



“Mitsu Chem Plast Limited Q4 FY21 Annual Results Conference Call”

May 28, 2021



**MANAGEMENT: MR. MANISH DEDHIA - JOINT MANAGING DIRECTOR
& CFO, MITSU CHEM PLAST LIMITED**
MODERATOR: MR. VASTUPAL SHAH - ANALYST, KIRIN ADVISORS

Moderator: Ladies and gentleman, good day and welcome to the Q4 FY21 Annual results conference call of Mitsu Chem Plast Limited hosted by Kirin Advisors. 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. Vastupal Shah from Kirin Advisors. Thank you and over to you sir.

Vastupal Shah: Thank you. Good afternoon everyone, I would like to welcome Mr. Manish Dedhia – Joint Managing Director and CFO of Mitsu Chem Plast Limited to give the opening remarks about the company. Manish Sir, over to you.

Manish Dedhia: Thank you. Thank you, Mr. Vastupal. Hi, good afternoon, I extend a hearty welcome to all of you and thank you for taking the time to attend our conference call. We sincerely hope that everyone is safe and healthy.

FY20 - 21 was affected severely by the Corona-19 virus. It has left a significant impact on the way we live and overall economic growth. We did see the green shoots of economic recovery from the third quarter of FY21 and the forecast for FY22 was encouraging but then the second wave arrived, throwing all calculation out of gear but we are happy to state that even in these difficult times our company has grown at a very healthy rate.

In fact, this year has been the best year in the history of the company due to three unique characterizations of Mitsu:

- 1) We as a sincere service are a fundamental need of society leading to inelastic demand.
- 2) Our continuous emphasis on plant and process optimization
- 3) Our focus on providing innovative solution to our customers through our continuous R&D.

Now let me start with sharing the performance highlight for quarter Q4 FY21:

So, PAT almost doubled to Rs. 2.23 crore over the corresponding period last year. Total income for Q4 FY21 was Rs. 52.23 crore and this is an increase of 43% on a year-on-year basis. EBITDA was Rs. 6.18 crore, an increase of 40% on year-on-year basis. EPS for Q4 FY21 at Rs. 1.82, a 94% increase on year-on-year.

Now I will share the performance of our company on a full year basis:

Total income increased by 29% to Rs. 178.33 crore. The EBITDA for the full year FY21 was at Rs. 24.20 crore, a substantial increase of 50% given the difficult condition that the industry had

faced, over the previous year figure of Rs. 16.18 crore. EBITDA margin improved substantially from 11.68% to 13.57% in the same period. The PAT improved to Rs. 9.71 crore compared to Rs. 3.97 crore in the corresponding period last year.

This improvement was primarily driven by the strong performance of the packaging business where Mitsu has positioned itself as a niche player. In addition, the company generated one of its highest ever yearly operating cashflow of about Rs. 13.17 crore, up from Rs. 4.40 crore in the previous year. The company has provided a tremendous return to shareholder with ROE and ROCE of 24.29% and 21.01% respectively, which is almost double over the last year.

Mitsu is happy to propose a dividend 0.20 per share to its shareholder, so almost 2%. The price changes in plastic was very frequent, because of that we were not able to pass on to our customers on immediate basis. As mentioned in the last call, since Q2 we are focusing on improving our margins and also have started the process of improving output efficiency of manufacturing equipment which has helped us improve our bottom line as well as margins despite the sharp increase in our raw material prices and kept us on a track for yearly growth target.

If we talk about the growth experience by each product category, our packaging business has seen a growth of 26%. The hospital furniture business grew by 74% and Automotive component business grew by -15% year-on-year. For the quarter, our factories have been working almost 60% of capacity of our total available capacity. So, for the period, I think working capital cycle, I mean yearly basis, it has improved for 66 days from 80 days, which was last year.

So, now, I would like to talk about industry trends and growth outlook:

Practically, anything and everything we consume, is packaged, be it a pin or a smartphone or from a coffee to TV set, everything comes in a packaging. Every person in modern industrialized society has contacts with the packaging industry every day. The market for rigid plastic packaging in India has grown well in the recent years and stood at about US \$7.7 million. In FY 2018, the market is expected to grow at a CAGR of around 10.80% during the five years of span and is expected to reach US \$14.25 million by FY 2024.

This industry such as Retail, FMCG, Pharmaceutical poised to grow at the rate of between 13% to 30% in next five years, that is from FY 2020 to FY 2025 packaging industry will witness the sharp growth, which in India it is already 11% to 12% growth last year in only blow molding sector. We are seeing a shift in the way of people live this new normal life, most of the households are giving more and more emphasis on hygiene and we have seen robust demand growth for our packaging products.

Also, our packaging material does not have any scalable or user-friendly alternative, hence we would expect steady demand growth for the category. Steep increase in the hospitalization due

to second wave of COVID-19, there is a huge demand for new hospital beds, which is generating strong demand of our hospital furniture products as well as government has announced a new package for built a hospital and medical segment, so there is also one more reason for increase in hospital bed parts furniture.

So, thank you very much and now the floor is open for the question and answer.

Moderator: Thank you very much, we will now begin the question-and-answer session. The first question is from the line of Prashant Patil, an individual investor. Please go ahead.

Prashant Patil: Hi, good afternoon. Manish Sir and thanks for your time and very positive looking results I hope everyone is good in Mitsu. So, my question is, I just have two small questions. One is you mentioned three categories; packaging, hospital furniture and auto, will you mind just sharing how much is the percentage revenue contribution out of these three sectors. Second one is actually you mentioned the industry growth outlook which looks positive as well but also there are bigger players in this space, in this industry ahead and because the full consolidation theme is playing out, so how you think you can position yourself to get the bigger share of that pie when you are comparing with the bigger industries who spend lot of money on R&D and then they have better channeling, etc.

Manish Dedhia: So, first question, you want the product category wise, percentage wise, right?

Prashant Patil: Yes, correct.

Manish Dedhia: So, container business is, I will talk about yearly a basis. So, container business was 85% and furniture part is 11% and almost a 4% is in auto parts and other infrastructure products. So, about the second question, yes see we are I know it is a big challenge because there is a lot of competition amongst everyone and there are big players also in the market but yes, the market is such a big market and I think everyone will get a good share of that and even those in India, not only packaging but other businesses are also growing, so definitely if we have to grow everyone, everyone has to expand then only we will be able to fulfil their capacity. So, right now I think demand and supply is stable.

Prashant Patil: Thank you sir and one small thing, do you mind sharing how much is the exports percentage out of the total revenue, if at all any?

Manish Dedhia: So, I would say my exports is less than 1% because this is a bulky item, so generally the exports are not viable actually in this particular business.

Prashant Patil: And sir any new products you are working on?

- Manish Dedhia:** Yes, so many products are in pipeline, either for approval or for the company approval, or some government approval on that, so you will hear a good news in sometime.
- Prashant Patil:** Okay thank you sir, great result, great management, great work.
- Moderator:** Thank you. The next question is from the line of Apoorva Mehta, an Individual Investor. Please go ahead.
- Apoorva Mehta:** Sir we have seen revenue growth 30% this year, out of this how much is of new plant capacity?
- Manish Dedhia:** Sir, we do not have a new plant at all. So, I think I am not able to understand your question or maybe ..
- Apoorva Mehta:** New plant.
- Manish Dedhia:** For the future?
- Apoorva Mehta:** From Unit 3 Khalapur, my question is from Unit 3 Khalapur we have seen revenue growth 30% this year?
- Manish Dedhia:** Yes sir.
- Apoorva Mehta:** So, out of this how much is of new plant capacity?
- Manish Dedhia:** No, see I think we have given you the whole plant, we have three plants right now, so two plants are in Boisar and one is in Khalapur. So, we always calculate consolidation, consolidated figures and the question you are asking I think I have understood is, how much you are producing from Khalapur plant?
- Apoorva Mehta:** Yes.
- Manish Dedhia:** So, around 60% is from Khalapur and rest of the other Tarapur unit. 60% of the revenue comes from Khalapur unit and rest revenue comes from Unit 1 and Unit 2 which is in Tarapur. I think I have given you answer or not?
- Apoorva Mehta:** Okay sir so what can we expect from future growth?
- Manish Dedhia:** So, as I said we are working at around 60% plant optimization right now and we can expect around 40% growth in this year as well.
- Apoorva Mehta:** Okay, so, what is the working capital cycle for the quarter and for the full year? So, for quarter 4 it is 66 days and the whole year it is averaged around 66 days.

- Manish Dedhia:** So, for this quarter 4, it is 66 days and the whole year also, it is averaged out at 66 days.
- Apoorva Mehta:** And sir what was the capacity utilization for the year and what is the volume growth year on year?
- Manish Dedhia:** Year on year, we said that year on year I think 40% growth we have done it and expected almost the same growth this year as well and the capacity utilization as I said like all the plants together it is around 60%, last year it was a 50%.
- Moderator:** Thank you. The next question is from the line of Supriya Khedkar from Aura Portfolio Research.
- Supriya Khedkar:** Congratulations first of all for a very good set of numbers. Three things I wanted to understand from you are, our EBITDA margin for the year we have seen a very good growth from 11.68% to 13.48%, going forward do you think that this kind of a margin is the company able to maintain that is the first question?
- Manish Dedhia:** Thank you very much, so your question was whether EBITDA margin will be maintained or not, am I correct?
- Supriya Khedkar:** Yes.
- Manish Dedhia:** Yes, definitely I think from Q1 onwards we are maintaining almost same, although this is a difficult situation because there were lot of difficult situations around like price changes and the lockdown in between and other lockdown, lot of things but yes and we definitely want to, I mean like we will maintain or we will increase, so in the next year we have a plan to increase in a very well-mannered EBITDA margin.
- Supriya Khedkar:** So, what is the investment growth you said for the current year or going forward you expect?
- Manish Dedhia:** So, that we cannot say right now as we have not discussed and neither we have intimated to exchange yet but yes, there will be some growth we are planning but it is in under pipeline, so we will announce once it is clear.
- Supriya Khedkar:** No, I am asking about the industry growth.
- Manish Dedhia:** I am really sorry, so industry growth in India it is around 11% - 12% in blow molding?
- Supriya Khedkar:** Okay, sir in your previous question you said that you are expected to grow at a 40%, so our industry is growing at a 11% and we are capacity utilisation of around 60% on what basis we expect the company to grow at a 40%?

- Manish Dedhia:** Yes, so small product expansions is always going on in the company, you know that is a routine expansion is always there in the company and definitely optimization, so optimization of plant is what we are working, and you can see this as one of the reasons, the phase 1, now phase 2 is also like the same and that is how we are expecting this 40% growth.
- Supriya Khedkar:** No sir what I am asking you is, if the demand is going to rise by 11% and we are a very small player comparatively right now as compared to the big players, then what is the basis that, is it a small base in the earlier year we expect the 40% going forward or we clearly see some demand from the client coming up?
- Manish Dedhia:** Yes, both. We expect good demand from client also because in last 5 months we have incorporated 50 new clients, so definitely we can see a big growth in next coming future.
- Supriya Khedkar:** Okay, our client base has now increased from 500 to 550 clients in the current year, am I understanding this correct?
- Manish Dedhia:** No, I have never mentioned that number but yes, we have around 600+ clients right now.
- Supriya Khedkar:** And any Fortune 500 client addition during the current year? What I am asking you is that we had Fortune 500 clients to the counter from 30 till last year, so these new clients which we acquired in the current year that is 50, are there any big clients on the Fortune 500 companies?
- Manish Dedhia:** Yes, out of those 50 clients around 12 clients are Fortune 500.
- Supriya Khedkar:** And what is the topline growth you expect going forward?
- Manish Dedhia:** Of our company?
- Supriya Khedkar:** Yes, for the next 2-3 years on a CAGR basis?
- Manish Dedhia:** We have not sent any projections to the BSE yet, so it will be very difficult to talk on this thing.
- Supriya Khedkar:** What is your mission, so where you see the company going forward on 3 years down the line? You might have your internal projections? So, what is the mission, what is the vision for the next 3 years?
- Manish Dedhia:** I am not sure Madam I am able to tell you on this forum, I do not know whether I am allowed to speak or not on this exchange.
- Supriya Khedkar:** No problem sir we will connect with you on a one-on-one basis in person.
- Manish Dedhia:** I will be happy to that.

- Moderator:** Thank you. The next question is from the line of Amit Chawla from Ashoka International. Please go ahead.
- Amit Chawla:** Sir my question is that recently you had an investment from the Gogoi family, from the RT Industry guys, now have they come in only as financial investors or is it a strategic investment where they will also be helping with manufacturing optimization?
- Manish Dedhia:** Good questions, no they have taken share from market only that you can make out, there is no strategic investment.
- Amit Chawla:** There is no strategic investment. Okay thank you so much.
- Moderator:** Thank you. The next question is from the line of P. V. Shah, an Individual Analyst.
- P. V. Shah:** I have two questions; one is do you describe the current growth as a onetime jump or is it going to be sustainable?
- Manish Dedhia:** So, definitely it is not a onetime jump but yes, the plan what we are doing so first I mean like before going of any new plants, so we will definitely do complete optimization of our existing plant and then definitely we will go for a good growth, so maybe we plan for inorganic growth as well. So, right now we are focusing on organic growth, right now here with the optimization and definitely we will look for inorganic growth. So, this will be sustainable for next few years for sure.
- P. V. Shah:** So, it is not that your turnover will again go down after it has gone up in the year it will be on a steady rise but the percentage you cannot comment, I understand, is it correct?
- Manish Dedhia:** Yes, so percentage cannot be common, so maybe 40% or maybe sometimes a 100% as well, so when we go for an inorganic growth, so it can be 100% or maybe 20% or maybe 50%, so we are not sure, I mean what we are going ahead, so right now we are just focusing on organic growth here in optimization and due to COVID we are going also a little slow as like how the market is reacting, the economy market is reacting, we will have to check that.
- P. V. Shah:** Okay, the last question from me generally is the companies in the manufacturing space and bunch of your sizes we see the dividends growing as the company grows, however if we look at the announcement yesterday, the dividend is as good as stagnant and not commensurate with the results, is there any particular reason for that?
- Manish Dedhia:** No, sir not particular reason but yes, the company has some debt and some small expansion plans, so definitely for optimization we need to go for some automation and some capitalized programs, so that is why we have retained this money, so maybe that way we can, once we optimize definitely, we will have our shareholders value, definitely.



*Mitsu Chem Plast Limited
May 28, 2021*

Moderator: Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Vastupal Shah for closing comments.

Vastupal Shah: Thank you everyone for joining the conference call of Mitsu Chem Plast Limited. If you have any queries, you can write us at vastupal@kirinadvisors.com and once more thank you everyone for joining the conference.

Manish Dedhia: Thank you. Thank you very much, Mr. Vastupal.

Moderator: Thank you. On behalf of Kirin Advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines.