



“Mitsu Chem Plast Limited Q2 FY21 Earnings Conference Call”

November 10, 2020



**MANAGEMENT: MR. MANISH DEDHIA - JOINT MANAGING DIRECTOR
& CFO, MITSU CHEM PLAST LIMITED**

MODERATOR: MR. VASTUPAL SHAH - ANALYST, KIRIN ADVISORS



*Mitsu Chem Plast Limited
November 10, 2020*

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings 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 & CFO of Mitsu Chem Plast Limited. Manish sir, over to you.

Manish Dedhia: Hi. Good afternoon, everyone. We hope that everyone is safe and health. As well you known that COVID-19 has created lot of havoc in our life and this challenging times one should be calm, cool and try to be happy in the life. One hand today, where the second phase of lockdown has been implemented in major European countries like France, Germany, Belgium etc. due to the rising number of COVID cases. On the other hand in last week, US election have been concluded and the new power house of US would be bound to take tough stance on China as it is going to be fight for global dominance and due to this India would have a positive impact on its economy.

Now that our factories have started working with maximum capacity but however, we are following restrictions like social distancing. True, we are still having lot of cases in the near vicinity, but it is a part of life which is now the new normal. We are now seeing that our economy is getting back on the track. The impact can be seen as the current quarter was one of the best in recent years. We have seen huge demands in packaging products and hospital & furniture products.

Talking about business, last quarter the turnover of the company grew by 35% from 33.40 crores to 45.17 crores year-on-year. Also, the EBITDA grew from Rs. 4.69 crores to 6.57 crores which shows the upside of 40% in the same way. Our PAT growth was also on the similar lines. In Q2 FY21 PAT was Rs. 3.19 crores against Rs. 1.35 crores in Q2 FY20 which shows the growth of 136%. Along with this, our margin also got improved. EBITDA has witnessed improvement by 50 basis points to 14.54%. Also PAT margin has improved by 302 basis points to 7.06% year-on-year. Since quarter 2, we are focusing towards improving our margins and also have started the process of improving output efficiency of manufacturing equipment which had helped us to improve our bottomline as well as margins.

If we talk about growth experience by each product category, our packaging business has seen a growth of 27.84%. The hospital & furniture business grew by 98.05%. Automotive component business grew by 45.50% on year-on-year basis. So we have introduced some of the new products also in hospital & furniture. For the quarter our factories have been working at around

80% of capacity of our total available capacity. For the period, our working capital cycle was 67 days for which the improvement can be seen of 13% over the last year.

We are seeing the shift in the way people are this new normalized. Most of the houses are giving more and more emphasis on hygiene. Hence I believe the demand for our packaging products will see an upward trend. Also our packaging material does not have any scalable or user friendly alternative. Hence, we would also see robust demand in coming years.

The anti-China sentiment has also helped us in a multiple product categories like packaging where we are seeing the demand boost from the industrial packaging, also, one of the prime beneficiaries hospital & furniture part which is a pure import substitute. We were the first player in India to start manufacturing of hospital bed products. As we see in COVID-19 periods, maintaining a metal bed is becoming difficult for hospitals and with new normal their hygiene standards are expected high. We would see a lot of demand in this product and also since there are a very less competition in the category there are lot of scope for us to scale up. On China front we are also keeping eye on which major players are shifting their manufacturing base from China to India across industries that we cater to and how can we reap benefit out of the situation in hand. We are shifting our focus from the automotive component product to other product which are providing more profit and good growth opportunities. We are going to see the impact of lockdown in Europe on raw material sizes in the coming quarter and the company is well prepared for that and has already started taking the required measures. As I said earlier, we have started working on improvement of our operational efficiency. We have put various implementations in the place and expecting good results out of this activity in coming quarters.

Lastly, we would like to inform, our company has been awarded Compliance Champion SME 2020 at Compliance 10/10, 2020 hosted by Legasis Service for the continuous effort taken by the company to achieve better corporate governance.

So, now the floor is open for the questions and answers session, please.

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Nilesh Karani from Magnum Equity Broking. Please go ahead.

Nilesh Karani: The first question would be like, sir, as you told right now just like UK and all of Europe is going into lockdown, so basically we need to do then inventory management and you have to order your raw material in advance and all those things. How are we doing that? Can you just throw more light on that part?

Manish Dedhia: As soon as that US and UK and this other lockdowns have started, we are procuring some of the materials and we are keeping some of the inventories for next more months to run our factory smoothly where we are dependent on import of our raw materials.

- Nilesh Karani:** But then what would be that override, the cost and how would be your margin spanning out just rough idea about all that.
- Manish Dedhia:** Overall margin will not be affected because some of the material will be coming like when we have booked the materials, material will come in different days. We have kept that kind of arrangement and even if the lockdowns and everything goes little more, then the prices will go up somewhere we feel and hence we feel that the margin will not be impacted so much. But on other side, like we have a good order also. So at least we can run our factory 100 percent.
- Nilesh Karani:** So from here, if we say next two quarters, so we would be having a better growth than what we have seen right now or the growth would be stagnant or in line with what we have done like this?
- Manish Dedhia:** Definitely, there will be a good progress. So, this is just start up for the quarter as like after the lockdown. Definitely we will have a good growth for next two quarters as well.
- Nilesh Karani:** So, where is that traction building up? Where is that growth, where you see that growth coming from? Just if you can give us a rough idea about?
- Manish Dedhia:** The major growth is coming from both, packaging and hospital & furniture. So both we will have a very good growth.
- Nilesh Karani:** Sir, what is our current debt like in short term and what is our current debt in long term basis?
- Manish Dedhia:** So, overall debt is around 60 crores and yes there is some plans we are going to chop up in the next 2 quarters with this profit also is coming up now. So we will definitely have some of the repayment plans. So we are not trading it right now for repayment of the complete this thing because I will not say the new normal has started 100 percently but even the new second lockdown has started. So definitely we will have right now, we will be having some cash reserve with us.
- Nilesh Karani:** So going forward, even our margins will improve, like last time we discussed 4 points to 5 bps will increase our margins. So right now also the same margin for next 2-3 quarters or what, what would be?
- Manish Dedhia:** So, we expect little good margins than what we are doing right now. As I said we are doing lot of overall efficiency of our machines and all. So we are doing lot of changes in our plant side and we are able to achieve good production and hence we are doing the same. So definitely we are doing like improvement on a daily basis and we are monitoring the same also.
- Moderator:** Thank you. The next question is from the line of Mansi Shah, an individual investor. Please go ahead.

- Mansi Shah:** Congratulation on the number you have achieved and to follow that I just want to ask a question. Like, as you mentioned you have started optimizing the plants, what kind of optimization process we are doing?
- Manish Dedhia:** Very small changes what we are doing is, wherever the cycle times of the product we can reduce the mold changing time, the color changing time and the small issues we are taking and some of the numbers have come because of lot of consolidation done we have in last two years and now the results are coming up, consolidation plus expansion in the last one year time. So we have just built a new factory in the month of January 2019 and then we did some new takeover of some machines in the month of December 2019. So all this impact good results.
- Mansi Shah:** Sir, on continuing what you said, on that front I want to ask, what will be the margin improvement for the same and by what time the whole process will be completed?
- Manish Dedhia:** I will give you second question answer first. There is no completion because what we believe is the change is constant and improvement is constant. So we are doing everytime better and this is what the mantra we have. So how can we do better things everytime.
- Mansi Shah:** And sir, one more, my last question is, any expansion plans as of now. Do you have any expansion plan?
- Manish Dedhia:** Not as of yet right now. But we will definitely announce something.
- Moderator:** Thank you. The next question is from the line of Rajesh Gupta from SBI. Please go ahead.
- Rajesh Gupta:** Just wanted to ask you few questions. One with regards to your preferential allotment we did in 2018 to promoter, if I remember correctly at Rs. 155 per share. So, is there any lock-in period for this investment or did the people who have invested have they left the investment forum?
- Manish Dedhia:** So, we did in November 2017, preferential equity allotment. There was a locking period of one year from the allotment date from January 2018 to January 2019, that is it.
- Rajesh Gupta:** So they are already executed or they are not in there in the list, right?
- Manish Dedhia:** No, they are not into lock-in period.
- Rajesh Gupta:** Have they sold or still they are in the company as in....
- Manish Dedhia:** I think individual because I don't know, means there is a lot of deal going on but...
- Rajesh Gupta:** No issues, sir. And sir, you did well in terms of EBITDA but the margin if I look at on a sequential basis it had dropped by around 100 basis points approximately. So, while you are

doing good, enhancing your EBITDA the margin continues to really suffer little bit. So, how sustainable these margins are and is there something to do with the higher raw material cost because we have seen a spike in the crude based derivative product. So, can you throw some light on that?

Manish Dedhia: Yes, definitely there is a good demand supply gap in our raw material which was HDPE initial years, that is the last quarter and the prices were little higher in this quarter too. And definitely there is a little impact on the raw material price. But going forward, I think price maybe remain same or little go up on the Q2 level. So margins and your another question was like this margins are sustainable, yes, it is, margins are sustainable. As I said we are doing lot of improvement in day today activities as well as we are doing lot of this customer base also, wherever our raw material prices increases and then we ask them to give us increment in the prices and I think everyone knows that the prices are going up and yes they are giving us same increment.

Rajesh Gupta: Can you give us some more details about your packing business? Is it more into B2B or B2C? Are you into more granular packaging business or it is basically mainly mean for large packaging?

Manish Dedhia: Mitsu Chem Plast Limited is one of the companies in India who is having a largest range from 100 ml to 250 L under one roof. So all my factories having the same range and we have different sizes like from 100 ml to 250 L and right now very good demand from all the sizes of products. Majorly, if you ask me, majorly 200 L and above there is a big demand.

Rajesh Gupta: So, I think this mainly means for B2B packaging?

Manish Dedhia: Yes, completely B2B. We are into completely B2B.

Rajesh Gupta: And who are your customers in this segment, sir?

Manish Dedhia: Customers are chemical giant, you can take bigger names, pharma giants like you can take some of the names and Lube oil, these are our major customers and also we supply to pesticide customers as well.

Rajesh Gupta: And you are there on the BSE. Last time we discussed, you said that shortly we are going to get listed also on NSE as well. So any movement or rather any progress on that?

Manish Dedhia: Unless and until NSE change some criteria. So right now I am fitting into that criteria. But I think I just heard something is going on with the criteria like whatever the BSE SME company can also migrate to that. So I think that talk is on and I think it is already 3 months passed now. We do not know the exact results but I think something is going on. So if we are eligible, definitely we will be going into main board, this NSE also.

- Rajesh Gupta:** And sir your automotive business, what is situation there? Have we seen any because currently what we see is only OEMs are doing well. What were the impact on the auto ancillary companies, I mean what is your presence in that segment and if you can just give some details?
- Manish Dedhia:** Overall presence of that segment is very less compared to other business and we are now not too much focusing on that area. But as you said overall automotive growth will come up in next year time, it looks like. Right now, we can see in the papers the good figures coming up. But yes, that is a good inventory also with them. So people hiring inventories and all the things are there. So I feel automotive sector will maybe back, for ancillary specially by next year, looks like.
- Rajesh Gupta:** Sir, for 6 months you did some Rs. 77 crores of turnover, if I just extrapolate this number it could be Rs. 140 crores for FY21. So where do you see this number really scaling up, I mean what is it basically vision for next 5 years?
- Manish Dedhia:** Perfectly right. I understand the question. So maybe I can go on that. So I think whatever we have achieved in this quarter, 3rd and 4th quarter will remain same or little more than that.
- Rajesh Gupta:** No, my question basically is more long term in nature, sir. I am looking for the answer let us say for 4 or 5 years. I mean, where you see as a small, let us say, MSME company really getting into a 300-500 crores club. So what is the time horizon or what is the vision that you can share with us for next 4-5 years?
- Manish Dedhia:** Our vision is, like our management vision is like we have to achieve 500 crores turnover in next 3 to 4 years and I think we are working towards the same. Little bit, I think we are not going leaps and bounds, but we are going little slow. But yes, we have some vision that 500 crores turnover should be there with at least with a very good margin of PAT.
- Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.
- V.P. Rajesh:** My first question was, just trying to understand your business a bit better. What percentage is coming from the hospital & furniture and are there any other verticals like auto or others where you are getting your significant percentage revenue from?
- Manish Dedhia:** Hospital & furniture around 12% of total turnover and the major is industrial packaging only. That is around 86%.
- V.P. Rajesh:** So when you say industrial packaging and I see your client list here, but if you can just give a little bit more color on that, should just one assume this picture that you have in one of your slides here, there are different kind of containers. Is that what one should understand when you say industrial packaging?

- Manish Dedhia:** Yes.
- V.P. Rajesh:** And then you were saying something about auto and I wasn't very clear as to why you are deemphasizing auto?
- Manish Dedhia:** Because of the market only, because we have some limited production capacity right now and we have other business surging good and some of the good margins are there. So we might decide on whichever the better margins business and we will definitely go forward to that business. So example like, if industrial packaging or hospital & furniture gives better margin and better things, then we will definitely switch over from automotive to other business because right now automotive business is not that lucrative and that good.
- V.P. Rajesh:** I see. And do you have any CAPEX plan in the near term that you have announced or pan India announced?
- Manish Dedhia:** Yes, look like. But maybe we will announce in some time.
- V.P. Rajesh:** And my last question and I will get back in the queue is about your cost. So you are obviously very heavily dependent on the crude, I am assuming and to the extent oil prices go up and down, you benefit or take a hit. How does it work with the customer, do you get a pass through, can you pass the cost to the customer or you have to just handle it internally within your system?
- Manish Dedhia:** Definitely we will get. Some of the cost we get immediately. When sometimes they increase small prices which we don't get immediately, but yes, if the prices go up by around 3% to 4% plus then yes, definitely we have to go up with the customers and we have to take that thing.
- V.P. Rajesh:** And do you have any long term targets as to where you think this business could be in 3 to 5 years?
- Manish Dedhia:** As I just said to Rajeshji that yes, our vision is around 500 crores in next 3 to 4 years, that is our vision.
- V.P. Rajesh:** Sorry, I did hear that. But what would be the EBITDA margin associated with, you are at 500 crores...
- Manish Dedhia:** Whatever we do, turnover, but EBITDA margin it definitely will be the same, but right now 15% or 17% that will be the minimum. But definitely the work, see, the larger the turnover obviously your EBITDA margin also will increase little bit. But the minimal 15% to 16% EBITDA level we will have to follow.
- Moderator:** Thank you. The next question is from the line of Kranthi Bathini from Wealthmills Securities. Please go ahead.

- Kranthi Bathini:** Just want to know what are the segment that causes the revenues to go up? Can you just share? And what are the segment which you foresee there will be a further pent up demand you can foresee in the next coming quarter?
- Manish Dedhia:** So, majorly will be, again two major things, industrial packaging and hospital & furniture only. For the next two quarters what we are targeting, so I think it will remain the same. Industrial packaging and hospital furniture almost same percentage will remain.
- Kranthi Bathini:** But if you see the sequential quarters, last quarter to current quarter, the revenue improvement came from which segment?
- Manish Dedhia:** See, it is 6% comes from industrial packaging and 12% came from hospital & furniture and the others like 2% was there, automotive components and other things.
- Kranthi Bathini:** Now, coming to, due to this pandemic and all the hospitals are increasing their bed count. There is lot of exercise was going on. That has affected you positively because hospitals are planning to increase their number of beds and all, that is subsequently your demand might go up?
- Manish Dedhia:** Even our Prime Minister Shri. Modiji also announced a big package on a health this thing, in the last budget and definitely there are good medical facilities going on in India and hence the requirement is going up, drastically up.
- Kranthi Bathini:** Sir, you see this segment can be, you can see further improvement?
- Manish Dedhia:** Yes, very good improvement.
- Kranthi Bathini:** How the margins in this segment, sir?
- Manish Dedhia:** It is a better margin than packaging things.
- Moderator:** Thank you. The next question is from the line of Shanti Patel from SP Investments. Please go ahead.
- Shanti Patel:** What is our PAT margin, profit after tax margin today and what is our return on equity and return on capital employed today? And do you think that when the turnover will reach 500 crores it will remain same or probably it will go down or go up?
- Manish Dedhia:** Yes.
- Shanti Patel:** I think my question is clear now.
- Manish Dedhia:** Right now return on equity is annualized around 36.51% and compared to last year it was 13.17.

- Shanti Patel:** So it has jumped from 13 to 36?
- Manish Dedhia:** Yes, annualized. And we are calculating with this quarter. Annualized effect it will be 13% to 36%.
- Shanti Patel:** So that mean, return on equity for full one year is approximately 36?
- Manish Dedhia:** Yes, sir.
- Shanti Patel:** What is our PAT margin? Profit after tax margin?
- Manish Dedhia:** Our PAT margin has gone up by, we have done Rs. 3 crores 18 lakhs.
- Shanti Patel:** No, in terms of percentage, means profit after tax?
- Manish Dedhia:** The PAT margin is 7 point odd percentage.
- Shanti Patel:** That is I think too low. I don't know but I think it is. And will you think that same will remain when you touch your turnover of 500 crores?
- Manish Dedhia:** No, definitely the PAT margin will improve. This is a very capital intensive industry. So definitely once we have invested, so now this will come up. So definitely profit margin will increase. So here even as soon as you do more turnover, definitely your margins will increase.
- Shanti Patel:** But then the return on capital?
- Manish Dedhia:** So return on capital employed right now 38.54% annualized, which was last year was....
- Shanti Patel:** That is right, sir. But when you reach turnover of 500 crores, will the return on equity will be the same or it will go down or go up, probably?
- Manish Dedhia:** Probably it will go up.
- Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.
- V.P. Rajesh:** One question is, what is your current capacity utilization?
- Manish Dedhia:** Around 79%.

- V.P. Rajesh:** My other question was that, how are you seeing the demand from the industrial customers? Is it increasing, is it getting better month-on-month or is it still very subdued? Just wanted to get some color as to the kind of demand you are seeing?
- Manish Dedhia:** It is growing. Demand is coming up very good. So after the lockdown opens very good demand came up and yes, still the demand even in the October month also was very good and so on this month as well. So demand is coming up. People have I think started buying lot of things.
- V.P. Rajesh:** And at what capacity level, what is your maximum capacity level in practical terms, obviously theoretically it is 100%, but practically it is 79...
- Manish Dedhia:** 100% because we are talking about whatever we are doing, 79% which is achievable things, always achievable. So we can do, achievable 100%.
- V.P. Rajesh:** And then could you increase that 100% further by adding shift or that is technically not possible?
- Manish Dedhia:** It is very difficult. It is not impossible, but it is very difficult. So somewhere we have to change lot of things. So maybe again we have to use some capitalize of the products or maybe we have to bring some new machines and new molds.
- V.P. Rajesh:** And do you have the infrastructure to do this incremental brownfield CAPEX or you will have to put up a new unit entirely fresh?
- Manish Dedhia:** Right now, yes, we have some infrastructure already ready. So we have built up our new unit and there is an infrastructure already ready with us.
- V.P. Rajesh:** So, what will it do to your capacity then? How much are you planning to add?
- Manish Dedhia:** That depends on the machine. So we have not yet decided. But yes, if we decide something this will be in the same premises only.
- V.P. Rajesh:** I see. Then on the customer side, what would be the percentage revenue contribution from your top 10 or top 20 customers?
- Manish Dedhia:** We are generally running with a 80:20 rules. So my 20% of the customers are giving me 80% of the revenue.
- V.P. Rajesh:** I see. And if I say top 5, what will be that percentage?
- Manish Dedhia:** Top 5 is giving me around 58% of turnover, to be very precise.



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- V.P. Rajesh:** So you have lots of customers which are more than 10% of your revenue or it will take just 1 or 2 very large customers?
- Manish Dedhia:** Three customers are very large and the rest are some different numbers.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Vastupal Shah for closing comments.
- Vastupal Shah:** Thanks 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 again many thanks for joining the call. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Kirin Advisors that concludes this conference. Thank you all for joining us and you may now disconnect your lines.