

# **BOROSIL®**

**Borosil Glass Works Limited**

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November 20, 2017

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Dear Sir /Madam,

**Scrip Code: 502219**

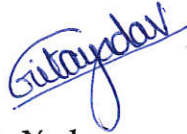
**Sub: Transcript of Institutional Investors and Analysts Conference Call**

We enclose transcript of conference call with Institutional Investors and Analysts which was held on November 02, 2017.

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 Q2 FY ‘18 Earnings  
Conference Call”

**November 2, 2017**



**MANAGEMENT: MR. SHREEVAR KHERUKA – CEO, BOROSIL GLASS  
WORKS LIMITED  
MR. SWADHIN PADIA – CFO, BOROSIL GLASS WORKS  
LIMITED**

**MODERATOR: MR. KSHITIJ KAJI – EDELWEISS BROKING**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Borosil Glass Works Limited Q2 FY '18 Earnings Conference Call hosted by Edelweiss. As a reminder, all participant lines will be in 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 '\*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Kshitij Kaji of Edelweiss. Thank you and over to you, Sir.

**Kshitij Kaji:** Good Afternoon Ladies and Gentlemen and Welcome to the Q2 FY '18 Borosil Glass Works Limited conference call. On behalf of Edelweiss Broking, I would like to welcome the management team of Borosil to discuss the quarterly results and the future outlook. We have with us Mr. Shreevar Kheruka, the Managing Director and CEO, and - Mr. Swadhin Padia, CFO. I would now request Mr. Shreevar for his opening remarks, post this he will throw the floor open for questions and answers. Thank you and over to you, Sir.

**Shreevar Kheruka:** Greetings and welcome to everyone, glad to be talking to all of you again after our Q2 results earlier today. As usual, I will briefly run through the highlights of the half year and recent developments, and then of course we will take questions that you all may have. During the first half, the revenue was at INR 204 crores, which was up by about 19% over last year. This of course includes the Klasspack and Hopewell acquisitions. The organic growth in scientific products division was flat and that was mainly due to slowdown post GST. We had some destocking in our trade channels in the scientific division, but the Jan-March quarter is typically the largest for the division's business and I think we should be able to meet our revenue targets for the year as a whole.

As you all may know, we acquired 60% of Klasspack in late July last year, so the base quarter has only two months from FY '17, but on a like-to-like basis, Klasspack grew by about 18%. Reported growth in laboratory division including Klasspack was 17%, but like I said it is not entirely like to like because in Klasspack only two months were taken for the last year. Consumer division had a fairly good Diwali. We had a temporary drop post GST especially in the months of June and July, but we got on top of it before Diwali although I would say that because of an early festive season this year, the growth numbers are a little bit overstated in the sense that October last year was much bigger than October this year. Last year Diwali was sometime in November, so the growth numbers will be a little bit lower than this going forward, but in general we were quite happy to see the level of restocking and sales during the Diwali season.

The growth drivers of the company as far as SIP is concerned includes the acquisition of Klasspack. The whole base case was that we would be able to sell the new product offering to our existing customers and that seems to be kicking in at the moment. We have added about 16 new customers to Klasspack and like I said Klasspack sales on a like-to-like basis, have grown about 17% in the first half of the year. The consumer product division has seen a very encouraging traction with the storage product range. We have the glass Tiffin boxes with bag which we supported with a new TVC campaign and we believe that for this and other storage

products, we have a very strong proposition of a healthy choice in switching from plastics to glass. That is the current tailwind that we have in our favor.

Larah also had a very strong performance with a 28% growth year-on-year. We clocked about 57 crores of revenue for the half-year and the integration in the frontend has increased our retail reach by few thousand retail outlets and that has driven the increase of sales in Larah. The media campaign also has been well received. As discussed earlier we are currently in the middle of furnace rebuild in Larah. I think we will have the fresh production come in from December and we expect the profitability in terms of the efficiencies of the new furnace to kick in from the fourth quarter of this financial year.

As far as EBITDA margins are concerned, EBITDA from operation was up by about 52% and the margin itself expanded from 12.9% to 16.4%. Margin expansion was led by profitable product mix and with improved scale. The company expects to see further leverage of fixed costs. Some of these higher margins will be deployed towards investing in brand building as well as new product introductions. So over the second half of this year as well as the coming financial year, we do expect to see further improvement in EBITDA margins because like I said the scale benefits are going to allow our fixed cost to be absorbed over a larger base. In Sales like I said, we had a good Diwali and that came in early this year. For Q3 we see a couple of roadblocks. CSD has not been picking up as much of product as they have traditionally been in the past. They have changed certain policies which has led to a slowdown in purchases. In certain large format stores we have observed longer than anticipated payment realization and have had to slow down our sales to them for now. We hope that this should even itself out going forward and we will again get higher sales growth from may be Q4 or so onwards.

Efficiency gains will also contribute. We have also been discussing about the new manufacturing operation for Larah, which like I said will kick in from January 2018 hopefully. The investment in the centralized warehouse to optimize freight, the work has already started and the full benefit of that should accrue from may be July or August of next year.

Borosil registered a PAT of INR 26 crores, this of course includes Klasspack and Hopewell, which is a growth of 32% over the same period last year. As far as balance sheet is concerned, the company has a cash surplus of about INR 180 crores. We are going to invest about INR 110 crores in CAPEX for upgrading and capacity expansion for Larah. We have invested more than 50% of that amount already. In FY '17, our non-core real asset of INR 90 crores was realized. The company has further non-core assets of approximately INR 62 crores and the intent is to release them as early as feasible. The company expects to retain about INR 200 crores of cash in surplus which can be used for future growth including acquisitions.

One important thing to mention is that as a strategy from our cash management point of view, we have decided to reduce our exposure to equity. In fact as of end of September I think we have sold out all our equity investments. We are trying to become a more classic corporate treasury with virtually all the surplus funds invested in debt. Directionally, that is the future of the corporate treasury.

This year we subdivided our shares from INR 10 per share to 10 shares of face value of Re. 1 each and the trading has commenced on September 14, 2017. The board has proposed a scheme of amalgamation for which statutory approvals are awaited. On November 16, there is a meeting of shareholders to approve the scheme of amalgamation. We have also in the board meeting today given the final go-ahead for the ESOP plan for some of our key senior employees and the whole idea there is to align management incentives with long-term shareholder value.

Finally, I would just like to touch a little bit upon Gujarat Borosil. Of course, Gujarat Borosil results are supposed to come out only later, so we cannot offer numbers there, but to say that as part of the scheme of amalgamation, the company will own 58.38% of Gujarat Borosil after the amalgamation is through. Gujarat Borosil's results of Quarter-2 will be announced on November 13. I think the last year results have been already discussed. The other public information is that India has imposed anti-dumping duty on Chinese solar glass and the company plans to invest money of more than INR 200 crores to more than double its capacity. We have already invested INR 50 crores and we have launched the world's first 2 mm solar tempered glass, which can increase solar module efficiency by about 30%. That is a game changer in our view as far as the solar industry is concerned.

To conclude, the company has entered a new growth phase in the last couple of years. I do look forward to the next few years with optimism and confidence. I think GST has lot of long-term positives which the company will be benefiting from. We have discussed that in the past, but I think that while in the short-term there has been some pain in terms of sales growth for the company, over the next quarter or so, that should normalize and we should go back to a higher growth trajectory as far as the revenues are concerned, and therefore, resulting from that, a higher growth trajectory as far as bottom-line is concerned too. That is just a short overview of operations. I am not really focused on the quarter but on the half-year because especially this year quarter on quarter, there has been a lot of deviation because of GST coming in on June 30. I would be happy now to take questions that you may have.

**Moderator:** Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Sir, if you can give some color on the Hopewell margins in 1H which is really different from what they were last year at the scale and the size of business that you are operating, if we analyze it is about INR 100 plus crores, some comments there, the margins are higher, sustenance of it?

**Shreevar Kheruka:** As far as opal margins are concerned, the EBITDA margin last year on a sale of INR 44 crores was INR 6 crores, so roughly 14%. This year sales have gone up to INR 57 crores in the same period and EBITDA has gone to 10.5 crores, so margin has gone from 14% to about 18.5%. That is because of product mix and better realization from customers. We have focused a lot of effort on improving quality and also improving the quality of customers; so therefore, these are sustainable gains which will continue in the future. Like I said, the margins can improve further. If you see our competitors are probably doing much higher margin than us, so we have some

headroom to increase margins. But that will come once the efficiency of the plant improves, which should come in from January 2018.

**Pritesh Chheda:** What gross margins are there in this business?

**Shreevar Kheruka:** I do not have the number off the cuff for you, but they would be very similar to La Opala if I am not mistaken.

**Pritesh Chheda:** I have some bookkeeping questions, in your presentation you have given H1 FY '18 number on consolidated where the PAT is including income from investments, if you could give the PAT excluding income from investments and if you could give the interest and depreciation figure for H1 on a consolidated basis?

**Shreevar Kheruka:** Sorry I do not have that in front of me right now.

**Pritesh Chheda:** Lastly, you are giving some update on the cash and the investment figures, so I wrote cash as 180 crores and then you were saying that some in treasury you are looking to sell off and you talked about an asset getting unlocked, so that asset number which got unlocked is it reflecting in cash or that will be additional cash?

**Shreevar Kheruka:** No, the assets of about INR 60 odd crores will be unlocked, which is not reflecting in the cash today.

**Pritesh Chheda:** You said that as a broad strategy you have looked at liquidating all shares, investments?

**Shreevar Kheruka:** All equity mutual funds that we had.

**Pritesh Chheda:** That is getting reflected in this cash or?

**Shreevar Kheruka:** Yes, that is reflected in the cash.

**Moderator:** Thank you. We have the next question from the line of Jinesh Joshi from Asit C Mehta. Please go ahead.

**Jinesh Joshi:** My question is with respect to the consumer where margins, I mean in this quarter we reported about 16% kind of an EBID margin, I understand that this was the festive season and we had some operating leverage benefits, but apart from that were there any other kickers and if this is a level sustainable?

**Shreevar Kheruka:** You see the kicker is coming from product mix. I have already spoken about storage containers, this is one of the key areas where the company expects to grow its sales. That product itself has a better margin for us and that should sustain we expect.

**Jinesh Joshi:** Should we expect some 12% to 13% kind of margins to sustain going forward?

- Shreevar Kheruka:** There will be higher ad and sales promotion expenses also going forward. We are going to keep on increasing that expense, so it is very difficult for me to comment on it specifically, but overall I would say the margin profile will only improve going forward.
- Jinesh Joshi:** Sir, next question is with respect to Gujarat Borosil, how different is the 2 mm glass vis-a-vis 3.2 mm and what are the advantages and disadvantages from the customer point of view?
- Shreevar Kheruka:** In 2 mm glass versus 3.2 mm glass, the main impact is it is 40% lighter, that is point number one. Point number two, when it is made in to what is called as glass-to-glass module, the life of the module increases from 25 years to 40 years. Point number three, the glass-to-glass module has an efficiency which can be approximately 30% higher than regular solar module. So between the higher life and the higher efficiency, what will happen is that the cost of ownership per watt for the end customer reduces substantially. Now, the increased cost to make this glass and/or this module is not commensurate to the increase of efficiency, meaning the higher cost to make it is much lower than the cost of the higher efficiency, so therefore it should lead to margin expansion for the people who sell this product. It is like a game changer for the solar industry. This product has already got some traction in Germany and in European countries. Normally that is where the innovation starts and then it flows back into our country, so we hope and anticipate that this will happen in the next few years. It is not something which will happen overnight, but if you take a two to three year time horizon, the fact that we have the capability to do it and our customers are already wanting to test this products will lead to a good picture for the future.
- Jinesh Joshi:** What is the increase in cost from customer point of view?
- Shreevar Kheruka:** This has just happened now, so I would not like to get into that at this moment because it is very, very nascent stage of the end products. The 2 mm glass we have developed, but the end product is still being developed, so it is too early to talk too much about cost, but in my sense, if you are getting 30% higher efficiency, the cost will not go up by 30% may go by single digit percentage points.
- Jinesh Joshi:** Sir, one last question post levy of anti-dumping duty on Chinese solar products, have we witnessed an increase in enquiry from our customers?
- Shreevar Kheruka:** Yes.
- Jinesh Joshi:** In the next couple of quarters, should we expect the revenue run rate for Gujarat Borosil to be substantially higher than what it was in the past?
- Shreevar Kheruka:** The problem is not demand, the problem is in supply because we are running almost at full capacity utilization already. So in order for revenues to increase substantially, we would need more capacity.
- Jinesh Joshi:** So that toughening CAPEX, which we have incurred will not commensurate?

- Shreevar Kheruka:** Yes, that will lead to some increase in revenues. So just to be clear, about 75% of our production in Gujarat Borosil was already being sold as toughened and 25% was being sold as untoughened say lower value-added glass, now that 25% can also be toughened. The delta between the untoughened and the toughened glass on 25% of the production is the increase of revenue that we can expect in the short-term. But in the long-term once we have the new project onboard then we can expect a much more substantial increase in revenues.
- Moderator:** Thank you. We have the next question from the line of Divyesh Shah from Pragya Equities. Please go ahead.
- Divyesh Shah:** Sir, extending the last question further about Gujarat Borosil, what type of effect we see because of the anti-dumping duty and our new 2 mm glass on our top line and EBITDA margin in next two to three years after the product stabilizes.
- Shreevar Kheruka:** Definitely anti-dumping duty will increase demand, no doubt about it. So we make roughly 1 gigawatt of equivalent glass per annum and India last year installed about 6 gigawatts as per our knowledge and with anti-dumping duty which is already on glass, out of 6 gigawatts roughly 1.5 or thereabouts was Made in India, balance was imported. Now, we expect that this 6 gigawatts will increase to may be 15 gigawatts per annum and our production capacity which we are now looking to add with the new project will allow us to increase our capacity from 1 to 2.4 gigawatts, so we expect roughly 2.5 times increase in revenues over the period of time that this project will get implemented.
- Divyesh Shah:** Roughly how much time, is it next two years?
- Shreevar Kheruka:** We hope so. It will take 15 to 18 months from the project funding getting completed.
- Divyesh Shah:** Sir, any color about the EBITDA margin because of this improvement?
- Shreevar Kheruka:** The current EBITDA margin is more or less sustainable.
- Moderator:** Thank you. We have the next question from the line of Rakesh Jain from Asit C Mehta. Please go ahead.
- Rakesh Jain:** Sir, my earlier questions were answered, just one or two more questions, one is the ETR it was expected to be lower, but quarter on quarter it is seeing higher from 32% which on YOY it was 22%, so if you could just explain that?
- Swadhin Padia:** In the last year, the income from investments were tax-free that means we were generating dividend income from sale of investment on which the tax rate was zero or very low. This year the income we have generated on the investment have come under full tax bracket. That is the main reason for the higher tax rate.
- Rakesh Jain:** There is another question on the employee expense which is on YOY has increased by 25% and QOQ 17%, so how is that panning out?



- Swadhin Padia:** Basically, this is largely on account of some senior level additions to the team.
- Moderator:** Thank you. We have the next question from the line of Naveen Bothra from Arcs Research. Please go ahead.
- Naveen Bothra:** Congratulations Sir for the world-leading innovation in fully tempered solar glass in Gujarat Borosil.
- Shreevar Kheruka:** Thank you.
- Naveen Bothra:** My question is regarding the Gujarat Borosil, we will be holding around 58% stake after the restructuring is completed in -Borosil?
- Shreevar Kheruka:** That is right.
- Naveen Bothra:** Gujarat Borosil is going to raise some equity for the expansion plan, so what is our vision for Gujarat Borosil, will we go below 51% for Borosil Glass?
- Shreevar Kheruka:** Nothing is concrete at the moment, but ideally we would not like to go below 51%.
- Naveen Bothra:** All the approvals for the fund raising is in place?
- Shreevar Kheruka:** Yes.
- Naveen Bothra:** My second question is regarding Borosil Glass social media presence, we are a very consumer-centric company with Larah and Borosil Glass products, but social media presence is completely absent. We are not present on the social media like Facebook, like Twitter, and Instagram and all these things. The National Anthem video which got traction on social media was a very good but seems one off. Would you like to throw some light on the social media for our company's consumer segment?
- Shreevar Kheruka:** Our Facebook page is one of the top consumer company Facebook pages in India for sure and even if I look at world, we have a very, very strong page in Facebook. Instagram and Twitter are not really been proven to drive and convert to purchases., We have an Instagram account, we do share pictures of food etc on it, but I do not think Instagram has really become a very strong tool for consumer conversions to the best of my knowledge, and same goes for Twitter. But on our Facebook page, it is Borosil and You, you will find very active engagement with lakhs of users. On that page and we run contests, we have various prizes, which gives us a very engaged user base on Facebook.
- Naveen Bothra:** Regarding Gujarat Borosil capacity expansion, we recently had an interview from Mr. P. K. Kheruka that present capacity will be expanded by 2.5x which you also confirmed, so from 2.5 gigawatts to 5 gigawatts. He said that if need arises we will ramp it up in six months, so what is our overall vision for the solar glass in the coming four to five years say up to 2022, which is the solar target as given by the Prime Minister?

- Shreevar Kheruka:** Firstly, there may be some misunderstanding, I do not think to go from 2.5 to 5 gigawatts in six months is possible. Definitely once the 2.5 gigawatt line is stabilized then we can, because you see the solar mission of the country is to do 100 gigawatts by 2022 and in order to do that, they have to do at least 15 to 18 gigawatts per annum. We are today talking about 2.5 gigawatts per annum capacity after the expansion, so to go to 5 gigawatts should not be something which is beyond our reach, but this will only happen post the stabilization of the second line which will only happen say after 18 months or so. We have the entire infrastructure, capability already there for that, so the decision making maybe that is what he meant, the decision-making can be very quick in order to ramp up the capacity from 2.5 to 5GW, but you see the problem with CAPEX-heavy plants is that those machines are made to order and the suppliers only make them when you order them. So there is always a lag time of anywhere from 9 to 12 months, from the time you place the order to the time you get the equipment. So it is not physically possible to start a new plant in six months unless of course, you get somebody's old machinery up for sale which very seldom happens in our experience. But the National Solar Mission targets are very aggressive, and therefore, we can also afford to be aggressive in our targets.
- Naveen Bothra:** If you can reply about the capacity expansion that 1.5 gigawatts we are going to start, how much will be 2 mm fully tempered glass we have recently innovated?
- Shreevar Kheruka:** That depends entirely on customer demand, very difficult for me to predict.
- Moderator:** Thank you. We have the next question from the line of Varun Balachandra from Catamaran. Please go ahead.
- Varun Balachandra:** First question, Sir if you could help me understand the revenue for Hopewell for the Larah brand which you have done INR 57 crores in H1, and I would like to understand the channel mix for revenues?
- Shreevar Kheruka:** I am not disclosing that at the moment as we are taking certain decisions. I can give you general color on that at the end of the year, but at the moment I am not disclosing that.
- Varun Balachandra:** If you could give some sense on the distribution you mentioned earlier that the GT side you have added about thousand stores, if you can give some sense of your plans for the rest of the year as well and of your 10,000 stores that you already have, what kind of penetration levels are you targeting in this year?
- Shreevar Kheruka:** You see we have mapped that there should be somewhere in the range of 14,000 to 15,000 retail outlets, though obviously not each one is of the same size. We are present may be in 9,000 to 12,000 of them in Borosil as a whole. This was last year's numbers that I just gave you. Larah maybe in about 8000 of them, so there is still some room for growth over there by mapping the stores that Borosil already has presence in. Now, as far as the future is concerned, very frankly I think our penetration levels in North and East of the country are very strong. In South and West we still remain under penetrated. If I was to rank South is probably the third and West is only the fourth, which is funny given that we are actually based out of Mumbai Unfortunately we have

not really penetrated the interiors of the Western region to my liking and that is something that we will be working on doing going forward. I am talking about traditional retail.

Now as far as organized retail is concerned, we are very well penetrated. I think we have coverage across all the major modern trade brands across the country with the exception of one or two and that is mainly because of inability to agree on terms and conditions, but in general, we have very high penetration in large format stores. The main focus for us has to be to increase usage of Opal or to explain to customers our Opal glasses, because Opal Glass as a product category itself is very under penetrated if you compare it to say bone china or steel or even Melamine has got high penetration. So the point is that we can expand the size of the pie by explaining the benefits of the product and that will help really drive sales, that is to me more of a viable strategy. Penetration will help, no doubt, but I think expansion of the customer base by explaining the product benefits would be probably higher.

**Varun Balachandra:** Actually on that particular point on creating the awareness, if you could help us understand the spends that you have made on ads and again what are your plans for the rest of the year?

**Shreevar Kheruka:** For Ad spend we have budgeted about INR 25 crores for the whole year.

**Varun Balachandra:** This is just about Hopewell or?

**Shreevar Kheruka:** No, this is for more or less the entire consumer division. Between Larah and glassware we will spend based on where we get more bang for the buck. Kerala is a very good market for Opal crockery, so in that area we would spend more money on Larah. In North India there is a lot of potential for glassware, so we would spend more money for glassware. So it is a bit region specific, but we will continue increasing our spend on ads.

**Varun Balachandra:** You mentioned earlier the gross margins for Larah are comparable to that of competition and then when we look at that number as well as the EBITDA, there is a significant gap, if you could help me understand what are the main expenses that are leading to a lower EBITDA margin related to competition and the expenditure that you mentioned on the CAPEX, in the plant or the other measures that you are undertaking, how does that change that expenditure trajectory going forward?

**Shreevar Kheruka:** The two main expenses I think which are different, one is on the ad spend itself, I think our ad spends are much higher than our competition's ad spend. The second would be on what I would call efficiencies. Now you would say that gross margins are similar, why that should take account for efficiencies. Actually gross margins are very high in this business. Even a small percentage difference in inefficiencies can lead to a substantial difference in amount of tonnage produced, and therefore, revenue from that can be a lot higher. Have I explained that clearly?

**Varun Balachandra:** What I understand is that the utilization is low and therefore you have a higher fixed cost spend?

- Shreevar Kheruka:** That is partly so. With the new plant coming in, I would say that the gross margins should more or less equal to that of the market leader because efficiencies will improve and the fixed cost will not increase thus leading to an improvement in EBITDA margins. Second issue is also in packing expenses, our packing material expenses are higher than our competition, as in many cases we may have over-specified packing requirements. So that is an area we have been trying to focus on and will work upon to rationalize costs. The third and an important point, my CFO is pointing out, is that excise duty is not payable by La Opala.
- Varun Balachandra:** As you pointed out earlier the employee cost has increased by 25%, would you give a sense of where that would increase actually?
- Shreevar Kheruka:** We have recruited some senior people in supply chain management, in the plant and also in various other support services of the organization. We are building our talent pool as we are gearing up for growth.
- Moderator:** Thank you. We have the next question from the line of Saurabh Shah from AUM Advisors. Please go ahead.
- Saurabh Shah:** First question was on the labware space, I think it is flat from the first half to the second half, where do you see this going forward for FY '18, do you expect to keep the run rate or is there any issue which is going on where you have not grown in that space?
- Shreevar Kheruka:** We will keep the run rate, meaning we will achieve growth in this space. A little bit early to comment, but basically I think what has happened is that in June and July there was a lot of destocking even amongst our lab dealers and because our supply servicing is so good, I do not think they have bothered to restock because they get delivery immediately upon getting customer orders. So that could be one of the contributing reasons for this. As far as customers are concerned, the pharmaceutical industry has not been growing as rapidly as it was in the last few years, so that may also be a contributing factor. Again the research and development spends of government labs have come down. , Meanwhile there is lot of talk of research spends going up and so on, so we are still pretty positive about the future and expect that we will show growth even in this year itself. It has been a very average first half of the year as far as lab is concerned and we expect that we should recover from that in the second half.
- Saurabh Shah:** Hopewell, I think had a 57 crore for the half year, I know FY '18 is still going to stabilize and all that, but for FY '19, where do you see this in terms of your change mix, how much what kind of top line do you expect ?
- Shreevar Kheruka:** We have been maintaining a guidance of 15% to 20% CAGR for our consumer business, and we can stick to that guidance.
- Saurabh Shah:** What I meant was not more consumer business, I just meant the Hopewell piece, so for the Hopewell piece itself 57 for the half year without the full thing firing, your brand Larah kind of

completely coming on stream, so on annualized basis how much would you expect for the Hopewell piece alone?

**Shreevar Kheruka:** Obviously, as you know and like I already said Diwali was early this year, so it is not exactly 50-50 you cannot really extrapolate that. I think this year the first half would probably be more frontended and the second half will be lower probably, but last year we did 88 crores and I have told you guidance of 15% to 20% CAGR for consumer division in general. We are not taking any one year in review, but just general guidance. I think Hopewell would be slightly higher than that, so maybe you can think of 20% to 25% in the case of Hopewell that would be the ballpark kind of the area where we hope to target.

**Saurabh Shah:** Just spend some time on the comparative dynamics, we hear that Cello Ware also has launched its product range, what is the place where Larah is doing relatively well versus La Opala , the new launches where people like Cello Ware etc., in terms of price points or new product base, give us some color on that please?

**Shreevar Kheruka:** You are right, Cello Ware has launched their product and they have been distributing that in the market. I think what is actually happening is the expansion of the pie. In fact last year La Opala had also increased capacity, but we have actually not felt any pushback from retailers, so it is clear that the market is expanding, The bone china market may have shrunk a little bit, so definitely Opal glass is eating into the bone china market too. We are seeing good offtake of dinner sets as an example, so customers buying the whole dinner set. We have also got few gifting items for Diwali specifically which have done well and the northern regions continues to be a very strong market for the company. As we are all aware, in the Northern part of the country the trend is towards newer products, better design. They like to change products more often, that is the culture, so we are benefiting from that. I am not privy to detailed competitor information, but I would say everybody has areas of strength and they are all delivering on that. Of course, La Opala numbers are not out for Quarter-2 so I am not sure how they have done, but we will see that soon, when they publish the numbers.

**Saurabh Shah:** A quick financial question, in terms of the EBITDA for Hopewell, you see that INR 10.5 crores for the half year?

**Shreevar Kheruka:** That is right.

**Saurabh Shah:** Then for PAT it comes down to INR 2 crores, you do not have debt, so where is the difference coming from?

**Shreevar Kheruka:** We do have debt. We have about INR 33 crores of debt in Hopewell and there is fair amount of depreciation and then obviously there is tax.

**Saurabh Shah:** Okay, so Hopewell you have some debt, and overall standalone you said have a lot of extra cash, so is there a plan to pay this down or?

- Shreevar Kheruka:** Yes, we will take that call when we amalgamate the businesses, but I think the debt is fairly well priced. I have not taken a decision on that yet. As a team we have to take a call on that subject once we amalgamate.
- Saurabh Shah:** Cost would still be higher than your yield on the excess cash?
- Shreevar Kheruka:** What you are saying is right. We are waiting for amalgamation to happen, so it is not something which I can do at the moment.
- Saurabh Shah:** The proposed restructuring few months ago, the preference shares which you owned in all that has that finally been paid out or is that still staying in your books as investments, those preferential of the associate companies?
- Shreevar Kheruka:** Preferential shares of Gujarat Borosil have not been paid out. It is still on the books. I hope that with the proposed Gujarat Borosil fund raise, we should find a solution for that, but at the moment that is still very much on the books.
- Saurabh Shah:** Okay, and that is for I guess with the new investor and the 51 plan you will have to look at all these things together?
- Shreevar Kheruka:** Exactly.
- Moderator:** Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Clarification, this P&L does not include Vylene numbers, right?
- Shreevar Kheruka:** No, it does not, but we have given the EBITDA separately. Going forward that will get added to our EBITDA after amalgamation. It is roughly a little over INR 5 crores for the half-year EBITDA.
- Pritesh Chheda:** If you add to this pro forma numbers which you have given?
- Shreevar Kheruka:** That is right.
- Moderator:** Thank you. We have the next question from the line of G Vivek from GS Investment. Please go ahead.
- G Vivek:** I saw your ad for the Tiffin, it was quite a catchy ad and congratulations for that, how has been the response for the lunchbox because I am seeing little more visibility in my office itself of people coming out with the Borosil lunchbox and what are the steps and how is the margins being improved at the Larah and what are the steps being taken to improve the ROC, the progress on that front?

**Shreevar Kheruka:** I am glad you said that. It's something I have been seeing myself. In fact, sometimes even in bus stops as I am passing by I see people with the Borosil lunchbox, so it is good. The ad has been received very well and we have got a bump up in sales of the lunchbox and I think we are still very small. The lunchbox category is a large category and there is a preference to move towards glass from plastic and steel, so I anticipate that this will continue happening. Of course, we have spent some money on the ad not a whole lot. I hope that we can spend more on it and drive up adoption faster, so I am hopeful of that. I think that is a very good growth driver for the consumer division of the organization. You asked about Larah, yes, margins have expanded. Everything depends on how the efficiencies of the new plant rollout, so I am still waiting before really emphasizing on the margins of Larah, but I think come the fourth quarter of this year as well as the first quarter of next year, we will have a very good handle on sustainable margins in Larah. but directionally the numbers look good and even demand seems to be good.

**G Vivek:** ROC improvements what is the progress?

**Shreevar Kheruka:** ROC, we will not be a company which has a very high ROC just because of the cash we have on the books, but that is for strategic reasons. If you look at operational ROC, I think our target would be to go North of 20% to 25%. That is something that we look to achieve. Last year was 23%, but after amalgamation we will know the exact numbers for this year as well. I think the ROC will be a little bit depressed because of the cash, but I think as a strategic alternative having the ability to invest quickly to make acquisitions or to see the opportunities, it is a good to have. So I would prefer to keep that at the cost of having a slightly lower ROC.

**G Vivek:** How has been the performance of the other consumer division products and GST impact, any benefits accruing to us so far?

**Shreevar Kheruka:** Definitely, we have got a fairly secular growth. Even our appliances for example have done very well in this quarter or even in the half year. I think all the product categories have done well, but it has been led by the storage and appliances. Coming to GST, there is a lot of benefit in general in terms of warehousing, in terms of transit time of vehicles, no need to collect C-forms anymore. So there are a lot of benefits which cannot be really calculated, which are going to accrue not only to our company, but to all companies who are organized. The other benefit of course is that we hope that other unorganized players who were doing under invoicing for imports, basically tax evasion in some way, shape or form that will be reduced, so the price differential between unorganized and organized players should also reduce. I am very, very happy that GST has come and I think the short-term pain of lower sales will be more than compensated in long term margin expansion and sales expansion.

**Moderator:** Thank you. We have the next question from the line of Paras Adenwala from Capital Portfolio Advisors. Please go ahead.

**Paras Adenwala:** I just had a question on the scientific glassware division, just wondering in terms of your growth prospects for that with pharmaceuticals being the largest customer for it, there is clearly and as

you rightly put it, there is a cut down on the R&D expense, what is the kind of growth that you expect in this segment?

**Shreevar Kheruka:** On a consolidated basis including Klasspack, we had said that 10% to 15% revenue growth is what we anticipate. We are sticking to that. I would say this first half of the year as far as the lab business is concerned has been a little bit of an outlier I hope. I think we should catch up. Klasspack has done well in the first half of the year; we have grown by about 17%. Hopefully we can accelerate that even further. If I look at the directional view 10% to 15% is where I would put the numbers here.

**Paras Adenwala:** What gives you the confidence that you will keep on growing at 10% to 15%?

**Shreevar Kheruka:** One is of course Klasspack, the second is exports should also add good growth because we are under-penetrated in the export market, and finally, there are new products coming in our instrumentation range, under LabQuest and we are quite excited about that. It is a slow process, it is not like in the consumer division where you add a product category and you have so many customers to buy that. Here there is a lot of inertia in terms of purchase process, people like to buy what they have always bought in the past, so you have to really work hard to break those habits and change brands, which is good for our core business. Obviously it is a good barrier to entry, like a moat around the business, but conversely when you want to enter a new product category in the same space, you also have to work extra hard to get in. So it is a slow process, margins are much better and it is like annuity. Once you enter then it is difficult for somebody else to take you out, so it is a very different kind of dynamic compared to the consumer business. But we are working very hard, we have a very strong team who is dedicated in product development. Similarly, in sales and marketing. I think that should continue yielding results for sure.

**Paras Adenwala:** Would you sometime in the future want to demerge this business from the company?

**Shreevar Kheruka:** I think it is too small at the moment. Our company is too small to talk about further demerging. There is certainly no thought about it today, let us wait and watch what happens. This is the way I look at this business. SIP gives us a steady cash flow and it has a very high return on capital employed and we use that cash and deploy it in a higher growth consumer business. That has yielded good results for the organization, but certainly when the consumer business is able to generate higher profitability and drive its own growth then there may not be need to have it in the structure. That is far out in the future, I would say, I do not want to speculate at this moment.

**Paras Adenwala:** Last question on Gujarat Borosil, you are kind of embarking on a large CAPEX to increase capacities, but there is this lingering doubt about the solar power generators, their financial condition if you look at it due to the drop in unit prices, the viability is under question in several cases, so I am just wondering what could be the impact on your business considering the fact that there could be an issue for many of these guys?



**Shreevar Kheruka:** Honestly speaking solar power is here to stay. Of course some people have bid very low in terms of per unit prices and you are right in saying that those are probably not sustainable, but you only read about those outliers. You do not read about the huge number of solar projects actually being implemented at reasonable prices for everybody in the value chain, because in the media it is always sensationalist kind of reporting which happens. I think it is more of that in this case. We have a lot of demand from people who have set up very sustainable solar projects which will pay back to the developers in anywhere from four to eight years and that kind of demand will continue. Also keep in mind that solar is something where lot of technological upgradation is happening and cost of production is also reducing. Gujarat Borosil is a very innovative company, has lot of strong technology and people who are constantly looking at costs. If you see the results of the Gujarat Borosil over the last four years, in a market where prices of the end product may have fallen by half or even more meaning fallen by 50% to 70%, our EBITDA margins have been growing and our selling prices also been falling, maybe not in that ratio but they have been falling and yet our EBITDA margins are going up. That itself talks about our ability to cut costs and keep some of the benefits and pass on some of the benefit to customers.

**Paras Adenwala:** Have you noticed any elongation in working capital in Gujarat Borosil?

**Shreevar Kheruka:** No.

**Moderator:** Thank you. We have the last question from the line of Rohan Gupta from Edelweiss. Please go ahead.

**Rohan Gupta:** Just couple of questions on our consumer business related only, would it be possible for you to share that how much revenue contribution come from the modern trade in our consumer business?

**Shreevar Kheruka:** Rohan, like I said earlier on the call, I do not disclose that information because at this very moment of time it is a bit sensitive. We will do that at the end of the year because there is some change happening in that ratio. I will be happy to disclose that at the end of the year.

**Rohan Gupta:** Is there any margin difference between general trade and modern trade?

**Shreevar Kheruka:** Yes, there is.

**Rohan Gupta:** Can you also just, you have launched many products and you have already identified new categories where you have been focusing a lot from last one-and-a-half years to two years and with new categories especially storage and all, so can you just give that how much growth is actually coming from the new product category and if we factor in that, is it through the old or earlier products basket is slowing down or not reporting any growth?

**Shreevar Kheruka:** I would say that the traditional product category may be growing in high single digits. Glass as a usage in Indian households is very, very low, so our product category will continue to grow even in the future, even the traditional ones, but definitely the storage products and say the Opal

range, these are at a price point which is more everyday use compared to our traditional glass products. So the growth here will be faster, there is no doubt about it, but even the core product portfolio as the economy people get richer, they will buy because these are more higher end products.

**Rohan Gupta:** That was the surprising factor for me, BGW, your revenue contribution in the first half is 74 crores, that is the incremental hardly Rs. 10 crore over last year. I believe from Rs. 10 crore would have come just from your new product launches itself?

**Shreevar Kheruka:** No, it is not that much. I would not get too much carried away by the product category and even channel category growth at this particular point of time because the numbers are not on normalized basis because of GST wherein two out of six months were very disruptive. Once it normalizes then it is better to draw conclusions from them.

**Rohan Gupta:** Right now we should see all these things with lens of 15% growth and all with the disruption which is going on. In a normal scenario, do you think that the growth actually can be upward of 20% in your BGW business itself, not talking of Hopewell?

**Shreevar Kheruka:** Yes, that is obviously what we aspire to achieve. We have delivered that I think in the last three years in a row and we are still on a small base. There is no reason for us to not anticipate that kind of growth, but I think this six months have been a little bit challenging from lot of macro-challenges. but I anticipate that we should be able to deliver that kind of number going forward.

**Rohan Gupta:** You are targeting ad spend of 25 crores, is there any possibility that next year you are looking to doubling this budget because you have good cash flow and also sitting on huge cash of almost Rs. 180 to Rs. 200 crores, are you planning that any aggressive ad spend over next two to three years at a budget of Rs. 40 to Rs. 50 crores per annum?

**Shreevar Kheruka:** At the moment, I do not have any such plan, but these things are work in progress and things strategically can change. It depends on competition, it depends on how different product categories are doing, it depends on our own production capabilities and all of that. So there are a multitude of things you have to take into account before making a decision, but at the moment we are not anticipating doubling of our ad spend.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you, Sir.

**Shreevar Kheruka:** Thanks everyone for participating and appreciate the questions. I hope that I have been able to give a flavor of our business for this half of the year and I look forward to having a good quarter in this quarter and then chatting with all of you after the Q3 results are out. Thanks very much.

**Moderator:** Thank you very much, Sir. Ladies and Gentlemen, on behalf of Edelweiss, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.