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Dear Sir /Madam,

**Scrip Code: 502219****Symbol: BOROSIL****Series: EQ****Sub: Transcript of Institutional Investors and Analysts Conference Call**

We enclose transcript of conference call with Institutional Investors and Analysts which was held on October 31, 2018.

You are requested to take the same on record.

Thanking you.

Yours faithfully,

**For Borosil Glass Works Limited****Gita Yadav****Company Secretary****Encl: as above**

## **Borosil Glass Works Limited Earnings Conference Call**

**October 31, 2018**

- **Mr. Jinesh Joshi – Prabhudas Lilladher**
- On behalf of Prabhudas Lilladher I welcome all to the 2Q FY'19 earnings call of Borosil Glass Works Ltd. We have with us the management of Borosil Glass Works Ltd. represented by Mr. Shreevar Kheruka, MD and CEO and Mr. Swadhin Padia, CFO. I would now like to hand over the call to Mr. Kheruka for opening remarks after which we can open the floor for Q&A. Thank you and over to you, sir.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Thank you. Greetings and welcome everybody. Glad to be talking to the investment, investing community again along with our CFO, Swadhin Padia. Borosil's Board met yesterday and approved the financials for the quarter and half year ended September 2018. Our results and the updated presentation have been sent to the stock exchanges and have also been uploaded on the company's website. I can therefore briefly run you through the highlights of our performance and then open it to questions that we would be glad to address as best we can.
- As you are aware during Q1 and Q2 of last year there was a discontinuity in terms of implementation of GST. This led to lower sales during June and July, 2017, with a pick up from August, 2017 onwards. It would thus be best to compare the sales of the first half of the year as a whole, rather than for each quarter. Having said that, we still do not have strictly comparable periods as Diwali last year happened earlier and some of the Diwali sales which happened in Q2 will actually happen in Q3 this year. So, in some sense our growth levels are a bit understated as compared to the year before. In spite of that our overall revenue during the first half was INR 251 crores which represents a growth of 23.1% over H1, FY'18.
- The consumer products division achieved a revenue of INR 161 crores, a growth of 23.5% over the first half of the previous year. Again here, I must specify this includes the implementation of accounting provision of INDAS 115 in this financial year. If we remove that provision the growth was north of 30% for the first half of the year, in the consumer division. Products under the flagship Borosil brand

grew by 23%. The company is seeing a very encouraging response to its new product launches. As I have been mentioning for some time, we've identified glass storage in the kitchen and on the co-products as segments with strong potential. There is a definite tailwind supporting a shift from plastic storage to use of glass. Borosil is facilitating that shift with high quality product designs for both aesthetics and functionality, for example, easier stacking in the kitchen cabinet to optimise space or vacuum ceiling closers to retain freshness. In addition, consumers are also looking for high quality steel products as glass is not always suitable for on the go usage. Anecdotally, I hear of more and more office goers carrying Borosil glass lunch boxes to work. Similarly, the Hydra range of flasks and steel lunch boxes are also doing very well. Last quarter I mentioned that Borosil is now the hydration partner to the Indian Olympic Association until 2024. We made a very good start with our "Thirst For Gold" campaign with a heart-warming video of a young fan encouraging one of India's wrestling champions, Bajrang Punia. It was fortunate that Bajrang Punia went on to win the first gold in the Asian Games that just went by. The video became quite popular over the social media. Larah had become an INR 100 crores brand last year. During the first half of the year, Larah recorded sales of INR 71 crores, which is a growth of 24% over the first half of the last year. Again, as I mentioned that owing to Diwali being a bit later this year than last year, we expect the sales growth to accelerate. You may recall that in the second half of last year the company had undertaken the capacity expansion and plant upgradation at its Jaipur manufacturing facilities. The production output is now streamlined. The product quality is very consistent with higher mechanical strength. In fact, some of you may have seen our recent television commercial about the young couple shifting homes, when the husband labels the box with Larah dinnerware, as books by mistake. And despite rough handling assuming that it contains books, the plates remain fully intact as "Larah kaafi strong hai". We have improved our design capability as well. We've introduced a new product range called the Moon series and that is especially suited for the Indian way of eating with multiple servings of difference sabzis and where you can put up to 3 katoris in the plate and still have enough space for chapatti as well as chutneys. This has been received very well in the market. We've priced it at a premium of almost 15 to 20% over the normal Larah series.

- Revenue in Borosil's SIP division was INR 89.4 crores, a growth of 22.4% over H1, FY'18. Here I must mention that these numbers are a bit over stated owing to INDAS 115. The actual growth was about 13 percent. The Labware division with sales of INR 69 crores recorded a growth of 23.1%; that's with INDAS 115.

However, we are quite happy with the growth in this division. The instrumentation business under Labware where we are targeting import substitution is showing an encouraging response. As, The company commenced operations at its wholly owned subsidiary Borosil Technologies in Pune, for product design and assembly. With this we expect to add to the LabQuest range. Klasspack achieved a revenue of INR 20.7 crores, a growth of more than 27% over the last year. Our acquisition thesis is playing out. Borosil has been able to use its customer relationships in the pharma industry to add to Klasspack's portfolio of customers. In fact, we added a couple of tier A customers in this area in the last 6 months. We are a clear number 2 player in this industry and we expect to continue to grow the business at a healthy clip.

- Coming to EBITDA margins, EBITDA from operations at INR 37.2 crores, grew by 11% over last year. The growth in EBITDA margin lagged top line growth and the main reason for this is that we have spent more money on advertising and sales promotion expenses, - almost INR 7 crores more compared to the first half of last year. If you keep the same ASP spends as last year, our operating margin percentage would have been similar to last year. However, we are taking the view that we must look for long term growth and we may sacrifice short term margin to this effect. Having said that, the one area where we have had a low EBITDA margin is Klasspack despite a strong top line growth. The main reason is, as I mentioned we've added a couple of new customers, more demanding customers in the last 6 months. Their product range is a bit more challenging to produce and we have been stabilising that range. However, in the interim we have had to deal with additional material losses , leading to reduction in EBITDA. I expect that going forward this will normalise back to a level in the mid-teens in the next 3 to 6 months.
- As I mentioned earlier, gross margins in the business are by and large stable. The current focus is on growth. As we move ahead, we will also manage our portfolio for a more profitable product mix. Variations in cost of inputs are not significant risks for us. Our largest raw material, sand, is the most abundant raw material on earth. Power forms a significant proportion of our cost of goods sold. Although our manufacturing locations have slightly more expensive power costs than both domestic and overseas competitors, we do not expect any escalation in electricity prices. The recent depreciation of the Indian rupee has increased the cost of import and that does have an impact on our overall cost structure. However, this impact is marginal and we have been able to pass on such cost inflations through very moderate price increases. The company is reaping the benefits of operating leverage. With scale we expect continue to bring down

- logistics costs over the next two years. Moreover, ASP expenses are expected to increase slower than our top line growth.
- We registered a PAT of approximately INR 26.5 crores in the first half of the year.
  - And just a couple of points on other developments. We have increased our shareholding in Klasspack from 60.3% to 70.2%. This was by way of primary infusion of funds into the company in order to upgrade the manufacturing facility in Nasik. The process of restructuring is in progress. We are awaiting SEBI's approval and we anticipate we will get this very shortly. We expect the entire process to be completed by the first quarter of FY'20.
  - As far as our medium-term outlook is concerned, the company has gathered sales momentum. Our teams are focusing their energies to accelerate volume growth. There is clear expansion in the market for kitchen ware and serving ware and within which there is a shift towards glass. We estimate that the current market is 50% organised and 50% unorganised in general, although in Opal the organised segment is higher. However, in the other markets, it provides an opportunity to upgrade consumers to better quality branded products. We see the opportunity as going beyond Opal and glass. It's a kitchen and on-the-go story, with current focus on storage and serving. Borosil's consumer products business sees a runaway of growth over the next few years in these two segments, which can result in fairly high growth in both volumes and value for the company. While margins are important and some of it will follow automatically with scale, we will currently prioritise volume growth over margins. Penetration in our category is still low and is an opportunity to expand the market. And it is our belief that in consumer products, it is important to first achieve momentum and market penetration and then focus on containing cost to gain economies of scale. Of course, it will not be growth at all costs. We will be profitable. The growth eventually has to be sustainable and has to be sustainable for our channel partners as well. We will continue to invest in brand building so as to create a strong consumer pull for our brands. As I mentioned, we have one advertising campaign for the Borosil storage range and one for Larah. Apart from mass media, we are also allocating a budget to social media. We are active on Facebook and in addition to the tie-up with Indian Olympic Association, we've also become an associate sponsor to the Haryana Steelers in the Pro Kabaddi League. Currently, our advertising to sales spend for the consumer product business is double digits which for now, is higher than the industry average. We are working on strengthening our sales channels. Currently the Borosil network comprises over 12,000 retail outlets. We intend to add another 800 to 1000 each

year in the next couple of years. I think we are well on our way to do that. We are listed across most major large format store change. Our focus here is to increase depth by adding new products and SKUs in each of our distribution outlets. The Borosil new products development team plans to introduce several new dozen SKUs each year. Simultaneously, we will also rationalise SKUs from a long tail. The e-commerce channel is still small but we are seeing increased traction. It is helping the company in penetration beyond the top 50 cities. So, now we have a dedicated e-commerce team. And we expect that the contribution of sales to e-commerce could go more than 10% this year itself. Over the next year or two it could go as high as 15 to 20%.

- In the scientific products business, while lab glassware shows steady growth, the new avenues of exports, LabQuest instruments and Klasspack will improve the growth trajectory. Our blended revenue CAGR is expected to move up to the high teens. EBITDA margin will expand as the company gets scale benefits. And we expect to improve EBITDA margins to between 15 and 20% over the next couple of years.
- Overall, I think we've had a good half year. We had a very exciting phase of growth. Anecdotally I hear good feedback. Even on Amazon, I am seeing good feedback on our products. I expect that the new product that we are developing will add more traction in the coming months and years. I am truly excited about the prospects of the company and look forward to the future with a lot of confidence. Now I am happy to take any questions that you may have.
- **Moderator**
- Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question, may press star and 1 on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.
- **Mr. Prakash Kapadia – Anived Portfolio Management**
- Yeah, thanks for taking my question. Could you share some of your thoughts given the recent rupee depreciation coupled with anti-dumping duty which is already in place. Isn't it time to step up the ante against the melamine,

- unorganised guys and target higher growth for the Opalware segment? Does it makes sense, not make sense, are we doing that or not doing that?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
  - As far as Opalware is concerned, you would see a very strong growth in the second half of the year. 20 plus percent is not bad but if you take the next half of the year also, you will see a very strong growth trajectory. We are already doing what you just mentioned in terms of targeting, the other products in this field by our ad by saying “Larah kaafi strong hai”. This will help grow the business and we are seeing that. Like I said, Diwali this year is in November compared to mid-October last year and so really Diwali sales are not fully baked into our growth numbers. So, I expect that we will have good trajectory in Opal this year itself.
  - **Mr. Prakash Kapadia – Anived Portfolio Management**
  - You mentioned about Diwali being deferred. Does our product have such a lead time? I would guess towards the end of the quarter you should have seen some stocking because of Diwali. Or is the lead time short so it happens in a shorter period and that is why you see the differential in sales, if any, for Diwali?
  - **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
  - You see, it depends on the format of the distribution. Trade doesn't stock for more than a month in advance for Diwali. Trade stocks at the very last minute, meaning 2 to 3 weeks before Diwali. So, a lot of the trade sales happen just prior. As far as large format stores are concerned, yes, they tend to stock a bit more in advance. However, they place orders in advance but they expect deliveries over the course of time closer to Diwali. There is lot of buying that happens straight after “shradh”, when Navratri starts. Sales are only complete when you fulfil the orders.
  - **Mr. Prakash Kapadia – Anived Portfolio Management**
  - Understood. And lastly you know on the Opal ware sales, are we planning to grow the market by selling smaller SKUs, say a smaller version of a small plate and a spoon or a dinner plate and a bowl for say INR 500, vis-à-vis selling an entire set at 2000 rupees? Does it make sense specifically in tier two, tier three markets? Is there a plan for that?

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yeah. In fact, the trend in the market, especially closer to Diwali, is more gift packs sales. That is exactly what you just mentioned. So 500 to 1000 rupees MRP products, are sold in maybe lakhs of pieces. This is not something new, this is happening for few years now. So, that's one segment. Like I mentioned, we have also introduced the Moon theme which is a slightly more premium segment of the market that we are trying to address. So, I would say that we are trying to sub-segment the market and that would be one of the key drivers of growth going forward.
- **Mr. Prakash Kapadia – Anived Portfolio Management**
- Okay, what you meant was, you know, you are already doing some of that sub-segmenting what you meant when we are saying, say Diwali could be a specific entire gift set or entire set market but this sub-segmenting is already a part of our growth plan and that is already happening.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yes, it is. Absolutely
- **Mr. Prakash Kapadia – Anived Portfolio Management**
- Okay. Any number, of the sub-segment you could share of our sales, is it 5%, 10% more.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- No, I can't share that. Sorry.
- **Mr. Prakash Kapadia – Anived Portfolio Management**
- Understood. Thank you and all the best. I will come back if I have more questions.
- **Moderator**
- Thank you. The next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.



- **Mr. Ashwini Agarwal – Ashmore**
- Hi, Shreevar, Swadhin great presentation. Couple of big questions. One is you spoke about online becoming a more and more important channel for you. What we have seen in a couple of other areas like garments and other fast-moving products is that there are two risks associated with online. One is discounting done by the online vendor on the overall bill or whatever it is to attract the consumers, which creates a dissonance because the prices available online are much lower than what your retailers are offering. And two is you know, this constant sort of discounting season, which continues in the online space where you are forced to offer discounts just to stay relevant. Do you worry about the fact that as online grows bigger and bigger, number one, it will create a dissonance between your offline and online sales and channel partners and number two, whether it will be dilutive for margins? How would you address that?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yeah. Your first point is absolutely valid and it's happening with every brand. So, certainly we do find that online guys are offering discounts and that trade guys get irritated with those discounted offers. So, what we do is, we maintain a very strict watch. We have a team which is dedicated to just looking at what are the discounting offers on our products online and we make sure, that our agreements are such that the online guys do not offer a discount over x percent. In fact, there is a live example that happened few days ago where one of our products was being offered at a much higher discount on Amazon. We immediately got that shut down. We made the distributor stop the offer within a few hours of that offer going up. So, we have to be very vigilant and we don't allow our distributors who are selling online to sell below a certain price, otherwise we discontinue them straightaway. That's one way to handle that dissonance. . It is not always perfect but I would say we have done a pretty good job of it and except for one or two cases, we have not really seen too much discounting over and above what you could get regularly at an offline retail store. The second thing is the larger question on how does online impact margins. Yes, it will impact margins because online has been perceived as a discounted channel and people go there just to get lower prices. Here, what we have tried to do is some product differentiation. We have some SKUs which we sell online exclusively and they are not available at all in the offline trade. We've already started that. Our NPD team has quite a few SKUs which they have given only to the online channel. For the regular fast moving products which are available in all channels, we just make sure, we prevent our distributors from discounting it beyond a certain level. I think we are

- also still kind of evolving in this area. So, we will have to learn more and develop more as we go forward. But so far, we have not had any issues where trade has said, I am not placing orders on you because you are selling it cheaper online.
- **Mr. Ashwini Agarwal – Ashmore**
  - Okay. Second, again anecdotal feedback coming through from a lot of white goods distributors, auto companies and various other people say this Diwali is turning out to be very weak compared to the last 4 or 5 Diwalis. What's your sense, how do you see things?
  - **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
  - Very frankly although I would not like to forecast what happens in Q3, what I would say is that anecdotally, yes, I have heard that too, but in our space, I don't think that's really been the case. I think the momentum so far has been strong and we don't see a weak Diwali at all. In fact, quite the opposite.
  - **Mr. Ashwini Agarwal – Ashmore**
  - Okay. And on the margin, e I saw significant dip in EBITDA and that's I suppose purely on account of the 7 crores ad spend and marketing spend that you had in the first half of this year. Adjusted for that you are saying that the EBITDA is stable.
  - **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
  - Yes, it's stable. I would also add that operating leveraging will come in. As the Diwali quarter picks up you will probably see the EBITDA margin improve in next quarter and going forward. Yes, advertising and sales promotion is one of the reasons for EBITDA to have reduced as a percentage. Additionally, we have also been looking for inorganic growth opportunities so, certain amount of investment in banking fees and other legal related expenses have gone up little bit more than budgeted. However, that is a one-time kind of expense that will probably go away. The A&SP is here to stay at least for a couple of years or more.
  - **Mr. Ashwini Agarwal – Ashmore**
  - Okay. Two short questions. By when do you think the whole amalgamation process be over, will it take another year or so or less than that.

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- That's a really good question. I don't have an exact answer for you. We are hoping that by the first quarter of '19-20, it should happen, that's our ardent desire. We are following up very regularly with all the authorities. Like I mentioned earlier it is with SEBI right now. And we are hoping for approvals very shortly from SEBI after which it goes to NCLT. As we all know NCLT has its own list of cases which tend to be more in the limelight and that takes its time as well. They are doing the best they can, with the limited resources that are available. But we are following up as best as we can. And I do hope that by first quarter of '19-20, that is April to June next year, it should be through.
- **Mr. Ashwini Agarwal – Ashmore**
- Okay. And last question. Sorry, I have taken too much of time. But can somebody, can Swadhin give me breakup of the other income of 10 crores roughly in the latest quarter or the first half, whatever you like.
- **Mr. Swadhin Padia - CFO, Borosil Glass Works Ltd.**
- This is income from ICDs placed by us and capital gain on investment.
- **Mr. Ashwini Agarwal – Ashmore**
- And there is no exposure to ILFS and any other entity which is at risk or anything like that.
- **Mr. Shreevar Kheruka – MD and CEO, Borosil Glass Works Ltd.**
- No, not at all. In fact, a year ago we had moved all our money from equity and debt mainly to liquid funds and we have chosen good liquid funds. So, I think we are more or less okay over there.
- **Mr. Ashwini Agarwal – Ashmore**
- Okay. Good. Thank you so much, great and all the best.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Thanks.

- **Moderator**
- Thank you. The next question is from the line of Akhil Parikh from Elara Capital. Please go ahead.
- **Mr. Akhil Parikh – Elara Capital**
- Hi, Shreevar. Thanks for taking my question. I have question on Larah. Would you be able to highlight how much is the capacity we currently have for Larah and what utilization rate we are running at.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- So, in tonnage terms we have a furnace capacity of roughly 35 to 40 tonnes per day depending on product mix, okay. And in rupee terms, I would say if we utilise our full capacity we should do a turnover INR 180 crores. And currently like you see in the first half of the year, the revenue from Larah is roughly INR 70 odd crores. If you just double that it could be 140 but it should be slightly more than that because like I said Diwali comes later. So, we would be somewhere around 80% capacity utilisation at the moment. With advertising and other initiatives, we can further improve upon that.
- **Mr. Akhil Parikh – Elara Capital**
- Are we looking to expand the capacity?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- We have already expanded capacity last year. And at this present moment we are not looking to add a new furnace if that's your question. But there are other ways of also adding capacity without really having to add furnaces. We are exploring these and can marginally expand capacity by say 10 to 20%. We are exploring those opportunities at the moment. So, in the next 6 to 12 months I don't think we are going to be adding a new furnace, but after that probably it would be needed.
- **Mr. Akhil Parikh – Elara Capital**
- Sir, in case of reach for Larah, like for Borosil we have over 12,000 retail touch points. How many are there for Larah?

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- It would be somewhere in the 6000 to 7000 range.
- **Mr. Akhil Parikh – Elara Capital**
- 6000 to 7000, okay. And how many distributors we have for this?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- More than 130.
- **Mr. Akhil Parikh – Elara Capital**
- And these are exclusive distributors, right?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- They are exclusive, yes, right.
- **Mr. Akhil Parikh – Elara Capital**
- Okay, would you be able to share like what kind of distributor margins we have compared to our competitors, is there any difference.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- It varies substantially from product to product, so it is hard to give you a number, and I prefer not to give that to you in any case. However, that number keeps varying. It is not like in the case of our glassware, where we have very standard terms.
- **Mr. Akhil Parikh – Elara Capital**
- Okay. In case of EBITDA margin there is a huge difference as compared to our competitors. You mentioned two reasons; one is A&SP spend and the second is the investment banking fees. I am assuming at 100% utilization level we might improve our margin. Apart from that, are there any other major reasons why the margin profile of our competitors is higher versus Larah?

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Now if you notice our margins have been growing. We are roughly at 20% plus EBITDA margin in Opal. If you look at it historically, the margins were in the low double digits, sometimes it was even dipping into single digits. So now we see a sustainable improvement in the margins and again as sales picks up, these margins have further increased. Outside of the two reasons you've already mentioned, there is no real overall reason why our margins should be lower save and except that our competitors have slightly lower per unit electricity cost than ours, due to location. So, to that extent we may have a slightly lower margin. But now in terms of production efficiencies we have already moved right up there. The production efficiency started moving up from April but we have stabilized actually at very good yields in September-October. You will see the benefit of that in the coming quarters. So, our margins are likely to move up from here and come to that of our competitors. Of course, La Opala also commands a slight premium in average selling prices as compared to Larah. Once we are able to give the product mix as we desire, I think that will also go away. So, I expect the margin profiles to start coming closer together.
- **Mr. Akhil Parikh – Elara Capital**
- Okay. And you mentioned the electricity cost, how much is the difference? For La Opala it is around 13 to 14% power cost is there as a percentage of sale. How much higher we are at?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- I think in terms of per unit pricing, our cost is 20% higher, roughly that would be the difference.
- **Mr. Akhil Parikh – Elara Capital**
- Okay. And a last question on the e-commerce side. While speaking to the competitor's management, one of the points they have mentioned is e-commerce channels mislabel the MRP prices in some of the cases, and it is difficult to take action against that. They have tried it and they have not been successful in the past. So, would you be able to shed some light on it, is it true?

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Very frankly, that's the first word of it, it may be the case, and you may be right, but I can check with my team. But I have not heard of this particular problem before.
- **Mr. Akhil Parikh – Elara Capital**
- Okay, alright, thank you so much and best of luck.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Thank you.
- **Moderator**
- Thank you, the next question is from the line of Nikhil Oswal from Starline Assets, please go ahead
- **Mr. Nikhil Oswal – Starline Assets**
- Hello. My questions are answered, it was regarding the margins they are answered.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Thank you.
- **Moderator**
- Thank you. Before we take the next question, we would like to remind participants that you may press star and 1 to ask your question. The next question is from the line of Rakesh Jain from Asit C Mehta, please go ahead.
- **Mr. Rakesh Jain – Asit C Mehta**
- Hello, sir, my question is regarding Hopewell. So, this quarter what we see is that you did an EBITDA of nearby 25% which is same as the last quarter and that a growth of 12% on top line, and right now we are at 80% utilization. So, if we grow to 100% utilization, and having normalized marketing expenses, not unlike this year where we are spending more. Do you see this moving up towards your competitors' level?

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yes, as we move our capacity utilization up closer to the 90% 100% levels, certainly our margins will go up and they should get closer to the competitors' level. Now the competitor has very low advertising at least during last year - this year they may be more. So, their EBITDA margins are closer to 35 to 40%. I don't think we will ever hit that level but yes, you know, we expect long term sustainable advertising and sales promotion to be anywhere from 6 to 8% of revenues. So today they may be 12-13% of revenues, so 4-5% of EBITDA should come right from there. If you add operating leverage on top of that, then we can see much further improvement in EBITDA margins in the long run. The one caveat I would like to add is that people are adding capacity here, so while so far, we have not seen any impact on selling prices, if players add too much capacity then selling prices may fall and reduce everybody's margins. That is always possible in the future. At the moment we are not seeing any signs of it but we can't rule it out completely. So, you know I don't think 40% EBITDA margins are sustainable forever in any industry.
- **Mr. Rakesh Jain – Asit C Mehta**
- Whatever was your ad spends, I think in the last call you mentioned that 14-15% of your sales would be ASP. So out of that how much have we already done and how much is still pending?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Through October obviously would be a higher percentage of ad spends, but the way we do it is we take the whole year's ad spends and divide it by 12 and we expense it out every month.
- **Mr. Rakesh Jain – Asit C Mehta**
- How is it distributed between Larah per se and the Borosil standalone consumer basis?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- That I wouldn't like to share.



- **Mr. Rakesh Jain – Asit C Mehta**
- And could you throw some light on the SIP division performance? It has been impacted quite significantly. We are registering single digit growth and there is a drastic drop in the EBIT margins from 21% we are down to 16%, so what has really happened?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- I am not sure where you got that from, but the SIP division has grown, as per INDAS 115 it has grown 33%, but without INDAS 115 which is the right way to look at it, the growth is 14% which I would say is a very healthy growth rate for the scientific products business. As far as margins are concerned, I am not sure where you got the numbers from.
- **Mr. Rakesh Jain – Assisi Mehta**
- I looked at the quarterly press release.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- I would go more by the PowerPoint presentation and there is no material impact on SIP margins at all, except to say that as I mentioned to someone earlier our legal and professional expenses, including investment banking expenses on search for inorganic opportunities has gone up. And for this reason, each division bears some percentage of that cost so that may have some small impact on margins, but there is no macroeconomic issue at play currently in SIP.
- **Mr. Rakesh Jain – Asit C Mehta**
- So, I believe that we even export in the SIP division and due to the currency impact have we seen any kind of improvement in realization on that front.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yeah, absolutely, exports have improved in terms of realization but unfortunately our exports are a very small percentage of the overall business. We import more than we export. So therefore, there has been some impact, the rupee depreciation has had a negative impact on margins. Like I mentioned earlier, it is not a meaningful impact because we have been able to pass on some of the cost increases through pricing. But overall, we would like our export division to increase further which is one of our strategies for growth..

- **Mr. Rakesh Jain – Asit C Mehta**
- Slightly coming back to the CPD division, with the festive season coming with mega online sales, do you plan to do any discounting?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- No, everybody does discounting, but the question is the aggression of discounting. So, that discounting is not very aggressive in our case. It is very limited. Sometimes we have one or two products where there are larger discounts offered. But overall across the range you will not see any mega discounts. And we are not trying to boost our revenues just by that means.
- **Mr. Rakesh Jain – Asit C Mehta**
- Okay. On your half year balance sheet you have some borrowing popped up under short-term borrowings. What would be that regarding?.
- Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.
- That's short-term borrowings for working capital.
- **Mr. Rakesh Jain – Asit C Mehta**
- So, the figure is quite a big in number. I think it's about 68 crores.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yeah, that's right. Out of that, I think majority of it is because of Diwali we've had to increase our stocking substantially. So rather than sell any investments, we figured it is better to borrow short term working capital.
- **Mr. Rakesh Jain – Asit C Mehta**
- So, are you planning to do it further for the second half as well.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- No, during the second half we will reduce substantially. Once the Diwali sales are through and we recover the money by the end of the calendar year, the number should reduce substantially.

- **Mr. Rakesh Jain – Asit C Mehta**
- Okay, okay. Thank you so much. That's all from my side.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Thanks.
- **Moderator**
- Thank you. The next question is from the line of Navin Bothra an individual investor. Please go ahead.
- **Mr. Navin Bothra – Individual Investor**
- Good afternoon, sir.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Good afternoon.
- **Mr. Navin Bothra – Individual Investor**
- Congratulations for steady set of numbers and good growth in the consumer business. My couple of questions have already been answered regarding Larah and you have already mentioned around 7 crores higher ASP is there. If you can throw more light about the Borosil Technologies project and collaboration with the Foxx Life Sciences.
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Borosil Technologies has been set up a few months ago. It began functioning in July. So, we have in fact received our first order. We have hired about 15 or 17 engineers already. And we expect to start despatching from this month of November from our own production. So, that's quite exciting for all of us. The traction is good. The sales team is quite motivated. It's a small beginning but I think it's a very sustainable beginning. And I think over the next year to two we will see some positive results from Borosil Technologies. As, as far as Foxx is concerned, exports to the US has picked up. And we have got good orders and good traction. Again, the thing is with the scientific product business, you don't get a single order which suddenly changes your numbers. It's slow and steady,

you start small, you keep delivering, you keep delivering and over a period of time you build the business. So, it takes time and it's a patience game.

- **Mr. Navin Bothra – Individual investor**

- And regarding the Larah, can you quantify in the Opal ware segment, how much market share we are having.

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**

- See, last year we did INR 100 crores roughly and I think La Opala may have done 250 odd crores, if I am not mistaken. So, now some of their sales also come from crystal but let's assume that's their Opal sale. Then you have Cello, I don't know their numbers. They are also in this business. I would say if you add all of this plus add imports, the market is about INR 500 crores and our market share is 20% roughly. And I would say that we would definitely keep if not increase our market share this year.

- **Mr. Navin Bothra – Individual investor**

- So, the market if you are talking the last year's numbers, I think, we have increased our market share in this half year.

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**

- We should have hopefully. But I don't know numbers of our competitors yet.

- **Mr. Navin Bothra – Individual investor**

- La Opala is also entering the glass space also. Because we have already entered in their segment, Opal ware, they are entering in our glassware also.

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**

- They have entered glassware some time back. They are in glassware for the last 3 years.

- **Mr. Navin Bothra – Individual investor**

- Yes. One more question regarding cash and cash equivalent, if you can tell us the quantum excluding the Gujarat Borosil investments.

- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Okay, Swadhin will take that answer.
- **Mr. Swadhin Padia - CFO, Borosil Glass Works Ltd.**
- Yeah, cash and cash equivalent is Rs. 140 crores and we have given ICD to GBL of Rs.125 crores.
- **Mr. Navin Bothra – Individual investor**
- Okay. Now 125 plus around I think 90 to 92 crores of preferential shares.
- **Mr. Swadhin Padia - CFO, Borosil Glass Works Ltd.**
- So, overall, we are have INR 125 crore plus INR 90 crore preference shares. There are only two investments we have in Gujarat Borosil.
- **Mr. Navin Bothra – Individual investor**
- So, we have approx. around 130-140 crores cash including the investments in financial affairs.
- **Mr. Swadhin Padia - CFO, Borosil Glass Works Ltd.**
- Yes. So, at last quarter end it was INR 265 crore. When we remove INR 125 crore that leave the INR 140 in cash and cash equivalent balances.
- **Mr. Navin Bothra – Individual Investor**
- 140 is the cash. Okay. And my last question is regarding inorganic acquisition. In which field are we looking at the investment banking proposals in the glassware or in the consumer ware?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- We are open to acquisitions in both areas, scientific and consumer, so we are looking at both areas. In M&A we have to explore a lot of opportunities before you can finalize any. But we have only two areas, scientific products and consumer products so anything we do will be in one of these two spaces.

- **Mr. Navin Bothra – Individual Investor**
- Okay, sir, thank you very much.
- **Moderator**
- Thank you, the next question is from the line of Naitik Modi from OHM Portfolio, please go ahead.
- **Mr. Naitik Modi – OHM Portfolio**
- Hi, Shreevar, my question is specifically for the SIP business segment whereby looking at the market size of the international lab glass is a reasonably large size market compared to other product categories. So, what is the growth strategy there, that's number one. And number two is it a very large fragmented user consumer base which is basically consuming this 4000-crore worth of lab glass?
- **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
- Yeah, that's right. It is very large and fragmented base spread all across the world. The thing is that as I have explained in the past, there are moats around our business and the moats around our business in India is the fact that we have a very large product range. We have a well-defined distribution channel and we have very strong customer relationships. Since it is a C class item for a pharma company they don't really forecast it, when they order it they want it delivered overnight. So over the years, we have built up a very strong channel and warehousing supply chain capability to give that product overnight. Obviously, the quality is a given. So that's the reason why competitors find it tough to enter the market here. For exactly the same reason it is challenging for us to enter the markets overseas because the overseas competitors have done exactly the same thing. Because this is not a new category, it is a very well-established category. So for that reason you cannot gain market share very quickly, you have to grind it out. So, we have employed a sales team of I think about 5 or 6 people who are going to the export geographies very routinely and appointing distributors and dealers there and going to the end customers specifically with our products and increasing sales that way. So, in the first half of the year we are roughly 20% growth. Obviously the base is very low so, the percentage really doesn't matter that much. It is going to be a long journey, it is not going to give us any explosive growth as in the consumer business where you can introduce a new product category and immediately introduce it to so many 1000 retail outlets. It is not the

- same in SIP. Although the rewards in SIP are, once you have established the business, it is very sticky and challenging for anybody to enter.
- **Mr. Naitik Modi – OHM Portfolio**
  - Right, but internally is there a target in terms of acquisition of a certain number of clients on an annual basis.
  - **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
  - So right now, we have a target absolutely for acquisition of certain number of distributors on an annual basis in different countries and that is starting point. So, we have already got distribution in more than 30 countries, and we would like to increase that going forward, to about 50-55 countries. We are on the lookout for those distributors and once you have a distributor then you start working to do the end customer coverage.
  - **Mr. Naitik Modi – OHM Portfolio**
  - Right, thanks.
  - **Moderator**
  - Thank you. A reminder to the participants, anyone who wishes to ask a question may press star and one at this time. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.
  - **Mr. Shreevar Kheruka - MD and CEO, Borosil Glass Works Ltd.**
  - Thanks everyone for all your questions. Like I said I am very, very excited about the prospects of the company. The first half of the year has been good, I expect the second half to be even better. I anticipate our product launches to gain better traction in the market, and I anticipate that operating leverage will kick in, in all our consumer products. I also am excited about the prospects of the brand building that we are doing. We are associated with sports in a big way and I expect that to have long term dividends as we are a young and growing country. So, we want to establish our brand with that segment say between 20 to 30 years old who can then be long term users of our product category. So overall, I am quite bullish on the prospects of the company. I thank all of you for your support and look forward to talking to you after Q3.

- **Moderator**
- Thank you very much, sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited that concludes the conference call for today, thank you for joining us and you may now disconnect your lines.