



MOLD-TEK
Packaging Limited
(Formerly known as Moldtek Plastics Ltd.)

Date: 9th February, 2023

The Secretary, Listing Department, BSE Ltd. , Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai-400001. Scrip Code: 533080	The Manager, Listing Department, National Stock Exchange of India Limited , Exchange Plaza, 5 th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai-400051. Symbol: MOLDTKPAC - EQ
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Sub: Transcripts/Outcome of Analysts/Investors Conference Call for discussing the Un-audited Financial Results of the Company for the third quarter ended on 31st December, 2022 and other Business Updates

Ref: Regulation 30(6) of SEBI (LODR) Regulations, 2015.

This has reference to our letter dated 3rd February, 2023, where-in the Company has given intimation to the exchange(s) about the schedule of the Analyst/Investors conference call of the company for discussing the un-audited financial results of the Company for the third quarter ended on 31st December, 2022 and other business updates on Monday, the 6th day of February, 2023 at 4:00 P.M. (IST).

In this regard, pursuant to the requirement of Regulation 30(6) read with Para A of Part A of Schedule-III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcripts of the Analyst/Investors conference call of the company and the same has been uploaded on the website of the Company at:

<https://www.moldteckpackaging.com/investors.html>

For Mold-Tek Packaging Limited

Subhojeet Bhattacharjee
Company Secretary & Compliance Officer

Encl: A/a

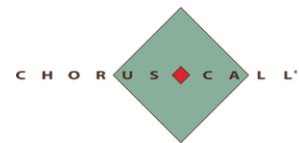
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“Mold-Tek Packaging Limited
Q3 FY '23 Earnings Conference Call”

February 06, 2023



**MANAGEMENT: MR. J LAKSHMANA RAO – CHAIRMAN AND MANAGING
DIRECTOR – MOLD-TEK PACKAGING LIMITED**

**MODERATOR: MR. ANSHUL AGARWAL – EMKAY GLOBAL FINANCIAL
SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Results Conference Call of Mold-Tek Packaging hosted by Emkay Global Financial Services. We have with us today Mr. J. Lakshmana Rao, Chairman and Managing Director of Mold-Tek Packaging. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I would like to hand the conference over to Mr. Anshul Agarwal, Emkay Global Financial Services. Thank you, and over to you, sir.

Anshul Agarwal: Thank you. Good evening, everyone. I would like to welcome the management of Mold-Tek Packaging and thank them for the opportunity to host this earnings call on their behalf. I shall now hand over the call to Mr. Rao for his opening remarks. Over to you, sir.

Lakshmana Rao: Good afternoon and thank you very much for being interested in our company's quarterly review call. As put up in the information, the company has a flattish Q3. Periodically, fiscally, Q3 is a low period for us soon after the festival season there is generally a dip in paint and other activities, painting and other activities, which results generally in a flattish Q3. But this year, due to a sharp drop in paint demand by almost 10%, the overall growth in Q3 happened to be just around 3% in volume terms. And the revenue terms, it's dipped by 3.4% from INR 160 crores to INR 154 crores.

That's mainly due to the 10% drop in the Paint segment volume and 16% drop in value-wise. So this has contributed towards flattish results for the quarter Q3. However, the 9-month period, we have good numbers. Almost around [inaudible 0:02:16] increase in volumes and around 24% increase in PAT compared to the 9 months of the previous year. And EBITDA margins, in this current quarter got affected, again, due to under-capacity utilization and several new projects being started simultaneously.

There are personnel additions to the company, while their output and productivity will only come from -- once the projects start in the next few quarters. So that is the glimpse of the whole thing. On the positive side, we have 1 good news to share is, Shell has adopted our QR-coded IML and introduced their first brand in the last week -- in just first week of February. And two more food companies, Cream Stone and Walko are in the final stage of introducing QR-coded IML for their promotions.

So that our QR code concept is slowly getting into the minds of our clients, and they are also getting ready with the software support that is required to add up the digital IML in their packaging. So that is one good news I want to share. And coming on the other front, we have been now given two Letters of Intent from Aditya Birla Group to set a plant in Panipat, one plant in Panipat and another at near Chennai. In both locations, we have acquired the land near to their plants, within the periphery of -- within three to five kilometres range. And these two plants will come up simultaneously, one by end of this next financial year. That is Jan to March of '24.

And probably in the next quarter, the Chennai plant also should go into production. So these two plants land has been acquired. Some of the payments are paid, and commitments for the fuel, and final payment to the industries development authorities will be done in this month. And soon, construction will start for these two plants. Our plant at Sulthanpur is almost ready for commercial production for Food and FMCG. Hopefully, in the next couple of weeks or maximum by end of February, that plant may go into production for Food and FMCG, with more than 12 injection molding machines in place along with the robots and molds.

So that plant, for the remaining part of the pharma, it may take at least another 4 to 5 months to complete the DMF and get the approvals for the pharma production to go on stream. That is basically the update today, and I wish to cover more information on questions and answers. Can I give it over to you to start the question-answers?

Moderator: We have the first question from the line of Chandrika from Rika Enterprises .

Chandrika: My first question pertains to the IBM business, the injection blow-molding business. Now I feel that the business is going to be a big failure for us, just like dispenser pumps was. The IBM is also a very competitive market, just like dispenser pumps was. Also, we are waiting for the Pharma City to be built up in Hyderabad.

When it will come up and whether it will come up, nobody knows. Even assuming that it comes up, why should the pharma companies buy their IBM material from you? They will just use you to negotiate better terms with their existing suppliers, get their existing players to set up plants in Hyderabad and buy from them rather than buying from you. They will just use you to negotiate better terms with their existing suppliers.

So instead of entering this competitive business, why don't you stick to IML, where you have a competitive advantage. I feel the IBM business is going to be a failure just like the dispenser pump business is, because what, because the pharma companies will not buy from you. That is my first question.

Lakshmana Rao: You have the second question, or do you want me to answer this?

Chandrika: My second question is even assuming the IBM business is a success, within the next three to five years, what kind of revenues and profit can we expect from this business?

Lakshmana Rao: See, I don't get you [inaudible 0:07:31], sir, but anyway, there is a considerable product -- I mean, competition in the IBM products at a lower end. When it comes to pharmaceutical, there are hardly three or four major players: Shriji, Pravesha and Gopal Das are known names. Gary Shimmer is an international company. They have set up here in India. They have made an acquisition. So other than these four, there are no major players. And this area of pharma is not dependent on just the Pharma City coming up at Hyderabad. Our idea is to supply this across the country.

And there is a demand from these companies growing at a pace of more than 10% to 15% per annum. And this increase in demand will be met through additional capacities we are creating.

And we are also not just limiting ourselves to the bottles, IBM bottles. We also have effervescent tablet packs, we have other products in mind to enter into pharma. For example, even canisters for the desiccants we are introducing.

So like this, there will be variety of products other than just the bottles of IBM in our pharma range. That is your first concern. And the Pharma City in Hyderabad is an added advantage. Once that comes up, maybe as you correctly said, it may take two, three years to start. That will be giving us an advantage being of a local player. That is not the complete dependencies on that Pharma City is not a true -- correct understanding.

So coming to other IBM applications, there are many applications of IBM in the OTC sector and already, your company has captured the order from Iodex, almost to the tune of INR 7 crores to INR 8 crores per annum. And those molds are now given clearance for the commercial production. So probably in the next two, three months, these Iodex OTC products will start.

So in IBM, what competitiveness you are looking at is for bottles, which are at the lower end of the spectrum. But even there, there is enough conversion coming from EBM to IBM, which is enabling decent prices and better realization compared to EBM products across the spectrum.

Coming to the next three years' revenues, in the IBM alone, we anticipate the numbers to go at least 100% over the next three years each year, starting from maybe INR 8 crores to INR 10 crores in the year '23 - '24, and doubling within two, three years to a reasonable size of INR 50 crores to INR 60 crores in IBM alone. Other than this, we'll be having other pharma products, which will be start contributing towards the end of this year because there's a lot of DMF approvals that are required. But even in these desiccants and other areas, we have to have a DMF-approved plants, which we'll be only getting into operational by June, July this year. From then, it will take time for approvals and supplies may commercially start from towards the end of this year.

So in this current year, we will be looking at OTC products and other IBM products to start contributing to the top line. But better numbers from Pharma will be coming more from the next financial year, and together, we are anticipating in 3 to 4 years, we should be at least reaching a level of INR 60 crores to INR 80 crores top line with a decent EBITDA margin.

Chandrika:

My last question to you is on the dispenser pump business, that business is an abysmal failure. What are you going to do with it? Are you going to shut it down fully or are you going to still going to continue with this despite people are not buying from us?

Lakshmana Rao:

Yes. We are -- I explained to you last time, I don't know whether you were in the meeting. The dispenser pump investment is, let's say, about INR 12 crores, out of which only INR 2.5 crores to INR 3 crores are particularly mentioned IR marker for the molds and the assembly line. Remaining INR 9 crores are general purpose investment in the injection molding, including the infrastructure. And those are all being used for our Food and FMCG products parallelly without keeping them idle.

So I would say it is an investment which is only partially utilized, those INR 3 crores, INR 3.5 crores worth of investment on molds and assembly lines are only partially utilized. Today, we are making about 1 million pumps per month, which is keeping the line busy for hardly 25%, 30% of its capacity that I agree. But the remaining INR 9 crores to INR 10 crores investment in the plant and machinery, injection molding and the land and buildings are completely utilized for our Food and FMCG. It is completely a tangible activity where injection molding machines can be used for other purposes. Almost at 75% to 80% capacity utilization in par with our other machinery.

Moderator: We have the next question from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: So sir, I'm a bit new to the company. So sorry for my questions, if they might be a little bit basic in nature. So we were just talking about our new expansions that are announced, going through the previous quarter's presentation. We've earmarked nearly INR 250 crores for expansion in -- for the next year, so could you just help me out with the new two expansions that you are talking about? Aditya Birla one, what is the time line for that? And what -- and any kind of capex and asset from that we can expect from that?

Lakshmana Rao: Yes. There are two plants we have been given a Letter of Intent by Aditya Birla Group to -- we set up one at Panipat and another at Cheyyur, near Chennai. And these two plants have to come into manufacturing by Q4 of '24 in Panipat, and maximum by the first quarter of next year, that is Q1 of '25, in Cheyyur. So both these two plants, land has been earmarked to us by the industries departments. Already advance payments have been made for the land acquisition, which are very close to the plants of ABG coming up there.

And these two plants, they have initial commitment of about 2,000 tons per annum initially, but we are going progressively to build up their capacity. And those plants are expected to reach 3,000 to 4,000 tons of plastic material sale for us in the year 3. So that is the commitments or projections given by ABG. And these 2 plants will be entailing -- the Panipat plant might be requiring around INR 30 crores to INR 35 crores because of the cost of the land being higher in Panipat and about INR 25 crores, INR 26 crores at Chennai. So together, about INR 60 crores investment will be made at these 2 plants in the next 12 to 15 months.

Darshil Jhaveri: Sir, and what kind of revenues that we can expect or payback period or something that we could expect from these two plants?

Lakshmana Rao: See, the typical payback period we work on is 1 plus 4 years. That is -- 1 year is for the first year of its establishment. And then in -- within 4 years, we look forward. So around 20% ROCE is what we look at.

Darshil Jhaveri: And sir, and in general sir, what would be our target for the next 2 to 3 years, what kind of growth are we expecting? And what kind of margins would trouble because right now, as you said, we are getting new employees and everything. So can we go back to our previous 20% margin? What would -- what kind of circumstances would you need to be able to reach that? So those are two of my questions.

Lakshmana Rao: Yes. The -- as I've given my previous projections, we are first to achieving 20% volume growth in this year. We are at 19.64% for the first 9 months. And our -- typically, the first -- fourth quarter and the first quarters are the best quarters, so we are already seeing a decent growth in January and anticipate for the fourth quarter will be better than last year's fourth quarter. And we will be able to come close to the projected 20% volume growth for the full year.

And going by the next two, several projects that are coming into production now, especially the one at Sulthanpur which is getting into production as early as February and March this year. And the plants at Panipat should get into the production by the end of this Q4, but Sulthanpur will be contributing to the numbers right from beginning of the year, let's say, March '23 onwards. So that plant has already received 14 injection molding machines, and IBM machines and other pharma machinery is expected to arrive by June, July '23.

Though I'm not counting much on the pharma numbers, these Food and FMCG products at Sulthanpur will start production right in Feb, March. And this is being the beginning of our busy season till June, July or till the festival season, we anticipate the numbers to grow at a healthy 15% to 18% or maybe 20%, if things go well for the next financial year also.

But the year '24 - '25 is more promising because by then, our pharma products also will be well published. Panipat plant and Chennai plant will be going into a full stream of production, and our plant at Daman for Food and FMCG, which we are kind of starting construction this year, will be ready to take out the Western market by next February or March. So the year '24 - '25, we will have multiple engines of growth.

Sulthanpur pharma also getting into production. Panipat and Cheyyur starting commercial production, Daman second unit -- at Panipat, we are also planning to create small capacities for our Food and FMCG, but they will also get into production by beginning of next calendar year. And so for the next busy season, we'll be having our Food and FMCG, not only going from Sulthanpur, that is near Hyderabad, not the Sultanpur in UP, this Sulthanpur is just next door to our main plant in Annaram, in Hyderabad.

So these two plants, apart from Hyderabad two plants, Daman plant in West and Panipat plant in North, we'll be able to start catering to the regional demands of the Food and FMCG products. So thereby, we anticipate the year '24 - '25 to be much stronger. And again, we may look at 20% volume growth like what we are achieving in this year.

Darshil Jhaveri: So sir, to summarize, FY '24, we might see 15% to 18% volume growth. And for -- from FY '25, we might see more growth as more capacities come in. So post that, we might also see 20%, 25% growth?

Lakshmana Rao: Yes, 20% you can...

Darshil Jhaveri: A 20% growth. And these are volume growth and, sir...

Lakshmana Rao: I am talking volume growth because the numbers doesn't matter because of raw material fluctuation, we always go by the targets of volume growth.

- Darshil Jhaveri:** And at that level, our EBITDA could reach 20%, or would that be a fair assumption?
- Lakshmana Rao:** Yes. That's again, we always talk in purchasing, which is -- our benchmark was INR 40 to INR 42. This quarter, it dipped to INR 38-point-something due to the underutilization of capacities and some of the overheads what we are bearing due to the various projects, which are on the anvil, but not got into production.
- But I think it will be INR 40-plus from the fourth quarter onwards that is March quarter onwards. And it will remain in the range of INR 40, INR 42 till the pharma products start contributing, INR 42, INR 43, if possible. But once the pharma starts contributing from '24 - '25, we anticipate it to be in the region of INR 45.
- Darshil Jhaveri:** And sir, if I might ask a few more questions. Sir, what would be our current capacity utilization? Because we are coming with a lot of new capex, so what would be your current capacity utilization?
- Lakshmana Rao:** The current capacity utilization in majority of the plants is above 70%. But our plant at Satara, which is meant for Asian Paints, has had a small setback because Asian Paints is going for expansion at Satara for the last 3 months. They're planning to continue so till February. Only in March, they are planning to restart fully the operations along with the expanded capacity. So that is 1 of the reasons for the setback in our Paint business in this quarter. Satara plant of Asian Paints has gone in for expansion, is going on for expansion. And there are some disturbances or kind of deviations from their planned capacity utilization, which impacted our capacity utilization in this Q3.
- And the indications are, from February end or beginning March, they will go in for full operations along with the expanded capacity that may help improving our business also from March onwards. So the -- otherwise, the plant capacity utilizations are in the region of 75% to 80%, but for Satara, which is around 63%.
- Moderator:** Sir, we move to the next question from the line of Harsh from Marcellus.
- Harsh:** Two questions from my side. So the first question was regarding volume degrowth in the Paint segment. So we have seen 10% volume degrowth for -- in the Paint segment. However, we couldn't see such sort of a volume degrowth in Asian or Berger Paints business? So are we seeing some market share loss in this business?
- Lakshmana Rao:** No, no. You might be looking at Asian Paints and the other numbers in the revenue terms. But in the tonnage terms, there is a dip or at least stagnation in their numbers. And in the case of Asian Paints, the volume dropped is 6%. And in the case of AkzoNobel, it is 14%, in terms of volume. So they are 1 of our both top clients. Asian Paints is our number one client followed by AkzoNobel and then comes KNP and others.
- So these numbers are -- in terms of revenue rupees, they've made several price rises in the last 12 months. So in terms of rupees, you might not have seen any drop. But in terms of volume, there is a drop.

- Harsh:** And sir, second question was on Berger.
- Lakshmana Rao:** Berger also, there's a drop. So these three are the major volume reductions -- reduces for us.
- Harsh:** Third reason you mentioned, sir? I couldn't get that.
- Lakshmana Rao:** Mondelez, that's Cadbury.
- Harsh:** Second question was on Berger Paints. In their earlier call they've mentioned, they're setting up a plant for Berger Paints in north of India, but -- any updates on this?
- Lakshmana Rao:** Yes. Berger Paints is coming up at Sandila, where we also have acquired land, and we have set up a small plant near to Kanpur in a leasing premises, which will be shifted to Sandila maybe towards end of this year or beginning of next financial year. Until then, our small plant will be catering to KNP and a small portion to Berger.
- I think Berger is also planning to go into stream this year, sometime in middle of this financial year. And once their numbers start going up, our capacity utilization also will improve in that small unit at Kanpur.
- Harsh:** But we have started work on this small unit, right?
- Lakshmana Rao:** Yes, yes. It's already up and running for the last 6 months, 8 months, mainly to KNP. Berger numbers are yet to start.
- Harsh:** And thirdly, so Asian Paints have recently announced their capex expansion, the new greenfield facility in their MP -- in Madhya Pradesh. So any updates, have you received a Letter of Intent or something like that?
- Lakshmana Rao:** See, they are about to decide about the location and other things. We are also in touch with them. We definitely have a chance, but at this stage, I can't comment on that opportunity.
- Harsh:** And lastly, if you could update the cash on books at the end of 31 December 2022?
- Lakshmana Rao:** Cash on book means, you are looking at our...
- Harsh:** The cash balance.
- Lakshmana Rao:** Debt limits have come down. From cash on -- it's equivalent to INR 2.2 crores, but long-term debt has come down. Overall debt has come down from INR 44 crores to INR 33.5 crores.
- Harsh:** Because all these expansions, are we looking to take on more debt for these expansion projects that we have?
- Lakshmana Rao:** See, company is generating enough revenues to sustain. And actually, our short-term debt that is on working capital is hardly INR 4.6 crores, which used to be 3, 4 years ago to the tune of around INR 90 crores. It has now come down to just INR 4.5 crores in spite of investing almost

INR 85 crores so far in this current financial year, and we have another commitments to complete another INR 40 crores investment in the next 3 to 4 months.

So as anticipated, in the next 2, 3 years, our investment of INR 250 crores would be mostly funded by internal generation. And if any need be, we'll be using our working capital funds, which to the tune of more than INR 100 crores, we can actually borrow based on the limits that are available on our stocks. But current utilization is hardly INR 4.6 crores. So all the expansion projects will be funded through internal generation, and need be, some increase in the short-term debt or long-term debt, whatever the case may be. Our debt equity is at 0.06 as of today.

- Moderator:** We have the next question from the line of Amnish Aggarwal from Prabhudas Lilladher.
- Amnish Aggarwal:** Yes. Sir, a few normal questions. One being, what is the ratio of IML and non-IML for us in Q3?
- Lakshmana Rao:** IML and non-IML, I think it's more or less -- stable. Total IML is 67.36% as against 65.46% last year, so about 2% improvement in the overall IML in terms of volume. In terms of value, from 68.3%, it becomes 71%.
- Amnish Aggarwal:** And like you've said, Paint has declined by 10%. So what has been the growth for your Lubes and Food?
- Lakshmana Rao:** Lubes is 17%, Food is around 25%. So because the Paint constitute more than 50% of our top line, there, the 10% dip has brought down the entire overall growth to only 3%. So Lubes has a healthy growth of 17%. Food and FMCG, we're close to 25% growth.
- Amnish Aggarwal:** 25%. Okay. And what could be the -- your sales proportion now, how much would be the sales from Paints?
- Lakshmana Rao:** Paints is 50%, Lube around 28% in terms of volume, I am talking, and the remaining 22% is from Food and FMCG, which was around 18% last year. So from 18%, the Food and FMCG business has become 22%.
- Amnish Aggarwal:** And in terms of value?
- Lakshmana Rao:** In terms of value, it was 22.8% last year, has become 27.7%.
- Amnish Aggarwal:** Food and FMCG?
- Lakshmana Rao:** Food and FMCG.
- Amnish Aggarwal:** And Paints?
- Lakshmana Rao:** Paints was 54%, has dipped to 46.5%. 16.7% drop in the value terms.
- Amnish Aggarwal:** And Lubes would have been the balance?

- Lakshmana Rao:** Lubes is up by around 8% in value.
- Amnish Aggarwal:** And sir, what is driving the growth of Lubes, because Lubes as such is not that high growth of a segment?
- Lakshmana Rao:** No. So in the Lubes, the growth is coming through DEF, which is a low-end lubricant. That's why if you notice, while the sales growth is 8% in revenue terms, the volume growth looks 17% because this is a low-end lube called DEF, introduced by several lube companies with low-end utilization for -- mainly for the add lubes, it's called add lube blend, for which we are giving majorly to Gulf and Valvoline. So there, the -- even the use of ordinary paints is more than in liquids, so there the value addition is little less. But that is what is driving the growth in Lube industry.
- Amnish Aggarwal:** And sir, what about EBITDA per kg overall and for Paints, Lubes and FMCG during this quarter?
- Lakshmana Rao:** We didn't have the breakup for this quarter, but in general, it is like this; Paints will be in the tune of around INR 42, overall average, I'm talking. Lubricants also will be in the range of INR 30 to INR 32 -- INR 35 range and Food and FMCG will be typically around INR 80 per kg.
- Amnish Aggarwal:** And now given the fact that volumes have dipped by 10% for Paints in 3Q, so how has the 4Q started, is there some uptick in the demand and other offtake?
- Lakshmana Rao:** Yes. In January, we have a very good demand uptick. And as I told you, the plant of Asian Paints in Satara is undergoing expansion, and it may go back into full production from March. So there is some disruption in their activities because of the expansion project. But they will be back into normalcy from March onwards, and we certainly hope that at least the numbers of Asian Paints, which dipped during last 3, 4 months will be back into normalcy or better going forward.
- Amnish Aggarwal:** So what sort of volume growth are we targeting in 4Q for Paints in general and overall for the company?
- Lakshmana Rao:** 4Q Paint growth, we anticipate 8% to 10% only because from a minus 10%, probably, it may come up to 7% to 8% plus side. Lubricant will continue to have decent growth because this DEF is relatively new, so this growth in the Q4 compared to the Q4 of last year will be again in double digits. But we are more positive on Food and FMCG. We hope to cross at least 30% growth we clocked in Food and FMCG in this quarter or the previous Q1, is our guess.
- Moderator:** We have the next question from the line of Hitesh Taunk from ICICI Direct.
- Hitesh Taunk:** Sir, my question is on the lubricant front, as you mentioned that there was a significant growth of low-margin business. And going forward, you're looking, you are estimating the same kind of double-digit growth in the lubricant segment. Then I have heard that there could be impact on the margin of the company. If I'm wrong, please give some explanation on that? That is the first question.

Second question, sir, if you can elaborate your capex plan for FY '24? You mentioned the plants and all detail, but I missed the absolute number of capex for FY '24 overall and if you can give segment-wise capex like for paint, for lubricant, or for FMCG and even for proforma, that will be really helpful?

And third question is on FMCG front, sir. You mentioned that you are very confident that you will be going to clock around 30% kind of volume growth. And I believe that we are growing at approximately 20% to 25% CAGR on that business as well. So what gives you so much of confident that this segment is likely to grow by 20% to 25% CAGR for the next two years? I just wanted to know which new segments or say, existing customers' wallet share are you going to gain? These are my three questions.

Lakshmana Rao:

Yes. Coming to your first investment question, the investment, again, will be in the tune of INR 100 crores to INR 125 crores for the next financial year as in this year. We have already in this year, incurred more than INR 80 crores so far, and we have machinery and other robots coming up in the next few months which will complete, I think, more than INR 100 crores investment in this current financial year. And the next year, we'll be crossing again, INR 100 crores, INR 120 crores overall investment.

Panipat and Cheyyur will be the rest of the INR 50 crores. We are spending around INR 12 crores, INR 13 crores on the land for both the locations put together, there will be an additional INR 50 crores investment at Panipat and Cheyyur for ABG. And at Daman, we are setting up a Food and FMCG project where we have earmarked around INR 20 crores to INR 25 crores. That is for Food and FMCG.

And at Sulthanpur, we are having this pharmaceutical machinery arriving in the first quarter of next financial year to the tune of around INR 15 crores in the first phase. And we are also adding 1 printing technology, new digital technology machine arriving in March, so that maybe March or April.

So next year, we'll be having at least INR 25 crores investment at Sulthanpur, INR 25 crores at Daman, and Panipat and Cheyyur to the tune of INR 50 crores to INR 55 crores. And Sandoli - Sandila, where we are planning for this Berger and KNP to the tune of around INR 15 crores to INR 18 crores in the first phase will be spent and there will be tooling machinery, there will be other ancillary equipment, balancing equipment, to the tune of INR 5 crores to INR 10 crores.

All put together, next year, plan is also in the tune of around INR 120 crores of capex, out of which around INR 50 crores, plus a part of it pertains to Panipat, but it's a, INR 55 crores, INR 58 crores will be for Food and FMCG and Pharma and the remaining INR 55 crores, INR 60 crores will be for Paints, mainly for ABG.

Hitesh Taunk:

And about your FMCG growth plan, sir, any new products will be introduced or what, sir?

Lakshmana Rao:

Actually, if you look at our 9-month figures, our Food and FMCG has grown by around 35%. Only in the Q3, we have a small dip of 25%. But for the first two quarters, it was more than 40%. So overall 9 months, even today, it is a healthy 35% growth. And as generally, it happens

whenever Diwali is late, and Diwali closes in October and November beginning, there will be a sudden drop in all the consumable Food and FMCG product consumption, including edible oils, ghee and sweets, and all other products, even the snack packs, sweet packs.

So this is, again, is the reason for the Q3 to be dull historically, it's not this Q3. But typically, our growth rate in Food and FMCG is exceeding 35%, 40%. That's why I'm very confident at least 30% growth, we will be achieving again in the Q1 of this current year.

My guess is, would have been 40%, but for the delay in three major products that Kissan Jam and Horlicks, 2 packs were taken again into February. Some trial lots only they have taken in the month of -- end of January, and trails are all successfully completed on their filling lines. So hopefully, we are expecting some call ups to start in Feb, March. So even if we do not get much in this quarter, you will still clock at least 25%, 30% growth in Food and FMCG in Q1 -- Q4 of the current financial year.

But Q1 of next year, we'll definitely have these three products up and sold. So they will be, again, adding for the next year growth. These are the three products which can contribute about 10% of our sales. So apart from 25%, 30% which we normally see, additional 10% will come from only these 3 products. That's why I'm confident next year also, we'll see 30%-plus kind of growth in the Food and FMCG segment.

Hitesh Taunk: Three products you said, Kissan jam, Horlicks and which one...

Lakshmana Rao: Horlicks is 2 packs. 1 kg and 2 kg packs.

Hitesh Taunk: And sir, my other question was on the Lubricant segment, which is growing much faster than...

Lakshmana Rao: The growth of DEF is basically because of low-end product it is and there are low-end techniques to manufacture them. So the margins may not impact so much because Lubricant as it is constitute around 25% of our sales. And in that 25%, 10% of them constitute DEF, the growth which is coming from the DEF.

But if you see the overall growth of our Lubricant, it is 17.5%. So 7.5% is a healthy growth coming from IML containers and regular lubricant containers, which are shifting more and more into IML. So, I wouldn't be much worried about those 10% of the lubricant packs, which are at low margin, because we are getting more and more QR code conversions in IML in the next few quarters. Already, Shell has introduced, given us clearance for 4 SKUs. One SKU has already been supplied, and the balance are going in February. And once they see their software and their supply chain is all set for QR code traceability, they want to go more and more into QR-coded IML.

Similarly, Castrol is also at their final trial after a long gap, which we anticipated this to happen 6, 7 months ago. But due to the software compatibility and the internal changes they have to adopt to get into QR code, they are taking longer time. So we anticipate better realization from these QR-coded IML containers going forward, so that will more than offset this small, low-margin business. So I wouldn't be worried about that impacting the margin.

What will impact the margins is growth in Food and FMCG and growth in Pharma going forward. Even the margins, what we negotiated with ABG group, are reasonably strong and sustain -- they won't bring down our overall EBITDA.

Hitesh Taunk: So sir, when you're saying that we have a new customer for the Lubricant segment that too on a higher-margin products, so that means that -- can we anticipate the segment which was growing very dull on a volume point of view, 4% to 5% kind of growth historically, and can it grow by around 10% to 12% CAGR for next 2 years, in terms of volume?

Lakshmana Rao: Yes, certainly because -- not only that, whether they go for QR or not, slowly, more and more new companies are shifting their packs and brands into IML. That itself is a growth enhancer for us. Even if the industry grows at 4% to 5%, we can easily get 8% to 10% growth in the Lube for the next 2, 3 years.

If the QR code adoption also catches up, which have been -- not want to be too optimistic, because it's been taking a long time by the leaders. But once the leaders set up it and others follow the trend, it can catch up. But in spite of whether QR code emerges, I mean, entrenches, the others are not, getting 8% to 10% growth in the regular Lube business is certainly possible.

Hitesh Taunk: And sir, my last question, last is bookkeeping question, sir. I missed the volume -- absolute volume numbers for the segment wise, if you can share it once again, sir?

Lakshmana Rao: Absolute numbers, means tons, I can give you.

Hitesh Taunk: Paints and the Lubricants.

Lakshmana Rao: For Paints it is 3,800 tons, Lubes, it is 2,100 tons. Food is around 1,625 tons.

Hitesh Taunk: 1,625 tons. And sir, in the revenue point of view, sales for the same?

Lakshmana Rao: Sales point of view, 46.5% is Paints, 25.7% Lubes, balance is Food and FMCG.

Moderator: We have the next question from the line of Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev: Sir, my first question is, how big is the revenue contributor of Shell as a percentage of overall Lubricant revenues?

Lakshmana Rao: So it is, Shell is contributing out of total, let's say, 100% of lubricant sale, Shell must be in the tune of around 20%.

Bhargav Buddhadev: Of Lubricant revenue?

Lakshmana Rao: Of the Lubricant revenue.

Bhargav Buddhadev: So given that Shell is a large customer, is it fair to say that other players may also line up if the project with Shell is a success?

Lakshmana Rao: Yes. If Shell starts -- actually, they are starting with only 4 SKUs. They have more than 30 SKUs. In these 4, they want to go into the market and look at their entire supply chain, be ready to adopt the QR code. Because the QR coding is just not for identifying the product, but to ensure that there is a traceability, there's a promotion opportunity, dynamic promotions, which I explained in my previous calls. So that is what they want to completely test with this first brand.

Once this brand is proved and it is -- in -- and their supply chain adjusts to this utilization of QR codes' effectiveness, they want to see for the next couple of months. And I'm sure once they taste the success, they will certainly go for shifting most of their brands into QR.

Similarly, Castrol is also almost there, probably they may take another month or so to test their internal software and tie up the software to the supply chain issues that arise out of QR code. That process they are in. And once that is streamlined, they will also be moving into it. And there are a couple of FMCG companies, Walko and Creamline Dairy, we are talking to them about introducing this for their promotional side of QR code.

So things are slowly getting opened up, and companies are showing interest and identifying the effectiveness of QR code. But for their internal supply chain arrangements, they may take little longer time to adopt this.

Bhargav Buddhadev: Secondly, sir, on the pharma side. As of now, this Iodex as the OTC customer, are we in talks with mainstream pharma companies, given that we are targeting revenues to come in the next 6 to 8 months?

Lakshmana Rao: Next 6 to 8 months, we are not targeting, Buddha. This basically, only from Iodex is the 1 major item, and there are a couple of other dairy products where we will be using our regular IBM. But going into pharma, we'll be starting sometime in June, July. And as I told you in the last calls also, it will take at least 4 to 5 months for us to get the approvals. And we are in touch with most of the pharma companies, but they all are awaiting for the samples to be submitted, and then only they take the things forward.

And we are also planning not to have all the eggs in one basket, like only export containers. We are also planning effervescent tablet tubes and desiccant canisters to add to our product portfolio.

We are in talks with -- very initial talks with a nasal drops development -- I mean, company. And if that also comes in, we may have that product range also in the initial phase itself so that we don't have a long period of gestation after we start set up the injection range, June, July. Hopefully, these products will take off quickly, than the export tablet packs, which have longer time for clearances in terms of both American side and mainly the customs clearances.

So while that product -- project goes on -- that product cadences take little longer time till, say beginning of next calendar year, we will be pushing our sales in the other segments so that, that keeps our facilities also busy.

Bhargav Buddhadev: And sir, last question is on Food and FMCG. So given that our organic growth is in high double digits, what would be our penetration with our existing Food and FMCG clients? Penetration, meaning how much adoption have they done of IML? Is there a big room for growth organically?

Lakshmana Rao: Yes. There is still a long way to go in India for IML. Now, slowly, restaurants are identifying IML as a better way of fishing out most of these Swiggy and other sales they do across the counter, or take-home packs. So because it retains a brand image, it is very convenient for the clients, to have some kind of tamper evidence and leak-proof.

Bhargav Buddhadev: So the penetration of IML with those customers would be, what, single digit?

Lakshmana Rao: What do you mean those customers single digit?

Bhargav Buddhadev: No, what I'm saying is assuming if we are dealing with an ice cream customer, so for example, Amul. So Amul would not have converted all their containers or package into IML, right? They would also be selling in other packs. So what would be the share of IML in their own packaging, is what I was asking.

Lakshmana Rao: Yes. In the dairy industry, I would say it is in the tune of 20%, 25%. The entire ice cream, nowadays, majority of these people have shifted to IML containers. Nobody can sell nowadays in ordinary dab-looking containers anymore. Everybody is looking at a well-decorated ice cream container. So that way, it is more or less adopted. But even today, a lot of this butter, ghee, cheese, only the top brands have shifted. Some of them are still not shifted from tin or other forms of packing. There is a long way to go.

And coming to the another area where we are finding shift coming is protein powder, that -- peanut butter and other products. People started shifting, I would say about 15%, 20% of the market is now using IML and remaining 80% to 90% are yet to shift.

Cashews packaging has slowly started in IML, the containers, because they look better and exporting that product in a 5-liter square pack or 2-liter small pack would look much better than selling it in tins and putting a stickered decoration on it. So that is very initial stage, I would say, hardly 5%, 3% to 5%, so it can grow multiple times.

So like that, there are various other segments. For example, another area catching up is dates. Dates earlier, which were there in ordinary paper packing and later on cardboard packing and later on into ordinary plastic packing, are now going in for IML containers. So dates is another product which is slowly moving more and more into IML.

Sweet boxes are still, I would say, hardly 2% to 3% or maybe less than 3% of the sweet boxes used in the country, I would say, less than 1%, are currently in IML containers. The top brands are slowly going in for that, and the secondary and tertiary brands have also -- will not have choice in the next 2 years to adapt into IML sweet boxes. Because as and when people start comparing, they will attach quality to the decoration. So they think this sweet is much more superior than the other ones.

So companies like Haldiram's, a couple of their franchises in Haldiram's have shifted to IML, but other brands are yet to do that. So the local, regional brands, who are on the edge, watching what's happening, they will slowly shift to IML containers for their sweet boxes and karas and all that snacks. So that is another big area.

And coming to the restaurants, the move has started. Earlier, the restaurants, whenever you order some food, they'll give you in a plain and colourless container, put it in a bag and give it to you. But now, they want that container to carry their brand image, carry the address and phone numbers or Swiggy or whatever. So that the customer recall will be coming, and more and more awareness about the product will be there, and their brand will be spreading for a marginal extra cost. So that awareness is coming up in restaurant packs. We anticipate big growth in restaurant packs in the next coming quarters.

Actually, even we started exporting a couple of brands to US -- chains of Indian restaurants in USA for restaurants, sweets and some even batters for idlis and dosas. So like that, there's a long way to go in the food products. We have a niche area. Including in the FMCG side, there are several products which can be converted from conventional packaging to IML containers.

The process is going on, and we are keeping ourselves at the helm of the affairs. Actually, the digital printing machine we are getting in this end of February, beginning of March, is capable of giving very short runs without even a day of development time. There's no delay. If we received artwork today, we can start printing in few minutes. So that kind of a quick response printing technology we're adopting. In March this year, it will be starting production, and that will be taking us into markets faster.

Moderator: We have the next question from the line of Yankat Raman from Orient Securities

Yankat Raman: I want to know what is our overall market share in Asian Paints in terms of packaging. How do you compare with your competitor, like Hitech Corporation?

Lakshmana Rao: See, Hitech has plants all across wherever Asian Paints has plants, so they certainly have higher market share. And in fact, if you analyze their balance sheet, they being a listed company, you will notice in the Paints segment, they get almost 75% of their revenues from Asian Paints. As against kind of around 25%, 30% in our case.

And coming to absolute numbers of Asian Paints, I guess Hitech should be having 30% to 40% -- 35% to 40% share of Asian Paints business. Mold-Tek may be having around 20%, because we don't have plants all across wherever they are. In Rohtak, we don't have a plant. In Chennai, we don't have a plant. But other locations, we have a plant wherever they are. And there, we are getting around 25 % to 30% of their business share in Paints. So on overall 6 plants, probably our percentage will work out around 20%, 22%. Balance, 40% is spread between 5 to 6 small and medium-sized unlisted companies.

Yankat Raman: For Mysore and Vizag plants, what are the expansion plans that Asian, as you said, that we have an equal footing with Hitech, or we are still secondary partners?

Lakshmana Rao: As far as Hitech is concerned, they've always been given a little better share because, I don't want to say that, but they are just kind of one of the companies promoted by one of the directors' family. And sometimes we equal Hitech, maybe you are correct, in Mysore, we are selling as much as Hitech does, but I don't have exact data. But in my general opinion, we come as the second in the supplier choice to Asian Paints.

Moderator: We have the next question from the line of Prashant Shah from Serum Institute of India.

Prashant Shah: Sir, you've outlined the plans very nicely, and the prospects look very good for the company. I would just like to know what is the perspective of the competitive position that you see? What are the risk factors you see wherein our plans may not work out perfectly? That is my only question.

Lakshmana Rao: Yes. You see, like some kind of disruption in the general trends of economy could definitely lead a drop in consumption of FMCG or Paint or Lubricants, their consumption can impact our growth plans. That is one.

Second is the general projects being several. We are now -- earlier, we used to execute one or two projects every year. Like say, Sulthanpur was happening, then we initiated the leased premises at Kanpur, that was last year. But this year, we have five projects simultaneously coming up. That's a challenge we need to really handle, while taking care of the growth that is coming in the companies, all other areas of growth. We are facing in Food and FMCG, we are very favourably placed. Even in the Lubricants, we may expect a swing of demand due to IML and QR IML.

In the Paint, it is mainly due to new entrants coming in and new opportunities, new plants that we are setting up. So next year, the challenge for the company could be executing these projects of Daman second unit, Panipat, Cheyyur and the Sandila. And probably the Sulthanpur pharma project successful completion by the end of Q1 or beginning of Q2 in this year. So there will be lot of pressure on the team to complete these 5 projects, or at least 4 of them in the next 12 to -- maximum 12 months. 12, 15 months, maybe, Cheyyur can -- give sometime till April next year.

So in the next 12 to 15 months, we need to complete these projects and take care of the new products that we are introducing in pharma and make sure that pharma, we are there in correct location with proper facilities. Thankfully, we have got the team in place, and we could add correct hands in both pharma and even at -- even in our Food and FMCG. And those personnel are slowly getting in before the subject, and hopefully, they will stand by when the company requires their services. So that could be another challenge of activating these four to five projects in the next 12 to 15 months and bringing them into full-fledged production.

So these are the two risk factors. I would -- not the risk factors, but two major factors that can influence our projections. But we have been looking at the trends in Food and FMCG, that is what gives us more confidence of growth in the next 2 to 3 years. But by the time we are ready with our -- all these plans by next year, these plants themselves can be real growth engines for us.

- Prashant Shah:** So just other point. Have you been able to do -- complete the pass-through of the RM increases for the last few quarters?
- Lakshmana Rao:** Yes. We always have that same passing through mechanism with 90% of our clients. And other clients, we take our own favourable way. But with the 90% of the clients, it is either monthly or quarterly passing on both sides. Up or down the price, we pass it on. So that way, we absolutely have no problems. And in fact, we have now started asking for higher conversion cost because of increase in power and the labor costs that will happen periodically once in 2 years. So now, we are in the process of seeking higher price for our conversion to cover up and maintain our margins.
- Prashant Shah:** Sir, would you be able to guide on what has been the raw material cost for us over the last quarter, and what are the trends going on?
- Lakshmana Rao:** Input captive raw material cost is around INR 105 -- INR 111. Yes.
- Prashant Shah:** Sorry, can you please repeat that?
- Lakshmana Rao:** INR 102 for this quarter.
- Prashant Shah:** INR 102 for Q3?
- Lakshmana Rao:** Q3. Yes.
- Prashant Shah:** And what is the trend in this -- in the current quarter so far?
- Lakshmana Rao:** It's just ramping up a little bit now, some INR 2, INR 3, it has gone up, I think. Prices are firming up, in December also they will keep firming up. And in January, again, another INR 1, INR 2 rise is there. Not to the extent what it was last year. Last year, this time, it was in INR 120 level.
- Moderator:** We have the next question from the line of Pulkit Singhal from Dalmus Capital Management.
- Pulkit Singhal:** So I'm just trying to understand the overall volumes for the quarter, are they 7,525 tons or any other figure, and what is the growth?
- Lakshmana Rao:** 550 tons.
- Pulkit Singhal:** 7-5-5-0? And versus what is the base?
- Lakshmana Rao:** You mean the previous Q3? It was 7,330 tons.
- Pulkit Singhal:** So there has been a 3% volume growth and a 10% EBITDA decline, despite having better mix of Food and FMCG in the mix. And I'm just trying to understand this aspect a bit better, because your EBITDA per kg has only been coming down. I mean, Q1, Q2, Q3, are all lower than last year despite higher Food and FMCG. So what are we missing out on?

Lakshmana Rao: So one reason, as I just explained in the previous question, the power and labor costs have gone up in the last 6 to 8 months in several locations at Andhra Pradesh, in Vizag, Mysore, Hyderabad and even Daman, the power costs have been increased some 6, 7 months ago, and we are negotiating with our clients to add it back in our conversion. So that is one reason.

The second is, the several projects, what we started, we have started recruiting some of the manpower key people for pharma, key people for our plants that are coming up at Daman and other locations. So they will be -- they joined, some of them joined 6 months ago, some of them joined 3 months ago, some of them joined just in this month. So they will be effectively utilized only as we go forward in the next few months. Let's say, Sulthanpur plant will be operational in March, and other plants might go into production only by end of this year. So some of these overheads are also bearing a little bit of pressure on our margins for this current short term.

But as we improve our sales and utilization of capacities, another factor which impacted us severely in this quarter, in particular, is the drop in our Khandala plant, which is Satara plant, due to Asian Paints going on for an expansion mode. And so there, the capacity utilization will fall into 60%. So that is another area which has dipped in the margins. They are going back into production with expanded capacity from March '23. So we'll be coming back to our 40-plus kind of margins very soon once these few things are corrected.

Pulkit Singhal: But this one-off cost that you mentioned for new facilities, because your employee cost has been pretty flat for the last 5 quarters. So we are not seeing that in the employee cost in your other expense, so why are these costs still?

Lakshmana Rao: Then -- there is a sharp rise of more than 15% in the employee cost, and actually more than that, yes. It was INR 28 crores for the 9 months for the staff, is now INR 32.5 crores. And for the contract labour, it is INR 19.5 crores, has become INR 23.76 crores which is more than 20%.

So mainly, there is an increase in the employment cost, employees' costs, in this current year due to the various staff and trainees have been taken and they have been under training and getting ready for the new plants.

Pulkit Singhal: But sir, if you look at your revenue, I am excluding Asian Paints, and we're talking about your non-Asian Paints revenues for the last 5, 6 years, there's not been any material improvement there. I mean, you also share your maximum -- your top customer revenues. And if I subtract it from Paints segment revenues, that has not happened in the last 5, 6 years, despite the industry also having grown. So why has that been the case?

Lakshmana Rao: No, I didn't understand your question.

Pulkit Singhal: Sir, if I look the last, let's say, 4 or 5 years, and you provided the breakdown of Paint revenues. And we also know how much Asian Paints contributes, because you have to disclose your top customer revenue, and you've done that. So when we subtract your Paint revenues, excluding Asian Paints, that is non-Asian Paints revenues, that hasn't materially grown in the last 4, 5 years. That is the revenue from all the other paint companies. And that is totally fine.

Lakshmana Rao: We are not really fighting to grab any market share from rest of the paint companies, because we are focusing more and more on Food and FMCG and more and more into pharma and high value-add products rather than Paint sales.

The story is different Asian Paints or ABG because they look at quality, they look at high-speed filling machines, filling lines requiring high-quality paints. So their realizations and their way of volumes and business is much better than going back into other paint companies, which are more -- very, very price conscious. So we are not growing in that segment as much. We are not putting too much effort to grow that business.

Pulkit Singhal: And in your 20% guidance, the growth for next year, what is the Paint industry volume growth that you assume?

Lakshmana Rao: Yes. Next year, we are hoping that the growth volume would be in the region of 15% to 18%, of which -- I'm hoping at least, say, 8% to 10% growth would come because there is a slack in this year, and that has to be covered up if the economy does well.

And more than that, Asian Paints is expanding its capacity at Satara, which will be operative from March. And there we are jumping up by -- they are mentioning around 40% to 50% increase, so that should translate to a similar rise in Satara's output, which is currently pegged at 60%. So it might go up to 80%, 90% capacity utilization if their plant's expansion completes in March. So that is one area why we are positive about Paint segment contribution.

Though ABG is talking about starting their plants by December, January, even if there is a couple of months delay, I'm not counting that business to come in this financial year. So this will be purely on Asian Paints coming back and their projections for Mysore and Vizag, which are again, giving more than double-digit -- a healthy double digit. So that is why we are confident the Paint industry -- Paint growth for next financial year will be in the tune of at least 8% to 10%.

Pulkit Singhal: And lastly, what is the EBITDA per kg we should assume for next year as per your internal calculation?

Lakshmana Rao: Next year, I think we'll be again back to INR 40, INR 42 bracket, which is -- this quarter got missed. But fourth quarter itself, we are hoping we'll be back to INR 40, INR 42 bracket, which will bring us overall year, which is now 9 months, INR 40.24. Probably will be in the region of INR 40, INR 41 bracket for the overall year.

Next financial year, it should inch at least to INR 42, INR 43 because we have three major launches of new FMCG products, which got delayed actually. And now the trails have been completed, so I can hope they'll start in Feb, March. And even Iodex will start sometime in April, May, so that will also be with a better margins than our total average. So I'm guessing that next year, we can aim at between INR 42 to INR 43.

And if Pharma comes in, which we hope the numbers will be only reasonable from '24 - '25, we -- once pharma comes in, probably we can aim at INR 44, INR 45 kind of EBITDA, in '24' - '25 onwards.

- Pulkit Singha:** Ladies and gentlemen, that was the last question. As we have no further questions, I would like to hand the floor back to the management for closing comments.
- Lakshmana Rao:** Yes. Thank you very much to Emkay and -- for arranging this conference, and I also thank all the participants for their time and interest they have shown in our company operations. I wish you all a very happy evening, and good night. Thank you very much.
- Moderator:** Thank you, Mr. Rao. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.