarterly Conference Call. I will spend a few minutes going through a small deck which we have already uploaded on our website and on the BSE website. I am going to spend maybe about 10-minutes going through the salient points of the last quarter's performance and up to the half year ended FY-'17 as well as a Scheme of Amalgamation that we have announced in the last board meeting.

So just to give you a little bit of a background, Borosil is a brand with a 50-plus year legacy and we are the market leader in microwavable kitchenware through our Consumer Products division and in laboratory glassware through our Scientific Products division.

For the half year ended September 30th our total turnover on a standalone basis in the Consumer Division grew 40%, and on the Scientific Products division on a standalone basis grew 16%. Total Standalone growth was 27% and then if we add the two acquisitions -- one of Hopewell which we acquired in January of this year and second Klasspack which we acquired end of July of this year - our growth was around 80%. In terms of EBITDA from operations, on a standalone basis the EBITDA grew 44%. With the two companies Klasspack and Hopewell it grew 116%, and the PAT virtualy doubled overthe last half year.

Going forward, on the proposed Scheme of Amalgamation, the company has proposed a scheme for three companies to get consolidated into Borosil; that is Hopewell Tableware, Vyline and Fennel Investment. This transaction was advised by PWC and the valuation of the companies was done by SSPA & Co. with the fairness report provided by Keynote Corporate Services. The rationale for this amalgamation is to ensure a simplified group structure and remove a number of related party transactions that were happening in the past. Hopewell has been a 100% subsidiary of the parent company, so there is not much to discuss on that one. Vyline is a promoter held company and has been a third-party manufacturer for Borosil; its last year EBITDA was about Rs.10.5 crores and PAT of Rs.2.3 crores. This will now get consolidated into the operations once the necessary approvals for the merger and the shareholder approvals are through. This will result in reduction in administrative and operative cost and will also allow, like I said, fewer related party transactions.

In the course of this transaction two other things happened -- one is the promoter shareholding goes up by a couple of percentage points from 72.26% to 74.58% and Gujarat Borosil which was owned only 25.25% by Borosil, now becomes a 58.38% subsidiary of Borosil.

Coming to more detailing on the performance of the company division-wise. I will start with the Consumer Products division. In the past, we have traditionally been a Microwavable Glassware company with a limited range of products… this was about 4-5-years ago. In the last, say 3 to 4 years, we have enhanced our strategy, which is leveraging our brand and our distribution channel to sell more products to the same customer and through the same channel. So the idea is to change from an occasional use product to an everyday use product for the modern and contemporary homemaker, and the main target segment is the middle to upper to high-end income earner, and our channels include modern trade. We have a higher percentage of sales through modern trade outlets like Big Bazaar, Reliance and so on, and of course traditional trade is still very strong in the country. But I see the ratios tending towards modern trade as well as e-commerce business.

So now we are present across categories including Glass Microwavables, Tumblers and obviously Opalware through our acquisition of Larah, the Storage segment and the Appliances segment. All of these categories have fairly large market sizes and good growth and there is a lot of opportunity for branded players because we see a trend towards branded products and more aesthetic and hygienic products to be used in the kitchen. There is a lifestyle change towards convenience and improved presentation and this is made possible because of the rise of the middle class.

There are also innovation possibilities in these product categories which we are capitalizing on; in fact, new product development in our core product categories, this is to say without the acquisition is contributing 20% of our sales for the year. New products is defined as products which are introduced in the last 3 years.

We do also see another trend of moving away from plastic and steel towards glass. That is a clear trend we see across many of our retail outlets because of the perceived benefits of glass being more hygienic and healthy.

Borosil has always been the gold standard on quality and we have also had very strong channel loyalty because of the way we deal only in terms of our account settlements and in terms of the strong back-up we have towards our product. Whenever there is a problem we make sure we solve it. So the channel is extremely loyal and we tend to get a fair share of display shelf space in the channel. This is also proven when we introduced Larah, in a very short period of time we have been able to increase the number of sales outlets which carry Larah and I think the Larah sales in the first half of the year have been Rs.44 crores compared to a sale of Rs.48

crores for the entire year last year. So there has been a substantial growth in Larah and one of the key reasons has been the channel loyalty towards our company. Besides, of course, we are also spending a substantial sum of money on brand-building through an advertising campaign.

So just to talk about Larah little bit more. The market is still dominated by a single player. We expect that there is a good opportunity for a second player to come in and grow this category. The target is the mass market customer for daily usage. Our customers on the modern trade side include Big Bazaar, Walmart, HomeTown, DMart, Metro, Reliance. I can name quite a few more of them, and we also have some institutional customers such as Samsung, LG, Whirlpool, IFB who end up doing cross-promotional sales along with our product range.

So just to summarize the Consumer Products range, I think the performance for the first half of the year has been quite reassuring, has been very good. The core category has grown aided by NPD, and also the acquisition of Larah has benefited us because we have seen a lot of our channel partners adopt and start selling this product. We have got good response from this. We are going to continue spending aggressively on the brand campaign and also growing the distribution for this product category.

Coming to Scientific Products: We offer Glassware Liquid Handling Systems and Instruments. Our main customer base includes pharma companies, biotech, microbiology, food and soil testing. We have a substantial market share in the Glassware aspect of this product category and now we have just introduced a new brand called Labquest; this brand is mainly for laboratory equipments. It sells at less than a lakh of rupees which is almost treated like a laboratory consumable. So the purchase decision is in the hands of the end-users and it does not go through a purchase committee to make this decision. Here is where we have strength in the core range of Borosil Glassware, which are small-ticket items, multiple SKUs.

Here it is important to say that this division, even though we sell to institutions, is not a typical B2B or institutional business; we treat it like consumer business because we actually end up going to the end-consumer which is a scientist in the lab and we sell our product to him or her, we brand it and they are indented as a branded product. It is not institutional sale which is just focused on pricing. It is to do with quality as well as brand, which plays a big role in this.

The market size here for Lab Glass is about Rs.220 crores; we have roughly 60% market share, growing at about 8% to 10% - that is the domestic market. . The International Lab Glass market size is about Rs.4,000 crores; here the growth is much flatter actually - about 1% to 2%.

In the international space, we have just recently entered the market a couple of years ago; last year revenues were about Rs.6.5 crores. I expect that to increase going forward because of the price advantage we have. Our main target areas we are focusing on are Middle East, Africa and Southeast Asia. The lab instruments is a Rs.150 crore industry domestically, growing at about 8% to 10% and here there is a good opportunity for import substitution because a lot of these products are coming in from Europe and North America, very highly priced and I think we have a strong chance to sustain good margins and growth in this category because of better service.

Finally, coming to Pharma Packaging, which is our fourth category in the Scientific Products division: The market size is about Rs.500 crores, growing a bit faster about 10% to 12% and we are entering this market through our acquisition of Klasspack which had revenues last year of about Rs.28 crores.

So growth opportunities in Scientific are mainly in the Pharma space, import substitution and selling more products to the same customer in India as well as exports. So the reason why we are strong here is that we have a wide product range which meets all our customers' needs and we are not easily replicable by competition because of the stocks that we have across the country; customers can buy small quantities from us with delivery times of only 24 hours, which is just not easy to replicate. So we have a high investment in our stocks, we have quick and on-time delivery of the entire range and we have products that meet absolutely international quality benchmarks.

Even though pharma companies which are European and North American when they come to India they may have a directive from their parent to buy German glass, but they actually end up buying all the glass from us because they just cannot source it fast enough or at the right price. So we are able to sell it to them even though they may have a worldwide tie-up with some other company. We have very strong customer relationships and virtually 90% of pharma companies would have majority of Borosil Glassware in their labs.

We acquired Klasspack in July '16; they are mainly making tubular glass wires and ampoules. It complements our analytical vials range, which is used in the lab, and the customer base is exactly the same; it is basically the large pharma companies that buy this. Right now, in that market we see an opportunity because there is only one strong player in the market and this is the raw material for the pharma company; so they want a second supplier. Because we are a customer-centric company our customers told us that we need to get into this market and rather than do Greenfield we thought it would be best to do an acquisition. The revenues last year were Rs.28 crores and in the 2-months that we bought it the revenues are Rs.6.5 crores; however, I want to stress that here there is a long lead time before we can convert customers because there is a lot of testing and certification that needs to happen. So typically it takes 6 to 12-months before we can convert a customer to be a purchaser in this segment.

Some of the key customers that we deal with in this division are Cipla, Mylan, Lupin, Ranbaxy… basically everybody in the pharma index would be a strong customer for us.

So going forward, just to summarize, we have a very strong brand equity, our Scientific Products business is a steady business, it is growing well and it is a cash flow generator, that cash flow then is used to pump into our Consumer Products division which has faster growth, where we can build our brand equity, expand into more product categories, we have a very wide network of happy channel partners, balance sheet is strong; so it enables us to invest in brand building as well as potential acquisitions in the future.

The last point; GST is likely to be a good benefit for us because most of our competition is unorganized and I expect that in the future with GST coming in and more organized players that will lead to margin expansion and more efficiencies for the organized players. So, with that I would like to close comments on the Scientific Products and the Consumer Products.

I want to also share couple of thoughts on Gujarat Borosil which becomes a subsidiary for us upon approval of the Scheme of Amalgamation. Gujarat Borosil is in the business of solar glass, they are the only solar glass manufacturer in India. The turnover last year of the company was Rs.182 crores with an EBITDA of Rs.35 crores; this year in the first half they have done about Rs.90 crores of turnover with Rs.20 crores of EBITDA. So the margins have been growing slightly here. Solar industry has a strong government impetus, they need to achieve 100 GW capacity usage by 2022. Just to put it in context, our company can do 1 GW currently per year and we are planning to expand this to 2.3 GW in the next 18 months. So, it is still a small percentage of the overall demand for the target set by the government. Exports are emerging as a good growth kicker here; at least 20% are exported. Company is looking to more than double its capacity and the EBITDA margins are pretty strong. We have market leadership in the Indian Solar Glass market, we are cost competitive with Chinese supplies, and we have a state-of-the-art manufacturing facility with strong testing and R&D. This will allow us to come up with new products in this segment. We have also launched these products and have got good acceptance in the market. Customers here are some of the leading companies in India -- Tata Power, Waaree Energies, EmmVee, Topsun, Lanco, Vikram Solar -- they are key customers in domestic. In exports, we are exporting to Spain, Italy, US, Germany and we have strong and repeat customers over here. Since the call is for Borosil Glass Works Ltd, I am not discussing too much about Gujarat Borosil, but I am happy to answer those questions also separately.

I would like to now conclude my part of this discussion and am happy to take any questions and answer them as best as I can. Thank you very much.

Moderator: Sure, thank you very much. We will now begin the question-and-answer session. The first question is from the line of Hitesh Kumar from Ideas With Conviction. Please go ahead.

Hitesh Kumar: I just have three questions from my end: One, if you could just share what is the total number of outstanding shares post the amalgamation? Two, now that Gujarat Borosil is a subsidiary and that you have plans of expanding the capacity from 1 GW to 2.3 GW, what will be the CAPEX outlay there and how do you plan to fund that CAPEX? Three, if you could just share the objective behind valuing the non-core real estate asset and probably what is the book value of this non-core asset in the books at this point?

Shreevar Kheruka: On the CAPEX for the Gujarat Borosil project, we are looking for Rs.270 crores roughly. Tthat is going to be funded by internal accruals as well as some equity raising which has already been approved by the Gujarat Borosil Board; of course also some term debt, that will increase the capacity to 2.3 GW. I just want to stress here that Gujarat Borosil has a separate management team and, while the promoter family is the same, the manufacturing and the sales are done by separate teams from Borosil; that is another point I wanted to make. On the objective of valuing the non-core assets in Borosil, we realize that we are focused on return on capital employed and we found that there is some chunk of non-core real estate in the company that reduces the return on capital employed. So we are valuing it at the moment and depending on how it turns out, the board may decide to sell it or to do other things with it; that is not yet clear, but the objective is to increase the ROCE. The book value would be roughly around Rs.70 crores to Rs.75 crores…but I am sure you can get that even from our balance sheet which was shown last year. There are three assets; there is a flat in Samudra Mahal, there is Beach Towers flat and there is Amby Valley flat. As far as number of shares is concerned we will go from 23,10,000 equity shares to 25,20,000 plus/minus equity shares in the post amalgamation.

Hitesh Kumar: Fennel has an investment in Gujarat Borosil. So on account of the merger, you will have the shares coming being part of the company?

Shreevar Kheruka: It becomes part of the company, you are right.

Hitesh Kumar: In that case, I think it will be more than 25.2 lakh shares the total outstanding shares if they do not get canceled?

Shreevar Kheruka: No, sorry, they will be cancelled, my mistake, it will be 25.2 lakh shares.

Hitesh Kumar: Coming back on the CAPEX outlay that you gave for Gujarat Borosil, in case of equity infusion, would there be an infusion equity by Gujarat Borosil or would you be raising fresh equity from outside?

Shreevar Kheruka: Raising fresh equity from outside.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: If you look at Hopewell, we did about Rs.44 crores of top line for the first half and October being of Diwali season, it is probably one of the best quarters that is there for that product. So should we expect this business to run at full capacity in this financial year itself?

Shreevar Kheruka: Like you said October 30th was Diwali this year and in general I think everybody had a very good Diwali session including us; however, on November 8th there was this announcement on demonetization and I think that in the short run that will have some impacts certainly on the sales of the products from a secondary and tertiary perspective. So eventually that is going to hit us on the primary sales also; however, we have to do a furnace repair sometime in April-May of the coming year, so we are planning to run at full capacity because anyway we have to build up stock for selling during the 2 months or so that the furnace is out of production. So we will continue on full capacity and let us hope we are able to come up with ways to limit the impact of demonetization on the sales of the organization. At this moment I can say that it will continue but it has been a big shock to the entire system and it will take some time for it to reboot. So that is always a caveat there.

Kashyap Jhaveri: In which case, FY18 Hopewell will require some CAPEX?

Shreevar Kheruka: FY18 yes, the CAPEX will be required, absolutely, we are planning to upgrade the furnace to a larger capacity as well as upgrade some of the machinery, which we inherited during the acquisition, to European machines; somewhere in the range of Rs.45 crores.

Kashyap Jhaveri: Currently, let us say if I look at Hopewell, it probably tends to roughly about 2-2.5x gross block turnover, right?

Shreevar Kheruka: 2-2.5x sounds roughly about right to me.

Kashyap Jhaveri: If I look at EBITDA, the presentation mentions that we did about Rs.6 crores EBITDA over there; now if I look at last year it was actually an EBITDA loss of roughly about Rs.8 crores. What kind of margins can one expect when it runs at full Rs.120 crores or Rs.130 crores kind of capacity?

Shreevar Kheruka: Structurally, in the business, there is no difference between us and La Opala, which is the #1 competitor. We will have the scale and we will have the same kind of customer base. So structurally I would not think that after La Opala's tax advantage expires there should be any difference in the EBITDA percentage. For Larah some operational efficiencies need to kick in after we acquired the company. So I would still give ourselves maybe 8 to 12 months to get all those operational efficiencies in, but very clearly our target is benchmarking to the kinds of margins La Opala makes. I do not see any reason why we cannot.

Kashyap Jhaveri: One question on Vyline. If I look at Borosil Glass Works annual report, we had about Rs.76 crores of related party purchases and your presentation mentions that we did about Rs.10.5 crores kind of EBITDA. So Vyline did roughly in that case about 14%, EBITDA, is that a right assumption?

Shreevar Kheruka: Yes, that would be I guess the right assumption to make.

Kashyap Jhaveri: On a like-to-like basis on the overall let us say Scientific plus Instrument plus Consumer, adjusted for some of the expenses that we do on asset management and some of the non-related expenses, what could be EBITDA…the numbers which are now mentioned in presentation adjusted for all those expenses?

Shreevar Kheruka: Look, all of Vyline EBITDA will flow into Borosil. So you could just do a simple math addition on that.

Kashyap Jhaveri: Let me rephrase; let us say if I am looking at presentation on Slide #4, EBITDA for Borosil Glass standalone is about Rs.14.7 crores and now this would not include expenses which are related to asset management because we have some brokerage?

Shreevar Kheruka: It would not include, you are right.

Kashyap Jhaveri: Is there margins of pure play in Glassware business?

Shreevar Kheruka: Yes, you are right.

Moderator: Thank you. The next question is from the line of (Devang Mehta from Tamohara Investment Managers). Please go ahead.

Arpit: This is Arpit here. A couple of questions: On the Consumer Products division after this acquisition, your addressable market size has increased a lot. So you have given some numbers on the estimated market size. I just wanted to understand, is it the only organized market and how big would be the unorganized market because what we understand is lot of import from China and all happens in this segment?

Shreevar Kheruka: You are absolutely right, if I look at the market size, these are firstly internal estimates. I am not sure how correct they are because it is almost impossible to judge how many containers are being imported by lots of traders that do this business. So our estimate of this is the organized market size. Unorganized may be exactly the same value also, but it is very very difficult to judge it. So that is why we did not put it down; but for us we made these estimates some time ago and that time GST had still not been approved and this demonetization had not yet happened. I think both of these are going to drive more players from unorganized to organized. So certainly the market size will increase, but it is too early to judge how much and what it was because there is a lot of under invoicing happens, as I am sure you may be aware. So it is very difficult to come up with any kind of accurate assessment.

Arpit: On the Hopewell bit, you have obviously done very well as the Hopewell came under your fold. So is the product already there in your distribution network or it is still to go?

Shreevar Kheruka: I would not say there is a 100% overlap yet, but certainly 60-70% which is largely from the modern trade, for example, Big Bazaar, Reliance Retail, traditional trade also, all the key cities, all the key distributors are carrying it, so you should be able to get it in the Mom & Pop Stores also. So I would say there is a high degree of overlap, but it is not 100% yet.

Arpit: As you have more products, how will distribution network expand over next 2-3 years?

Shreevar Kheruka: It is a good question, Arpit. I think distribution network is something that we are actually revaluating. With GST coming in, it may impact our distribution network in the sense that we may need to go for some larger distributors who buy consistent truck loads and make them super distributors and then reallocate smaller distributors to them. So those kinds of discussions are happening at the minute. But suffice to say we will increase our distribution in South and in some parts of West where we need to further strengthen it, we are working on it at the moment. But with GST I think there will be some impact, we are still evaluating that impact, so I do not have a very concrete answer for you on that front yet. There is a wider product range, we must increase the number of retailers, I think that is a more important point. We have may be around 10,000 plus retail outlets we should try and go to 14-15,000 that should be the target for us.

Arpit: Sir, you have also started a small division on the Appliances side. Now it is a very overcrowded market. What is the strategy and thought process there?

Shreevar Kheruka: On Appliances, you are absolutely right, it is very crowded. If you notice we also launched a brand called Labquest in the Scientific Products side. The idea here is to come up with products because electrical appliances for Consumer and Appliances for the Scientific Products are very similar. Only the interface is different, the end user is different, but at the end of day it is basically electronics and it is housing in which the electronics sits and then it shakes or stirs or heats the product which is exactly the same in the lab as well as in the kitchen. So, we have some ideas there about product development, they are still work in progress ideas. I do not want to get too much into it at the moment as, I cannot disclose much about that, but it is going to be a story which will take a couple of years to play out in my view. The current story is on the tableware storage and on the Microwavables and the Tumblers. Here we are spending most of our efforts in terms of advertising and brand-building. On Appliances, we are selling it, we are getting a lot of feedback, talking to many customers to understand what are their likes and dislikes because we feel that none of the other appliance companies really understand the consumer, they kind of just push products. We do not want to do it like that, we want to do something different but it requires product development and strong backend which we are working on and hopefully we should have something on that sooner rather than later.

Arpit: We will have some substantial share in the overall size of the business?

Shreevar Kheruka: I am very clear if the strategy works it will give a big share…. and we do not want to be the #32 appliance player. If it works we will grow substantially, if it does not work we will shut down that part of the operations; but it is in my view something that should work and it is too preliminary to discuss numbers, but we do want it to grow to a sizeable basket of operations.

Arpit: On the Pharma Packaging bit, you acquired Klasspack, which is a small entity now given Borosil's network, in the Pharma space, because you have written that it is Rs.500 crores market. One is what is the share we are addressing in the Rs.500 crores and what do you see with the Borosil brand and network, where do you see that business going in 3-to-5-years?

Shreevar Kheruka: In 3-5 years, we should definitely double the business. Firstly, Rs.500 crores is the addressable market what I am talking about. The number one player is a company called SchottKaisha. They do about Rs.180-odd crores of sales. I have spoken to many customers who want a second supplier. So I think the way we have structured the transaction also is that we have put in a lot of primary infusion into the company, which will help us make CAPEX, which will allow us to expand the capacity of the operations and that will help us do clean rooms, automatic inspections, other upgradations which our customers want to see. If we are able to do that I think we can be a very strong #2 player in the next 3-years in that space.

Devang Mehta: Devang here. There are a lot of things that you are trying to do. So just wanted to understand, how is our 3-4-5-years vision in terms of individual categories or where do you see larger opportunities going forward, just trying to understand different growth trajectories?

Shreevar Kheruka: On the Consumer side I think overall we are saying that we should cross 15% growth on CAGR definitely if you look at the next three years that should be the kind of minimum target for us and we should try and do better than that even. Within Consumer, certainly, our focus is on opal glass on the range of Microwavables that we have and on storage. So we have introduced products like lunch boxes and those kinds of products which have been well accepted. On the Scientific side, the market is growing bit slower in terms of the glassware range…maybe 8-10% range… and we will certainly grow at the pace of the market if not slightly faster. But there are three opportunities – one is on the Instruments through Labquest. Talking percentage of growth does not make sense, because the base is zero; but I think we can increase to at least 10% market share there in the next 3 years. If you look at Klasspack, I already mentioned we should more than double. On the third, if I look at the export market, I think again there is an opportunity for us to grow faster; maybe to double in the next three years at least there.

Devang Mehta: You said that there is a lot of focus on ROCE. Any number that you would like to quote as a target?

Shreevar Kheruka: No, I am sorry, I cannot do that but I know we are low compared to competition and I know that we have to substantially increase it and that is very much on the management's mind; everybody talks about it. While I do not want to take a target at the moment, maybe in the future I can share with you some clear indication of that.

Moderator: Thank you. The next question is from the line of Jayveer Parekh from Nidhi Securities. Please go ahead.

Jayveer Parekh: I have four major questions: Firstly, with regards to the preference share of Gujarat Borosil held by Borosil Glass, I understand in the last two years 90 crores preference share were not paid any interest. Has anything changed in the first half of this year? The second question is related to the EBITDA margins of your subsidiary companies. Vyline now we understand it is 14%. Can you give some quantum for Klasspack and Hopewell as well in terms of the EBITDA margins? Third question is that earlier at the CNBC interview, you mentioned you are going to double your advertising spending in the current year. From your FY16 annual report, I think it is Rs.13.5 crores. Does that mean it is going to be in the quantum of about Rs.27 crores to Rs.30 crores going forward? Last question is what will be the total cash and cash equivalents balance for a consolidated company after the Scheme of Amalgamation exclusive of the 90 crores preference shares of Gujarat Borosil?

Shreevar Kheruka: On the first question, there is no dividend paid on the preference shares in the first six months. Second question on the EBITDA, Vyline you got the number correct, but on the other two also we have given the number; actually if you look at slide #4, the EBITDA for Hopewell in the first half of the year was Rs.6.09 crores on a turnover of Rs.44 crores and for Klasspack was 124 lakhs and that as on a turnover of Rs.650 lakhs. So that is the EBITDA margin of the other two companies. Advertising spend, yes, the number is about right, we are doubling the number from last year, so the range of about Rs.27-odd crores seems to be around where we will be hitting for this current year. Cash and cash equivalents, I think by the end of the year, if I am not mistaken, we should be with about Rs.120 crores of cash and cash equivalents… this is liquid investments, I am not counting in this the preference share, I am not counting in this the real estate which is the non-core assets.

Jayveer Parekh: So this is basically your investments in the stock market and other liquid investments?

Shreevar Kheruka: Exactly.

Jayveer Parekh: Is there any outlook on the preference shares dividend pay going forward?

Shreevar Kheruka: Gujarat Borosil itself requires a substantial chunk of capital to further expand because the market is in a very good position at the moment for that company. So we are trying to solve this by getting a new investor. So, I cannot give any firm outlook, but we are talking to a few people and let us see how that discussion pans out.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Just again coming back on numbers reported on slide #4, EBITDA from operations Borosil Glass Works is Rs.24.9 crores in F16, about Rs.10.2 crores in F16 first half and Rs.14.7 crores in F17 first half. Does this include any income on investments also or does it not?

Shreevar Kheruka: No, only income relates to operations. If there is any operations liquid funds I am sure that would be included, but very very small sum.

Kashyap Jhaveri: So this margins in let us say if I look at Q1 numbers EBITDA which was reported in the press release that we have was about Rs.4.6 crores total which was about Rs.1.1 crores in Consumer Ware and about Rs.3.5 crores in Labware.

Shreevar Kheruka: Roughly correct.

Kashyap Jhaveri: So let us say this is about 9% EBITDA margins in Consumer Ware and about (+20%) kind of margins in …?

Shreevar Kheruka: Yes, you are right.

Kashyap Jhaveri: Are these margins sustainable because Q1 margins were materially different?

Shreevar Kheruka: Yes, Q1 is a low sale quarter for the company. So these margins are more or less okay… these margins I am not talking in the very short run because of demonetization impact on the margins. I do not have a view that it is going to have a material impact on it but these margins can certainly sustain in the medium to long run.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: What is the share of your modern trade and eCommerce in the Consumer division?

Shreevar Kheruka: Modern Trade plus eCommerce about 35-40%, eCommerce separately will be about 7%.

Sarvesh Gupta: You are planning to put a new capacity under Hopewell… Rs.45 crores expansion. What is the ROCE of that project?

Shreevar Kheruka: We are still working on that yet. So I will be able to comfortably answer that question in the next quarter.

Sarvesh Gupta: The Solar Glass subsidiary, what is the ROCE for the new CAPEX over there that you are trying to undertake…not the current ROCE, but let us say you are doubling the capacity from 1 to 2.3 GW, so for the new project?

Shreevar Kheruka: It should be in the range of 20-22%.

Sarvesh Gupta: At Gujarat Borosil Limited, are you cost competitive with Chinese? What is the pricing environment there because these ROCE would be very sensitive to …?

Shreevar Kheruka: You are absolutely right. In fact, we have benchmarked our product costing with Chinese product costing and we are actually cheaper than the Chinese in terms of our product costing; however, so far Chinese government has been giving export subsidy of 17% roughly, which is the direct export subsidy. So when you factor that in, then it becomes a problem in terms of the costing; however, we hear that the Chinese government is looking to withdraw that and Gujarat Borosil also filed unfair trade practices case, which is antidumping duty case against the Chinese and that matter has gone into investigation. So we are awaiting the outcome of that particular investigation. That being said, even today there is no dumping duty on the Chinese and we are achieving say EBITDA margins of about 22%-odd in that company and we are selling our products maybe 4-5% more expensive than the Chinese and because we are the only manufacturer in the country everybody needs a supplier who is close to them because we are a raw material for the company that makes modules. So if something gets messed up in the supply chain, they need a second supplier. So, many companies we are supplying 80% of our glass and 20% they buy from China. In other companies, we are supplying 20% of our glass and 80% they are buying from China. But there are very few companies who would not be buying any glass at all from us. So we are able to maintain price advantage of 4-5% over the Chinese even when there is Chinese support to their industry and no government support to our industry. So I expect both of those macro factors to change in the next few months.

Sarvesh Gupta: Why are we the only major player in this business…what is the competitive edge that we have got here?

Shreevar Kheruka: Of course, you are absolutely right and that may happen also in the future, nobody knows, but we were the first mover in this. Maybe I think we were a little bit ahead of our times to be very frank; we launched in 2010 and at that time the Indian solar industry was in its absolute infancy. So we were the first mover and then we have a couple of years of substantial losses in that company. So I think that also scared off some of the larger players from investing. The larger players have focused their attention on more mass products like automotive and the architectural glass and I think that is where they are more comfortable. So I do not expect any of the large players really to enter this space because worldwide they have been selling their non-automotive and non-architectural glass production units. So you may see some smaller players come in, but there we have 50 years of glass experience. So we do have a technological edge plus 7 years of experience now in the solar industry plus a very well-established customer base and of course in this also just like in our pharma companies, you need to have certification because the end product is certified for almost 20-years after it is sold. So you need a company who can withstand that certification. So all these are barriers to entry for new players. Nothing to say that somebody who wants to invest Rs.200 crores cannot come in but it is not for everybody, there maybe a couple of competitors down the road.

Sarvesh Gupta: My final question was on Labquest. Now, that is a market where we are dominant market leader with 60% share and I guess most of the market would be organized in this case and given that the market itself is just growing at 8-10%, now the opportunity is to quickly ramp up the international business and the Lab Instruments. So, how much is it possible to grow quickly in these two areas because again here you would need a lot of certifications etc to grow?

Shreevar Kheruka: Actually, you need certifications in the pharma packaging space because there your product is touching the pharma ingredient and you do not want any spoilage to the medicine or to the medication. So there lot of testing is required. For Labquest itself it is used for the quality control and R&D parts of the pharma company. Here so much certification is not required but brand reputation is required, quality is required and fast deliveries are required. These are the three important features. The fourth one is the wide range of products. So on the export front, we have been doing well, I think we should definitely at least double the growth rate of domestic in the exports range of the current product portfolio. As far as the Labquest is concerned which is the Instruments business, it also depends on the strategies we employ, it is a very preliminary discussion because we just launched it in April of this year; we have had very positive feedback from the customers, we were getting sales over there. It remains to be seen what is the best way to monetize this. We are still working on a couple of ideas and it is early days on this, but I am quite positive on this segment of the business.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: If you can elaborate a high priority white spaces at Hopewell which we would like to address be it in regional expansion or product expansion?

Shreevar Kheruka: Firstly, I think we are strong in the northern region of the country and we have got some presence in the south in Kerala specifically. I think there is an opportunity in the western region, say Mumbai, and surroundings where we can improve our brand presence. I think that is where we are going to invest more time and efforts in the next few months and probably a year. In general, on the brand side of things, La Opala has been a standard brand and they have done very well and they have grown that business. Larah still does not command the premium that La Opala does in the market and certainly our idea and objective of investing that Rs.45-odd crores in the CAPEX is to build up the products portfolio and quality and the strength to that benchmark and I expect that is where we are going to spend lot of time and effort so that there should be a premium positioning of Larah. So on the distribution front, I would focus on the western region of the country and on the product itself focus on upgrading the factory and the backend to deliver to the market quality of product that Borosil has been traditionally renowned for, but under the Larah brand name.

Tejas Shah: Sir, since we are expanding aggressively both in B2B business and B2C business, just wanted to understand what is the plan to expand the managerial bandwidth to manage the growth; if you can help us to understand the internal reporting structure… are these businesses put into SBUs which report into one central planning… because even the resource allocation both managerial and financial if you can help us to understand how you decide on the same?

Shreevar Kheruka: A good question. Firstly, just want to correct you on one comment you made; we look at the Scientific Products business also as B2C business, not as B2B business even though we sell to institutions. We think that we are selling to a customer within an institution. So it is a small point but an important point of differentiation for us because that also drives how we recruit people. Coming to answering your question specifically, we have two separate SBUs which are the Consumer Products division and the Scientific Products division. They are run and managed by completely independent teams. So the sales team is separate, the production team is more or less separate; there are some overlaps but I would say 85-90% is separate. The new product development is separate, the quality control is separate. So all the main functions are separate. The only common functions are accounts, finance, HR, IT and legal. These are the four common functions. All of these functions report to me… meaning the four common functions plus the heads of the SBUs of the two businesses report to me. There is an incentive structure in place in terms of sales and profitability target that we set and incentives on that basis. So we benchmark our salaries with the market through third-party agencies, we ensure we have a medium-term vision in terms of where we want to go as a company and everybody is empowered to achieve that. End of day I am the CEO and Managing Director of the business and the various heads I just mentioned report to me. Gujarat Borosil is a separate company that is managed by Mr. Pradeep Kheruka, who is my father and they have a separate manufacturing team. All the functions are separate and they report directly to him.

Tejas Shah: Sir, just one hypothetical extension of the same question; let us say if you have Rs.100 to invest, how do you prioritize based on the opportunity that you are seeing in different SBUs and capital efficiency and also the growth prospect?

Shreevar Kheruka: At the moment, to be very frank, we have had the good fortune of growing all three businesses and each of the three businesses is able to self-fund. So ROCE has been the key question to be asked before we look at deploying any capital… let us be specific here, for example, the Scientific Products business, deploying capital is very little in the way of CAPEX except for the acquisition we did in Klasspack, now that itself had a very strong ROCE and a strong rationale for investment. So we took that call. I would say we would invest in a business where we would at least get 20% ROCE there. Similarly, on the Consumer business, the main investment we have made is the acquisition of Larah. Here you all know how well players in the market have done. Even in Gujarat Borosil, we could have invested from Borosil but we decided that it is best to get an outside investor on board. The holding structure of Gujarat Borosil and Borosil is historic. The promoters already have 75% of the business. Borosil Glass is one of the promoters. So we figured it's okay to get an outside investor in this business. So rather than invest Borosil Glass capital, we thought that is a right way to proceed. So it is specific to each of the businesses but each of the businesses is a baby and you have to feed the baby if you want for it to grow. Each baby requires that food and the nourishment and I do think that we will feed it only what is required versus overfeed it. So those decisions are definitely reviewed by the management on a consistent basis and we have strong internal management structures to do that.

Moderator: Thank you. The next question is from the line of Rohan Advint from MultiAct. Please go ahead.

Rohan Advint: My question was on Larah. If you could throw some light on how the dealer and the distributor margins are for Larah relative to our competition, especially after late last year La Opala margin structure at a distributor and dealer level, so how does it compare today?

Shreevar Kheruka: We have channel margins similar to La Opala. We have not changed it much; however, as far as my information is concerned they have changed it a little bit. So I am not exactly sure what the latest story is but we have been following a consistent one which is along the lines of La Opala as well as similar to the business that we have been doing in Borosil for so many years. The idea here is not to sell the products on the basis of higher margin to the channel. It is just a long-term losing strategy and that is not what we are doing to do. The idea is to keep the margin lucrative enough so that they invest money in it but we do not want to push the product is what I am trying to say. We will create the pull and the channel should hold the product because the customer comes asking for it. That is the overall philosophy. Margins will keep changing or will change depending on consumer offtake for that season or there may be some promotional offers. So in general, in quarterly margins there may be some small changes but overall the clear strategy of the company is to generate pull and, two, ensure that people come and ask us for the product rather than us push it. So that is the general idea. Specifically, like I said, Larah channel margins are along the same lines of what we have been doing in our Consumer Products division which has been active for last 50+ years with the trade and we are not giving anything more specifically compared to La Opala.

Rohan Advint: The performance that we have done on Larah, would that be taking share away from La Opala or do you think the market itself might have expanded through our entry?

Shreevar Kheruka: I think the market has been expanding certainly, that is one of the good things about the product category itself because in a growing market it makes more sense. To try and fight somebody and take share away from them reduces the pricing. Our focus has been to expand the market by way of product innovation or getting into geographies where La Opala may not necessarily be strong or by way of advertising and attracting new customers into this category. So it is very difficult to say what their market is and how much market share if any we have taken away from them; but I think they have also grown in the first half of the year by 8-10% points on a higher base than us. So I do not think we have really taken away anything from them, we have just added.

Moderator: Thank you. The next question is from the line of Devang Mehta from Tamohara Investment Managers. Please go ahead.

Devang Mehta: Just wanted to understand how the capital intensity will change as we leap into this growth phase from now to three or four years down the line?

Shreevar Kheruka: On the Scientific Products front, I do not see any substantial change in capital intensity. Like I said in Klasspack whatever we have invested, most of it has been in the form of primary infusion. So whatever CAPEX already spent I think that itself will sustain in the next two-three years of growth of that company and help us increase the revenues to double plus. As far as the Consumer division is concerned, the investment of this Rs.40+ crores will be new CAPEX for Opalware. Beyond that there may be some more CAPEX for improving our warehousing and our infrastructure for servicing the markets in light of GST, that maybe another Rs.15-20 crores… I am not exactly sure what that number is; at this moment we are still working on it. Beyond this I don't see any major CAPEX. Of course, we are always on the lookout for acquisition opportunity; if we find something interesting then that could be another reason to do some CAPEX. That I cannot enumerate at this point of time. But these are the only CAPEX that I am seeing of substantial nature at the current moment. Of course, subject to change depending on opportunities and we have to act quickly if an opportunity does arise.

Devang Mehta: So we are seeing large cash on books and also there is a capital requirement in Gujarat Borosil. There will be no cross-pollination of balance sheet or there would be?

Shreevar Kheruka: At the moment, there is no plan to invest further equity from Borosil to Gujarat Borosil.

Moderator: Thank you. The last question is from the line of Jainil Jhaveri from J&J Holdings. Please go ahead.

Jainil Jhaveri: I just wanted to understand that what is the rationale for getting another investor in Gujarat Borosil…is it like a technology partnership?

Shreevar Kheruka: The idea here is that we have high percentage of promoter holding in this company. We think it could be a couple of investors, we have also applied for QIP approval through the shareholders …which will be going out shortly. But the idea is to give credibility to the organization of Gujarat Borosil that many people perceive is standing largely on the support of Borosil, which is not true. It is a strong company in its own right; it has got a different growth trajectory compared to Borosil Glass, it has got a different capital requirement compared to Borosil Glass. I think getting a third-party investor will enhance the company's image and overall it positions the company better in the future. There should be no need to change the structure in the future. So this has been the traditional thinking that we do not want to cross-pollinate Borosil with Gujarat Borosil to the extent possible because that may also viewed negatively to the investors of Borosil Glass. Somebody investing in Borosil may want to invest in the Consumer business or the Scientific business and not necessarily the Solar business, which is the B2B kind of play. So this has been the thought process for trying to get a third-party investment.

Jainil Jhaveri: What are the current value of the flats approximately that you all have?

Shreevar Kheruka: I do not know the exact number at this very moment, but it is in the range of Rs.65-70 crores if I am not mistaken. The current value, I do not know, we have asked **Knight Frank** to value it, now with demonetization again I do not know how real estate prices are going to move in terms of the valuation. I am not a real estate expert, so I cannot really comment on that, but the book value is what I have just shared with you.

Jainil Jhaveri: When were these flats approximately bought, which year?

Shreevar Kheruka: The chunk of this was bought I think in ’13 or ’14 which is the Samudra Mahal apartments and Amby Valley also was 2-3-years ago; Beach Towers has been in the company for more than 20-years possibly.

Jainil Jhaveri: So most of the pricing would be recent anyway?

Shreevar Kheruka: Yes, unlikely to see any substantial upside on this, that is my personal opinion.

Jainil Jhaveri: The cash that would come out of these would be again used into the business, right?

Shreevar Kheruka: Like I said at the beginning, we are not sure what we are going to do with it yet; we are evaluating various opportunities keeping in mind that this is impacting ROCE, but if any money comes into the company, then certainly it will be used for growing the business and for future opportunities.

Jainil Jhaveri: The working capital cycle for Gujarat Borosil and Borosil, if you could tell me in number of days also would be fine, just approximate?

Shreevar Kheruka: Gujarat Borosil about 60-days and Borosil will be higher than that about 110-days of working capital because, as I mentioned before, one of the key salient points is that inventory, we must have inventory, loss of sale is not at all acceptable in Borosil; because especially on the Scientific Products side**,** the customer will not wait for the products, so we have to keep a higher level of stock, that itself adds to the barrier to entry. That is the reason we have higher stock levels in Borosil. However, receivables in Borosil are roughly 30 days. So working capital is mainly because of the inventory that we have rather than receivable.

Moderator: Thank you. That was the last question. As there are no further questions, I would now like to hand the conference back to Mr. Abhishek Ranganathan for closing.

Abhishek Ranganathan: Yes, thank you very much for participating in this call. Hope this was quite insightful. We look forward for future interaction with you sir.

Shreevar Kheruka: Thank you very much all for participating.

Moderator: Thank you very much. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.