

Garware Hi-Tech Films Limited

(Formerly known as 'Garware Polyester Limited')

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June 1, 2021

The Compliance Manager

BSE Limited

Corporate Relationship Department,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai – 400 001

Scrip Code: 500655

Subject: Transcript of Earnings Call with the Analyst / Investor Meet

Dear Sir/Madam,

With reference to our letter dated 25th May 2021, intimation given about the earnings call with the Analyst / Investor Meet on Thursday, May 27th 2021 at 04:00 PM to discuss the financial performance of the Company for the quarter and year ended March 31, 2021.

Please find attached herewith transcript of the aforesaid Earnings Call.

Further, the copy of the same is also uploaded on Company's website.

Kindly take the information on your record.

Thanking you,

Yours faithfully,

For **Garware Hi-Tech Films Limited**
(Formerly known as Garware Polyester Limited)


Awaneesh Srivastava
Company Secretary



Encl: As above.



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**“Garware Hi-Tech Films Limited
Q4 FY2021 Earnings Conference Call”**

May 27, 2021



MANAGEMENT:

MR. C.J. PATHAK - WHOLE TIME DIRECTOR - GARWARE HI-TECH FILMS LIMITED

MR. PRADEEP MEHTA – CHIEF FINANCIAL OFFICER - GARWARE HI-TECH FILMS LIMITED

MR. S. KRISHNAN - DIRECTOR (SALES) - GARWARE HI-TECH FILMS LIMITED

MR. SRIVASTAVA - COMPANY SECRETARY - GARWARE HI-TECH FILMS LIMITED

MR. N. CHANDRAMOULI – CHIEF EXECUTIVE OFFICER - BLUE LOTUS COMMUNICATIONS



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Moderator: Ladies and gentlemen, good day, and welcome to Garware Hi-Tech Films Limited Q4 FY2021 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Snehkumar Purohit. Thank you and over to you Sir!

Snehkumar Purohit: Thank you. Good afternoon everyone and a warm welcome to you all. I am Mr. Snehkumar Purohit from Blue Lotus Communications to represent the Investor Relations of Garware Hi-Tech Films Limited. On behalf of company, I would like to thank you all for participating in company’s earnings conference call for the Financial Year 2021. Garware Hi-Tech Films Limited recently changed its name from Garware Polyester Limited.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s concall may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management’s beliefs as well as assumptions made by information currently available to the management. Audiences are cautioned not to place any undue reliance on this forward-looking statement in making any investment decision. The purpose of today’s earnings conference call is probably to educate and bring awareness about the Company’s fundamental business and financial year under review.

I would now like to introduce you to the management participating with us in today’s earnings call. We have with us Mr. C.J. Pathak, Whole Time Director, Mr. Pradeep Mehta, CFO, Mr. Krishnan, Director (Sales), Mr. Srivastava, Company Secretary, and Mr. N. Chandramouli, CEO, Blue Lotus Communications. We are going to start with an overview of the company’s performance for Q4 FY2020-FY2021. With that we can switch to the session. Thank you and over to you, Pathak, Sir!

C.J. Pathak: Thank you very much, Sneh. Good afternoon everyone. I am C.J. Pathak, the Whole Time Director at Garware Hi-Tech Films Limited. It is our pleasure to welcome you to the Q4 and Financial Year 2021 earnings conference call of Garware Hi-Tech Films Limited.

I hope all of you are keeping safe and healthy. At the outset, let me share with you that as per the suggestions received from the investors and shareholders, the company had changed its name, which will now truly reflect the business operations. I am delighted to report that we have had another healthy annual performance with the second highest performance in the history of the company and delivered a consistent year of strong bottomline growth.



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Company witnessed a healthy demand across most products. The capex incurred in the year 2021, the company has commissioned PPF film plant and made operational in December 2020 having versatility to manufacture multiple value added products and the PPF plant is very well-established and the products are seeing very good acceptance from an international market. We have received a metallizer, which is under installation and ready to start commercial production in June quarter financial year 2022. On the ongoing capex plans, I am pleased to inform that GHFL has decided to go for capacity expansion of additional new lamination window film line for manufacturing window film production.

As the existing capacity utilization has reached 100% utilization in the last quarter of year 2020-2021, new capacity will be operational in the first quarter of the next financial year that is April 2022. This will add about 300 Crores at topline in two years' time, 2024. In financial year 2021, GHFL received a Silver Medal in the India Green Manufacturing Event conducted by the Institute of IRIM. The company has developed PCR shrink film and we have dispatched our first commercial consignment of PCR shrink film to Europe. We have developed a facility towards recycle pet bottle crush in our polymerization plant to increase the PCR content in our product.

On the social front, we have carried out many activities like we had provided our Garware Community Center, which we run at Aurangabad for conducting the vaccination program and we are building full-fledged COVID Quarantine and Health Center at Aurangabad with 150-bed facility with an oxygen plant attached to it of 500 lpm capacity, which will be a very well equipped center along with the ambulance and the tie-up with hospitals, but this will be donated to the Aurangabad Municipal Corporation to run the center.

We will see in addition to this given certain donations of Philips Ventilators, certain concentrators also, from our side. We manufacture the face shield and PPE kits which are given to various hospitals for frontline workers, the shield are given to the Mumbai police and all the police. Now I request, Mr. Pradeep Mehta, CFO to give the financial highlights. Thank you.

Pradeep Mehta:

Thank you, Sir. Good afternoon all. On consolidated basis for Q4 March 2021 versus Q4 March 2020, revenue from operation was up 30.4% to Rs.287.74 Crores. Profit after tax was up 50.9% to Rs.31.8 Crores, EBITDA margin decreased from 20.8% to 20.2%. On consolidated basis for FY2021, the company registered total revenue of 1004.67 Crores is up by 7.3% on Y-o-Y basis. Profit after tax was at Rs.125.95 Crores up 46.4%. EPS of Rs.54.21 up by 46.4%. Exports contributed 74.3% to sale and valued added films contributed 76% to sale, EBITDA margin increased from 18.8% in FY2020 to 23.6% in FY2021.

Net profit margin improved by 340-basis point from 9.3% in FY2020 to 12.7% in FY2021. The debt to equity ratio stood at 0.07 times for FY2021. We would also like to add that the company improved for performance has been reflected by the return ratio that ROCE is 22.72%, adjusted for



remuneration reserve and return on equity stands at 15.75% adjusted for remuneration reserve. Also the company has achieved a net profit margin of 11.05% in the last quarter on consolidated basis.

Thank you all. With this, we can now open the floor to the question and answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin for the question and answer session. The first question is from the line of Sudhir Bheda from Right Time Consultancy Services. Please go ahead.

Sudhir Bheda: Good afternoon, Sir and congratulations on strong set of cash flows and profit. Just two questions, one is your Q-on-Q margins have come down and is there any seasonality involved because most of your products are exported more than 75% in December being the good quarter, so is there any seasonality or some raw material cost escalation impact is there, Q-on-Q basis?

C.J. Pathak: Yes, there is some seasonality; however, we are utilizing the 100% capacity and though the raw material costs has gone up that is passed on to the customers, but for export it will take sometime for passing it on, so that will be passed on.

Sudhir Bheda: In current quarter margin will be again back to Q4 level or Q3 level?

C.J. Pathak: Yes, should be.

Sudhir Bheda: How do you see the current year because in overseas market, there are strong demands of all the products, so what kind of growth do you foresee in FY2022?

C.J. Pathak: As I said in the beginning that we are operating at 100% capacity utilization and we have also already announced expansion of the capacity for the window film so we are seeing a robust demand in future also.

Sudhir Bheda: Any growth number in FY2022, which you can share?

Pradeep Mehta: Mr. Bheda, it will be a little premature for us to share that, as you will understand surely.

Sudhir Bheda: One more question, Sir, is there any land bank the company has, if you can quantify it?

C.J. Pathak: Yes, land bank is there. We have a land bank. As and when because we have not yet decided anything on that and the board will decide, it will definitely be disclosed at appropriate time.

Sudhir Bheda: Thank you.

Moderator: Thank you. The next question is from the line of Sahil Sharma an Individual Investor. Please go ahead.



Sahil Sharma: Congrats on a good set of results. If we look at your past annual reports we can see that R&D spends have been around 1.5 Crores to 1.8 Crores range for the last few years. I understand that based on our R&D we have a very differentiated and value added set of products and that will be a commodity producer, what I am trying to understand is that is it not possible for our competitors to spend a similar amount of capital, which also looks somewhat small compared to ours or their topline and then even compete us from the in the global market, they are of the same set of technologies that we have developed?

C.J. Pathak: This is actually a technology, which is developed over the years and whatever the R&D activities we have is not a basic research, but it is supplemented to the products of application, performance improvement or some addition, which is required by the customers, so that all is done, so what is your question that about the competition you are asking something?

Sahil Sharma: Sir, basically what I am saying is company has been saying that we are making value added products, which I understand, but if we look at competitors they are making very commoditized products, but still if we look at R&D spends, yes, they are so much small like may be 2 Crores every year, right, so what I am wondering is, it is not possible that some of our competitors also do their own R&D and they have developed the same technology that we have, for example, we are able to buy the films and even those technologies that we got is it not possible that our competitors can also develop those technology by doing the small R&D spends that we are doing, given 1.5 Crores or 1.8 Crores every year?

N. Chandramouli: Mr. Sharma, if I may just add to the participant's question. This is not just money spent. It is the increased spent and which Mr. Pathak also said has been done over the years, there are two or three distinct advantages that Garware Hi-Tech Films has; one being the fact that they are chip to films manufacturer, which is an end-to-end manufacturing, which a very few organizations in the world have, that is the first advantage, which allows you to manipulate a polymer very conservatively, which gives us the unique properties that you so desire, it is not possible for anybody to pickup polymer films and then make into something that we are probably able to do that is number one. Number two, the chemistry which is there is a lab based chemistry so you have to do it in the lab and then will be able to scale it up into a large scale manufacturing with higher efficiency. So the lab scale efficiency is about tinkering out the polymerization process and being able to get in the right products out, so that tinkering is a very sensitive tinkering, which does not require very heavy spends even though we have been doing it consistently over the years, even if other trying be difficult for them to achieve, I think that one and Mr. Pathak would you share to anything here.

C.J. Pathak: Yes, because, as you rightly said, we have the facilities rights of chips to films to metalize to lamination, coating, etc., and all these facilities are having all kinds of requirement, attachment, which is needed from interior of product, exclusive product, so one is the capital investment, which is done over the years, second is the technology and proficiency developed over the years, which I do not



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think these cannot be copied immediately. We had successfully developed because we wanted to be in niche market and from that angle we have planned everything right from the investment, plant and machinery and processes everything is designed even the polymer, which is required also you know is designed polymer and that is why it is different than what our competition is. Their market, their targets are totally different than what we have. So I think these are two distant different things that what we and our competition has and not related to above spends.

Sahil Sharma: I see and I think the primary answer is if you take many years to develop this even if they have the capacity?

C.J. Pathak: Correct.

Sahil Sharma: Thanks a lot that clarifies. Second question is that I did study some of your global competitors for example, in the US market we have expanded in Ceramic Pro and if you look at them and specifically they are in some segments where we hear they are fairly soft for example, expanded \$7 million in window films in Q1 FY2021 looking at like the American the Q1 or Q4, so if you analyze this is roughly 200 Crores run rate and they are achieving the strong zero sales roughly three years ago, so I have been very curious we have not been able to growth from zero to 200 in three years, so what I can understand this is because they have a very interesting supply chain, they are able to make large tinters into to the franchise partners who are explainable to be able to do that so understanding is that branding plays a very important basically role for expand and now just if you look Ceramic Pro that another of our competitors in US and they are also entering the window film and PPF margins and expected to be a major chunk of the business going forward, so it appears like competitive intensity is increasing in the US market at least, you know Ceramic Pro and we expect both side is growing fast and entering into the markets that we compete in, which is window film and PPF, so what I understand is definitely a very excellent manufacturing company, but what I wanted to understand is especially on the marketing and brand building side, what kind of initiatives we are taking so that we are able to successfully compete against Ceramic Pro in exports?

C.J. Pathak: Certainly, I think I will suggest Mr. Krishnan to take on this question and respond.

Krishnan S: Thank you for the question and just to brief you our largest market is United States and we are the third largest brand, which sells in that market along with behind 3M and Llumar, which are the other large competitors and as per the statics and details that we have as compared to XPEL we are several times larger than them in the US market itself. XPEL again is a brand and their main product is PPF, they are a software company and they sell the Paint Protection Film, as you are aware we had just entered that market and the window film is a much smaller component of their total turnover and we have been working on our brand, we have been there in the US market for about 20 years and as I said we are third largest brand in that country, we have a network of about little over 4000 tinters who are connected to us. These tinters are wedded to us and use our product continuously and that is the



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network we sell our product to network of about five large distributors covering all the 52 states in United States and we have full-fledged marketing plan, regularly advertising in various trade magazines and also the tinter magazines, various promotional activities that we continuously have in that market, all of that had created a huge pull for our product. Just to give you an idea during the last year, our sales have substantially jumped in that market in fact the biggest jump has happened in the US market for us during the last financial year.

Sahil Sharma: Thank you so much.

Moderator: Thank you. The next question is from the line of Kashyap Kartik from Triple Tree Capital Partners. Please go ahead.

Kashyap Kartik: Thank you for the opportunity. Sir, a couple of questions; the first question is if you could elaborate on our Paint Protection Film business has progressed over the last 6 months especially if you could touch upon we have been doing a lot of study and research on the US market like the way we understand US market in the Paint Protection Films especially is XPEL and 3M kind of are the top line covering Tesla, Mercedes and BMWs and Llumar and Sunteck are in the middle segment, which is Fords, Chevrolet, and Hondas, so if you could tell us, a) if we target the B2C segment and if you are targeting B2C segment, which customer segment, these are the grocery shopping people or the top end people that we target in Paint Protection segments and b) do we supply a contract manufacturing to some of these players as well and what percentage of revenues if it is that in Paint Protection especially?

Krishnan S: In the US market, as you are aware we entered the Paint Protection business just in the last quarter after the plant was commissioned. We are distributing our product through a network of 5 distributors as I mentioned and we also have the same tinters who do the window film also do the paint protection, so we are in terms of developing the business through them and they have been using our products, we are conducting training programs, application program for our product, we have been advertising our product into the markets, it has been as of now fairly well received, the reports have been pretty good and we sell it under a brand called Global, which is the brand we also sell the widow films so the acceptance of the product has been good. The names that you mentioned of XPEL and 3M have been in the market for almost a decade or so and we have just recent entrants a couple of months, so it will take us sometime, but the initial response has been extremely good.

Kashyap Kartik: Got it. Is this is completely B2C and we do not supply any contract manufacturing to any of these players just to confirm that?

Krishnan S: As of now no, but there could be opportunities, when we do it probably we will come back at that point of time.



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Kashyap Kartik: Got it. The second question that I have continuing on Paint Protection Film, it is a Paint Protection Film as a customer, he is spending about \$2000 to \$3000 per car for an XPEL or 3M so what is our offering per car in the market and traditionally we are in window films, which is about \$200 to \$300 per car so far the same customer to purchase the \$2000 to \$3000 is a substantial difference, so from our learning perspective, from a size perspective if you could just tell us per car how much would it cost for the Paint Protection and how are we dealing with the same tinters selling a \$200 products, which we have been selling for years and suddenly he is going to sell a \$2000 product, which obviously requires the difference selling skill set?

Krishnan S: Firstly, the window film, we sell the window films to the high end products and our window films cater to the top segment the Maersks, the BMWs and the premium cars and we make exclusive product for that category of customers, number one. The window film prices are also not as cheap as you mentioned or as low price as you mentioned, they are far higher than that number one. Number two, the cost of the Paint Protection for an entire car meaning bumper to bumper if you were to cover it, it is somewhere in the region of \$1400 to \$1500 or so roughly, number one. Number two is people do not use Paint Protection for the entire car, they only use it for the ascender, for the bumpers, for the outer rear view mirrors, so selective portions of the car, some of them spend somewhere between \$500 and \$700, some of them go \$1000, very rare you will somebody covering the entire car with the Paint Protection Film so the price difference is not so high from what you see on the window film to the Paint Protection, it is not \$200 to \$2000, it is somewhere in the region of \$400, \$500 going to \$700 to \$800 and also as I explained to you the same tinter who does this also the window film, also does the Paint Protection and he is already exposed to our brand and our brand sells because of the quality, our quality in terms of the market response is the best available in United States and that is the acknowledge fact by the tinter community.

Kashyap Kartik: Fantastic, Sir. If I can squeeze one last question, just continuing on paint protection. The major selling point apart from quality of the product again for the players in the market, XPEL, Llumar, 3M and Sunteck are the designs and designed patterns, which are fairly critical. I am sure XPEL has DAP software which they sell as add on so in terms of our IP, we have just started in the market, but any thoughts on strategy around how we plan to build that library and database of the design and design pattern, which are extremely critical for a successful of Paint Protection over the next year or so?

Krishnan S: We have already developed that. We have already had a tie-up in terms of the software to support the application of the Paint Protection Film. Also for our window film it is available. We already have that and we are already marketing that as well along with our product. We have just started that since the last couple of months.

Kashyap Kartik: Got it, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Archit from FinStep. Please go ahead.



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Archit: Thank you for the opportunity and congratulations on a good year. Sir, first I had suggestion. I noted the company, please pardon my ignorance. When I look at the annual report I see a huge cost of Rs.25 Crores to Rs.30 Crores in the Film Processing charges that we pay to a related party Garware Industries Limited. As I understand this payment is because of the Tech that Garware Polymer holds. I do not see that as a corporate governance issue, the similar basis the MCA website and download the financials of Garware Industries. I notice that 90% of the revenues comes from Garware Hi-Tech and rest of 70% of creating margins. So I just have a request to Garware family and especially to Mr. S.B Garware whom I have huge respect for and using for his own benefits as he holds less than 60% of the company and for the benefit of the minority shareholders if he translate these shares to Garware Hi-Tech and huge cost specific. If you look at the propensity value of this 50 Crores payment then it is close to 400 Crores; however, if this processing charge goes away and certain that our market capital increase that this much in three years' time, it is a humble request and please strongly consider this and I would sincerely like to convey my respect to Mr. S.B. Garware. Coming to my question, my first question is that as you see than the sun control business has scaled up significantly over the years; it is around 350 Crores in FY2020, which by the end of FY2021 was 450 Crores; firstly I would like to understand the geographical breakup of our sun control business and secondly I would like to understand the share of branded sun control business versus unbranded sun control films and as a followup if you could please also tell the margins for the branded sun control films is the same as the margins for the non-branded sun control films? Thank you.

Krishnan S: In terms of the market, in our presentation we have given you a breakup of course a follow up products, but just to give you an idea, we are largest market in the world is United States, and followed by Europe, followed by Middle East, Far East and then of course South America, and as I said we sell in about 8 countries across the globe. The sun control business has been growing and the growth has been very good since the last two to three years and as was mentioned by our CEO, it is for that reason that we have announced an expansion later this year in terms of the sun control products. In terms of branded and non-branded, we sell both the products, the margins are no different in terms of the branded and the non-branded, predominantly we cannot give a percentage how much branded and how much non-branded, but predominantly our sale is our branded products.

Archit: Thank you, Sir. Also about the margins that come from branded and non-branded, could you please tell us the difference and by how much?

Krishnan S: There is no difference. As I explained to you branded and non-branded, there is a small difference. It is quite insignificant per se.

Archit: Sir, just to rectify the geographical say that you mentioned the countries that you mentioned that is specifically for sun control business?



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Krishnan S: No, it is for both our products, sun control and our polyester film business that we sell, but as I said by and large, the larger market for us is United States followed by Europe, followed by Far East, Middle East and South America.

Archit: Sir, would it be possible for you the release the percentages?

Krishnan S: No, it would not be appropriate because this is information if it goes into a public domain obviously the competition also benefits, we would not want to share that.

Archit: Thank you so much.

Moderator: Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics Private Limited. Please go ahead.

Ayush Agarwal: Thanks for the opportunities and congratulations on a good set of numbers. Sir, my first question is that it is my understanding that out of the five distributors that we have, two also have their brand where we do the wide cable for them and they sell under their own brand and please correct me if my understanding is incorrect, my question is what is the incentive for the distributors to push our global brand ahead of their own brand since they act as a key marketing agency, like have you given them some kind of structured arrangements where they make probably better margins as they sell more global brands or what is the arrangement like if you can throw some light and it would be really helpful?

Krishnan S: We promote only the global brands. We do not promote any other brand and all advertising, all our tinter contact program, all our quality assurance, all support on training that we do, marketing that we do everything is on the global brand. They do sell in a localized manner, a very small volume in their private brand, now in fact the private brand was existing even before our brand started into the market, so it just continue for the sake of continuity and sake of the contact that they have in the market, they continue with their old brands and that is a much smaller portion of their business.

Ayush Agarwal: But what would encourage them to push the brand global and not their own brand it is my whole question here?

Krishnan S: The key thing is the customer comes and demands the brand at the counter and what they at times is there are several cheap brands available in the market, cheap meaning low price brands manufactured but I do not want to specifically name the country, you are aware of it, so they sell into the market sometime, so in order to ensure that he does not lose the customers he sells the product of his brand the support himself.



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Ayush Agarwal: Sir, a followup on this would be you know because only our global product, these are the standard own brand, how we would manage the price differential if you are saying that it is mostly to meet the lower cost product?

Krishnan S: Even on window film there are different type of products, which cater to different segments of the automotive business as also in terms of the architectural space. So when it is the technology product it is all in the global brand. When it comes to low price product, which is catering to as I said product from some of the other countries that is where they go and sell that product in the market, so when it comes to technology, when it comes to let us say an IR product, etc., the customer is very conscious about the quality and he wants a good product for his car, he is selling for a premium car then all of them usually sell our product only.

Ayush Agarwal: That is great to me. Sir, the second question is as you had mentioned that our tinter penetration in the US is as 4000, which is huge, so my question on that is that and as you had mentioned that these tinters are wedded to us, so is it safe to assume that a high percentage of these tinters and if you could probably give the rough numbers, how much percentage of this that the tinter penetration that view only the global brand?

Krishnan S: I would say what happens with the tinter community is when he is taking the car in, sometimes the customer already has bought the film, I mean you can buy the film on the net as well in United States, so there is a good percentages who buy in the net, they have already bought the film and if he not bought the film, sometimes he comes and specifies that I want an XPEL or I want 3M product or a Llumar product only and therefore he specifies that in which case the tinter does not push, he says I use Global and this is far better, he tries to do a bit of selling, but he does not want to lose the customer because there is a fair amount of labor that he is going to get, which important to him, but otherwise given a choice he would buy the global from us.

Ayush Agarwal: But, in that case like you mentioned that some customers will come and ask for a specific brand, so why would I not use since it is a highly successful why should not I go to the tinter who sells either XPEL or 3M or Llumar what I want to get installed. Do people just walk into Mom & Pop shops and get their car painted or would they actually look for brands and go from there?

Krishnan S: No, it is not Mom & Pop shop. These tinters are experts and they are across all the 52 states so therefore there is no particular tinter who only deals with one single brand, they are few of them in each place, but a bulk of it they do all the products by and large.

N. Chandramouli: If I am not wrong they would also be the fact that there is proximity to the particular car owner, there are so many other things that matter and nobody travels very large distances for tinting.

Ayush Agarwal: Absolutely, correct.