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Dear Sir / Madam,

Scrip Code: 502219 **Symbol: BOROSIL** **Series: EQ**

Sub: Transcript of Institutional Investors and Analysts Conference Call

We enclose transcript of conference call with Institutional Investors and Analysts which was held on July 25, 2018.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Borosil Glass Works Limited

Gitayadav

Gita Yadav
Company Secretary

Encl: as above

BOROSIL®
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"Borosil Glass Works Limited Q1 FY2019 Earnings Conference Call"

July 25, 2018

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CHORUS CALL

ANALYST: **MR. ROHAN GUPTA – EDELWEISS SECURITIES LIMITED**

MANAGEMENT: **MR. SHREEVAR KHERUKA - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - BOROSIL GLASS WORKS LIMITED**
MR. SWADHIN PADIA – CHIEF FINANCIAL OFFICER - BOROSIL GLASS WORKS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Borosil Glass Works Limited Q1 FY2019 earnings conference hosted by Edelweiss. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing "*" then "0" on your touchtone telephone. This conference is being recorded. I now hand the conference over to Mr. Rohan Gupta from Edelweiss. Thank you and over to you Sir!

Rohan Gupta: Thank you Vikram. Good evening ladies and gentleman. On behalf of Edelweiss, I welcome all the participants logged in for this conference call of Borosil Glass Works Ltd. From the management, we have Mr. Shreevar Kheruka and Mr. Swadhin Padia to discuss their quarterly result performance and the industry trends. Good evening gentlemen.

Shreevar Kheruka: Good evening.

Rohan Gupta: Good evening Sir. Sir thanks a lot for giving us the opportunity for arranging this conference call for our clients. I will first request you to take us through your quarterly results performance and then some industry trends and then we can follow it up with the Q&A session Sir.

Shreevar Kheruka: Greetings and welcome to everybody to this investor call to discuss our performance for the first quarter and our business outlook going forward. Our CFO, Swadhin Padia is also with me on the call. We concluded our board meeting yesterday and have uploaded the results and an updated presentation on the company's website and those of the stock exchanges. Earlier yesterday, the company also held its AGM. As some of you are aware, the board had proposed a bonus issue of three shares of Re.1 each for every share of Re.1 held. At the AGM yesterday, the shareholders of the company approved this bonus. The record date for this bonus is August 3, 2018.

I will now briefly run through the highlights of Q1 and other recent developments and then open it up for questions that we will be glad to address as best as we can.

Q1 has gotten off to a very good start with all the business lines performing well. Our overall revenue was 107.7 Crores. This includes the revenues of the two subsidiaries - that is Klasspack and Hopewell Tableware. This shows a growth of 46% over Q1 FY2018. A part of this growth can be contributed to a low base last year as the impending implementation of GST round the month of June had impacted certain trade sales. Having said that, the growth is still very strong and puts us on a very good wicket to achieve a satisfactory growth during the financial year 2019. Another point to note for this particular quarter, is that we have also implemented Ind-AS 115 which necessitated some change in accounting for revenue.

The net impact on this has an increase of sales by approximately Rs.6 Crores. Without the benefit of this impact, the growth would have been 38%, which is still a very appreciable number. The scientific products in fact have been the key beneficiary of this Ind-AS change. Although it shows 46% growth without Klasspack in the presentation, net of the Ind-AS change, the growth was 12.6%, which is in line with our medium-term outlook. In our estimates, the market share remains well over 60%. In fact, we believe that we have gained some market share this quarter. Klasspack has added new customers to its list over the last year and efforts to get empaneled with other leading pharma company in the country continues. This can create a moat around our business, as our customers will limit the number of the approved suppliers.

During Q1 FY2019, Klasspack achieved a sale of close to INR 10 Crores, which was a growth of 40% over the first quarter last year. In LabQuest, we have begun doing product design and development through our 100% subsidiary Borosil Technologies. All this being included the total Lab Ware portfolio recorded sales of INR 44.8 Crores in the first quarter, a growth of 45% on the same period in the previous year. Net of Ind-AS changes this growth would have been 19%. The consumer product portfolio achieved a revenue of INR 63 Crores in this quarter, which is a growth of 47% over Q1 last year. Net of Ind-AS changes, the growth would have actually been higher at 51%.

Products under the flagship Borosil brand grew by 42%, aided by very encouraging response to some of our new product lines. In the Opal ware segment Larah by Borosil recorded sales of INR 25.6 Crores registering a growth of 54% over the same period in FY17. In the consumer product portfolio, particularly in storage and in a Larah we are supported by a tailwind, which is helping us to deliver great growth numbers. There is growing awareness about the harmful effects of using plastics for food storage and dinnerware. We envisage a big opportunity to convert usage of plastics in the kitchen and on-the-go products such as lunch boxes and flasks to much healthier glass products and some high-grade steel products under the Hydra range.

We are focusing on increasing our range of SKUs while we cull our slow-moving SKUs in the long tail. In order to increase the availability, we are working on increasing the reach as well as depth of SKUs within stores. Our team is also increasing its thrust on e-commerce sales, which can become a very meaningful channel in the medium term.

Coming to EBITDA margins; EBITDA from operations were standing at about INR 13.8 Crores, although net of Ind-AS, the figure would have been INR 11.6 Crores. The operating EBITDA margin has increased from 8.4% to 12.8%. The company has begun reaping the benefits of operating leverage. Q1 is the lowest in general. We find, we have been able to increase our margins in a meaningful manner and that certainly bodes well for the coming few quarters.

In Larah, we have been talking about an expansion as well as improvement in the efficiency by addition of a new furnace. That has happened and the furnace has stabilized and efficiency have improved. We have registered a growth in the EBITDA margin in Larah from almost 1% to 13%, in the first quarter. Borosil registered a PAT of INR.10.5 Crores as compared to INR5 Crores in the first quarter last year.

Coming to medium term outlook - it is now two and a half years since we acquired Hopewell with (including the brand Larah) and just under two years since the 60% acquisition of Klasspack. I am quite happy with the way integrations have progressed in both cases. Our acquisition assumptions are playing out. In Larah, we have been able to increase retail reach and marketing initiatives have also borne results with the brand reaching the INR 100 crore mark last year. In Klasspack, we have been able to leverage Borosil's customer relationships and have got Klasspack impaneled with a number of new customers including some of the top pharmaceutical companies in our country. We have clearly identified our pillars of growth and believe we are well placed to achieve a figure of revenue growth in the high teens in the medium term.

In the scientific portfolio, we continue to get a steady growth from a strong franchise of longstanding customers, and we have over 60% market share here. We will offer the LabQuest range of products to the same customers. This is a market for import substitution, which is more value for money for our customers. We continue to grow the number of customers for Klasspack and we are building on the export markets of Middle East, Africa and South East Asia.

In the consumer products portfolio, we expect steady growth in the core range of microwaveable products. In kitchen storage and on-the-go products, we will see the rising awareness on the health benefits of using glass as well as the aspiration to use better design as a big trend and we see the potential to leverage off the trend to grow rapidly in these two categories. Larah has the advantage of Opal ware being intrinsically a superior product by product attributes as its lighter, tougher, chip resistant, and easy to clean and also being vegetarian. While keeping all these attributes, we are still quite price competitive with substitutes such as melamine and bone china. There is an opportunity to grow the market without having to aggressively fight for market share. New products will be a focus of both storage and Larah. We will continuously improve designs to enhance utility and induce fresh and appealing SKUs in line with the latest trend.

Currently we have a presence in the kitchen appliances segment. We will focus on offering products of superior quality and benchmark with the best in class. Our objective is to offer differentiated niche products and build this as a future pillar for growth. We are strengthening our multichannel sales infrastructure to support all these lines by increasing the retail reach in general trade, increasing the listing of the products in modern trade and providing an impetus to e-commerce.

EBITDA margins will expand further as company gets scale benefits by absorbing our overhead specifically in marketing on a larger base. While the company will continue to invest in marketing and brand building, sales are likely to grow faster than we expect marketing expenses to increase. The company completed the upgrade of the Jaipur factory, which manufactures Larah. Efficiency gains are expected to improve the Larah cost structure. Higher volumes will also translate into optimizing freight cost by utilizing more full truckloads. We expect to improve EBITDA margins to between 15% and 20% over the next three years.

Most of you are aware of the new scheme of amalgamation that the company and board has approved. We had discussed this over a call with many of you last month. The details are available in the investor presentation uploaded on our website. As I mentioned then, this is subject to the approval of shareholders and all relevant authorities and we expect that it will take about 9 to 12 months to implement.

Another point to note is that in July this year, we have increased Borosil stake in Klasspack to 70.2% from 60.28%.

In conclusion, I would like to say that my team and I continued to be excited about what lies ahead for Borosil. We feel confident about building a strong business with a long runway of growth accompanied by improved margins.

Another point I would like to share is that we have recently tied up with the Indian Olympic Association for a period of six years as a hydration partner. We believe that we must support our Indian athletes who go out and represent the nation in various disciplines such as track and field, judo, wrestling, boxing etc. We believe that this will be a good association for Borosil as well as for IOA in the times to come and we expect that both entities will draw a lot of benefits from this association. I am now happy to take questions that you may have. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Varun Balachandran from Catamaran. Please go ahead.

Varun: Hi good afternoon. Thanks for taking my questions. I have three questions. One is I think you mentioned that the new furnace work has completed and the products from the new furnace are out in the market. Could you just talk a bit about the product quality, coming out of this new furnace in terms of where it was versus what you are targeting. Number two is more from a market angle, the growth numbers are obviously very strong, so could you give us a sense of whether the growth is coming from some adjacent products like melamine and bone China or do you think that the company is winning the market share against competition as well. What is that mix like? The third part is about the online channel. I think you have mentioned that that is also an important channel for the company. Could you outline how you are thinking about it? Do you have a plan for separate products for online? What are some other challenges in dealing with this channel?

Shreevar Kheruka: Thanks for your questions. I will answer the first one. We have achieved efficiency improvements in Larah. One of the biggest benefits that we have with the new production line and the superior technology that we have used is that we are able to draw a higher pull from the furnace. We are able to expand the product portfolio. Earlier we were providing only one shape in plates called fluted rings. Now with the new technology, we will be able to successfully offer two other designs. The additional number of ed shapes of plates and cups and saucers and bowls is definitely adding to the variety of the products available in the market. That is helping us to grow the market to refer to another question, which you had about where the growth is coming from.

Varun: Shreevar sorry, could just touch upon the quality as well, it would be helpful.

Shreevar Kheruka: Yes, so we have improved the quality of the upstream product that is called whiteware. We have added a couple of very high-end new tempering lines, which have certainly improved the strength as well our capability in producing new shapes with consistency. We believe that the quality has improved substantially and we are now benchmarking ourselves with the best players in the international market. We are quite satisfied with the improvements in the quality and the general feedback we have got from the trade is also similar. That has also perhaps reflected in the improved numbers.

Varun: Got it. Sure. Thank you.

Shreevar Kheruka: So, coming to the other two questions on channel and whether we are gaining share from competitors or whether growth is coming from category growth. I believe that most of our growth is coming from category growth. I do not know the numbers for competitors yet, as they have not declared their results yet. However, my sense is that even the competitors are growing.

Varun: And what exactly is driving category growth? Obviously, GST has had some impact on unorganized players, but beyond that could you explain a bit about what is driving the growth?

Shreevar Kheruka: It is good question and I do not have a specific answer for you on that. I definitely think that the availability of the product, both ours and that of the competitors is helping to grow the market. There is a multiplier effect which happens where the consumers come across the products and even the retailers tell them about the benefits of Opal compared to the problems in Bone China or Melamine for that matter. In the case of bone china, India has recently imposed an antidumping duty from China, that is bone china from the country China. As a result of that prices might have gone up and that is helping category substitution.

As far as the e-commerce is concerned, we have put a team together to focus on this channel. Earlier we were selling only through Amazon. Now we are on Flipkart as well and a few other listings are happening as we speak. I think we are now much more focused on e-commerce and that is driving the growth in a very healthy manner for us.

Varun: And what is the aspiration for online channels in the near-term?

Shreevar Kheruka: I cannot give you a number. I think overall e-commerce should end up being 10% to 15% of the sales in the next couple of years.

Varun: Thank you.

Moderator: Thank you Sir. We have the next question from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Thanks for taking my questions. I have two questions. On the Opal Ware space, the industry has potential and we are expanding distribution and we are launching newer products. Yet despite the small base why cannot the growth be higher? What are the biggest challenges in the Opal Ware space to grow faster than what we are currently doing? That is the first question and in terms of – the 100 odd Crores sales number, which you have mentioned, how much of this could be in the top 10 cities and how much beyond that?

Shreevar Kheruka: As far as the second question you asked I am sorry I cannot share the data with you. On the first question, there is growth of 54% in the first quarter, which I think is a fairly decent number, I am sure you to agree. I do take your point on the fact that it is a small base. However, to grow one needs a number of things. Of course, a range of products is one of them. We need to have strong distribution reach. We need to make sure that our outstanding do not increase. I am sure I could increase sales much more if we were to relax our polices on outstanding, and our credit policies. We do not mind sacrificing very high growth for sustainable growth. We would rather take decisions that are long term that are in the best interest of the organization as well as our channel partners. So, for example, we do not like to dump products on them and hope that they will sell. We do not give material on consignment. Those are things that we typically avoid doing even if they'd suddenly increase our growth trajectory. I more than happy with the current growth because this is sustainable growth.

Prakash Kapadia: What is the – credit cycle when you – plan your business?

Shreevar Kheruka: It depends on the channel, where it could be anywhere from 30 days to 90 days.

Prakash Kapadia: And over the last 18 months, what has been the scaling in terms of our retail reach and what is the potential? Do you have a particular number you in mind for this year in terms of our reach?

Shreevar Kheruka: Our distribution numbers are shares in the presentation. We have about 200 odd distributors and more than 10000 retail outlets. I anticipate that we would increase our distribution by maybe 7 to 10% in terms of both distributors as well as retail outlets over the next two to three years each year.

Prakash Kapadia: For retail outlets, what is the potential for growth? Could 20000, 25000 outlets be meaningful?

Shreevar Kheruka: There is no specific third-party data available for retail reach in our categories. According to our own internal estimate is at about 18000 to 20000 retailers for this product category. However, in most cases like in large cities you have 10 retail outlets right next to each other. Not all 10 of them will stock the products. So, you can never get 100% of that. I think if we can go to 13000 to 14000, then we would be in a good position.

Prakash Kapadia: Understood. Thanks. All the best. I will come back if I have more questions.

Moderator: Thank you Sir. We have the next question from the line of Sourabh Shah from AUM Advisors. Please go ahead.

Sourabh Shah: Congrats on your good set of results. One question more on the market - you mentioned earlier about two sources of growth. What is the price gap between your Opal ware product versus items in steel and plastic and the Bone China products?

Shreevar Kheruka: So, steel is all over the place in terms of cost. However, if you look at Bone China or Melamine, which are the two other categories, I think Opal dinner sets are now cheaper than both of them in general with various schemes and discounts available. So, the pricing is already quite aggressive if you ask me.

Sourabh Shah: What kind of price range would that be versus Bone China and Melamine?

Shreevar Kheruka: I think they will be about 10% to 15% cheaper. For instance, a 27-piece dinner set from Larah may have an MRP anywhere from INR 3000 to 3500. You may see a Melamine dinner set of INR 3500 to 4000, so there would be a 10% to 15% difference. Similarly, in Bone China, you do not really get dinner set, but if you want to put together a dinner set by buying loose products it may add up to a value even higher than Rs.4000. So, in my view, we are certainly not only a better product category, but we are also cheaper than melamine and bone china. I think that is what is driving the substitution towards Opal.

Sourabh Shah: So, it is more Bone China and Melamine, which are usually priced about 10% to 15% higher. Now with this Bone China antidumping duty as well, this proposition could be much better for the consumer with the advantages that Opal has. Any idea about the market sizes for Melamine and Bone China?

Shreevar Kheruka: Our estimates are internal. We think Bone China would be about INR 600 to 700 Crores, and Melamine about INR 300 to 400 Crores, although my market information is Melamine is not growing at all maybe even declining. Similarly, in Bone China my understanding is that the companies in India are doing well primarily because the imports have really reduced.

Sourabh Shah: So, these are the small markets. It sounds like the steel market is the really big one. You are at INR 500 Crores in the Opal ware space and melamine and bone china combined sounds like 1000 Crores. Maybe that move from steel has to come in to really give you the growth from a multiyear perspective, right?

Shreevar Kheruka: That is right. It will happen across categories or especially in Opal. I hear of many examples of people even at lower ends of the income strata buying Opal in place of steel. These are largely anecdotal, but I certainly think that opal is becoming a mass market product.

Sourabh Shah: Next question on this competitive pressure, you had an incumbent and now from last year you have another competitor. How are you seeing price points especially in the last quarter, have you seen pricing pressure? Is anybody passing on higher margins to retail to increase their market share?

Shreevar Kheruka: See I can tell you that our average pricing has improved in this quarter compared to the quarter before. It is driven partly by product mix. Of course, you get tie-ups with various B2B or large format stores, which are meaningful in nature. So, you could always find someone selling some stock at a very low price, but in general I do not think we are seeing a lot of pricing pressure in terms of prices drifting downward. In fact, we have been able to successfully improve our price realizations in this quarter.

Sourabh Shah: So apart from the mix you have been able to increase pricing for products?

Shreevar Kheruka: Yes. The product mix is the larger part, but we have been able to pass on increases in costs of imports and fuel and so on to the end customer.

Sourabh Shah: And the competitors - have they been able to increase pricing?

Shreevar Kheruka: There are two factors of pricing that is MRP, which is what the customer buys for and then there is a distributor price. So typically, even if you do not increase MRP, you could still improve your own pricing as the manufacturer by reducing discounts right.

Sourabh Shah: For the manufacturer not the MRP?

Shreevar Kheruka: That is right. I do not think there has been much change very frankly, except playing around a little bit on the schemes and the discounts. So, for me it is very hard to comment on whether others have been able to improve their realization or not. We are amongst the first to have declared results and will have to wait and watch. But at the MRP level, my information is that there have not been any substantial changes in the last quarter.

Sourabh Shah: Great. Thanks again and best of luck.

Moderator: Thank you Sir. We have the next question from the line of Pravin from Edelweiss Broking. Please go ahead.

Pravin: Congratulations on a very good set of numbers. Can you give some details on the scientific portfolio excluding Klasspack, where you have delivered very healthy numbers? Can you give a breakup of where you got how much of the growth from?

Shreevar Kheruka: So, as I shared with you in the opening remarks, the scientific portfolio numbers which are shared on slide #3 shows a 46% growth and we have made a note at the bottom that we adopted Ind-AS 115. Without taking that into account the actual growth in scientific was 13%. Klasspack would remain the same at 39%. So overall the labware or scientific products division growth would be at 19%. The growth of 13% odd in lab glassware is more or less in line with the long-term trends. There has been no specific contributor to this. It is just overall market growth.

Pravin: Just coming to Opal, the competition has three different price points with three different brands. Are we planning something similar?

Shreevar Kheruka: As I mentioned earlier we have improved the quality of our products after installing new production lines. We have launched a new series called the moon series, which is with premium packaging as well and that is priced about 15% to 20% higher than our current price points. I believe that the early market response has been very good but we have to still wait and watch. We are not calling it a separate brand because we believe that may confuse consumers. The name is Moon, but it is still sold as Larah by Borosil. We have got good traction and a good order book. So, at the moment we are not thinking of any change in that strategy.

Pravin: You have explained the distribution channel mix in the presentation. Can you throw any light on the geographical mix as well?

Shreevar Kheruka: The north continues to be the largest area for us. I think more than 40% of our revenue comes from north, followed by west then east and then south. In the west things have improved for us. On earlier calls, I mentioned west and south are little bit weaker for us, but we are seeing substantial improvements in the western geography. Although there is a long way to go there, we believe that we are moving in the right direction as far as our distribution strategy is concerned. That is definitely resulting in good growth numbers.

Pravin: And lastly Sir on your existing customer ware business, there also we had seen good numbers. Can you give some details like how the storage segment and the microwaveable segment has done?

Shreevar Kheruka: So, we do not split the numbers, but I can tell you that storage is driving the growth for us. And microwaveable is also growing in double digits, but the storage segment is definitely the growth driver for the consumer portfolio along with Larah.

Pravin: Okay. Thank you, Sir. Thank you for taking my question. All the best.

Moderator: Thank you. We have the next question from the line of Nitesh Kumar Jain from HUL. Please go ahead.

Nitesh Kumar Jain: Sir can we have a bifurcation what is manufactured in-house and what is outsourced for manufacturing and what is the revenue in terms of that?

Shreevar Kheruka: I cannot give you any further bifurcation than already given. I can just tell you that all the products for Opal and Klasspack are manufactured in house. In the scientific products most of the products are manufactured in-house but in the consumer products of Borosil, there are some which are manufactured in-house and some which are outsourced. Beyond that I cannot give you exact details.

Nitesh Kumar Jain: Okay, another question was regarding the demerger, why they have not directly demerged into a new company against consolidating into one company and then going in for demerging?

Shreevar Kheruka: We were advised PwC and from all perspectives from regulatory as well as the tax perspective, this was the most efficient way to do it.

Nitesh Kumar Jain: Okay the real estate what we are developing in the company, will remain with Gujarat Borosil Work or it will be moved to Borosil?

Shreevar Kheruka: No. Whatever real estate assets Borosil Glass Works Ltd currently has, will move into Hopewell Tableware Ltd which will then be renamed Borosil Limited.

Nitesh Kumar Jain: Okay, any plan for developing that real estate?

Shreevar Kheruka: No, we are not in the developing business.

Nitesh Kumar Jain: So, what is the reason for forming a different subsidiary?

Shreevar Kheruka: There are certain good reasons, which I cannot get into in great detail during this call. However, in order to the highest price we can get for that asset, we would need to take some permissions and those permissions come in the name of the company. We did not want the permissions to come in the name of the parent company that is Borosil Glass Works Ltd.

Just to add, I was saying that as a part of this merger, demerger, Gujarat Borosil will also become a separate company on a standalone basis without any holding from Borosil Ltd. That is clear I hope.

Nitesh Kumar Jain: Thank you Sir.

Moderator: Thank you Sir. We have the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir on distribution, you said currently we have 10000 touch points and 200 distributors. What is the overlap with the Borosil new ranges and microwaveable products?

Shreevar Kheruka: As far as Opal is concerned, we are probably in about 6000 retail outlets. Very few outlets will have all the ranges and it depends on the type of outlet. Most of the outlets will have vision glasses and mixing bowls which are a part of the core range. As far as the new ranges such as storage and hydra and Larah are concerned there will be a skew. I would say that there would be overall 60% to 70% overlap amongst many of these product categories.

Ankit Kedia: And Sir how are the synergy benefits coming in? Typically, the same sales guys will sell a larger bouquet of products at each retail touch point. So what synergy benefit have you been driving out of that?

Shreevar Kheruka: It is good question, I think. There are two types of synergies. One as you rightly pointed out is the leverage of the sales teams. While the sales persons' salary costs and travel costs remain more or less the same, we are now able to sell a much a bigger bouquet of products than in the past. The second synergy, which is possibly even more meaningful, is in marketing. We market the products and brand as Borosil and build consumer trust around the name. Consumers remember Borosil and even though we may have done a marketing campaign for our lunch box, when people see Borosil on a steel bottle there is brand name recognition. So, I would say these are the two key synergies, which are driven by building a bouquet of products.

Ankit Kedia: Sure, Sir coming to the marketing, what is the marketing budget for this year and will we have a separate ad campaign for Opal ware category or will it again be a common ad campaign like the no plastic campaign we have done?

Shreevar Kheruka: Yes, we will have a separate ad campaign for Opal. In fact, going forward, our marketing expense may be 13% or 14% of revenues. So, it is a substantial number.

Ankit Kedia: Sir over the next two years would bulk of the growth come on back of volume or we are also looking at price increases given that the pricing is at the lowest in the last three years for the Opal ware category and it is currently cheaper than bone china and melamine despite being a better-quality product?

Shreevar Kheruka: We are focusing more on volume growth at the moment because the penetration needs to improve. There will definitely be some improvement in pricing, but I do not think it will be substantial compared to the volume improvement that we will be looking forward to.

Ankit Kedia: So currently post the new furnace what is the capacity and what are the utilization levels?

Shreevar Kheruka: I think overall if I look at it in revenue terms, if we run the new furnace at full capacity we could probably do around INR 180 Crores. This year we will probably be at about 80% capacity utilization.

Ankit Kedia: Thank you.

Moderator: Thank you very much. We have the next question from the line of Rudhir Barma from KSA Shares and Securities. Please go ahead.

Rudhir Barma: I was wondering if you could tell me whether there would be any significant relater party transactions after the scheme of amalgamation comes into play?

Shreevar Kheruka: Well, all companies will have some related party transactions. Borosil for example will have subsidiaries like Borosil Technologies and I do not know if we can have zero related party transactions. However, I think this will cut down most such transactions

Rudhir Barma: So, which is fair, which is again within the listed space, I am talking about outside…?

Shreevar Kheruka: No, I do not think that there will be any.

Rudhir Barma: Great and the second question is regarding the market share. In the Opal Ware business have we been gaining market share?

Shreevar Kheruka: Well, in the last year we have certainly gained market share. During this specific quarter, I cannot comment. Like I said earlier I do not know the numbers of our competitors yet, so it is difficult for me to actually answer that question.

Rudhir Barma: Okay, fine. That is, it from my side. Thank you.

Moderator: Thank you Sir. We have the next question from the line of Rakesh Jain from Asit C Mehta. Please go ahead.

Rakesh Jain: Congrats on a good set of numbers and thanks for the opportunity. Sir my first question is on Klasspack, Sir last quarter we knew that the we are operating at 65% utilization and that is almost similar kind of revenue in the current quarter, so why do we see a dip in the EBITDA margins from 9 to 3%. Secondly, in what timeframe can we expect the Klasspack margins replicating our core SIP division margins?

Shreevar Kheruka: So that is the good question again. One of the challenges when we add new customers, is that their orders for some more challenging products for us to manufacture. We saw some level of material losses in that product development space during this quarter. We have also recruited some fresh talent to strengthen the capability in our production department. This will also help to improve our efficiency. So, while on the front end we had a very successful first quarter with 40% growth, although of course the base is low we had weaker margins because we had higher production losses. I think this will improve in the next quarter and in the quarters going forward. This will be a focus area for us.

To answer your question about the margins of Klasspack being replicated to SIP my sense is that it is going to take at least 12 to 24 months until it comes close. I am not sure it will ever be hit those margins because this is more of a B2B business. SIP has the characteristics of a B2C business. So Klasspack may not hit the same number, but it will be a good number.

Rakesh Jain: Could you break down the growth for SIP and CPD into volume and value growth?

Shreevar Kheruka: It is almost impossible to do that because we have so many products. We have over 1000 SKUs in each of the two divisions. It is very difficult to break that down in a meaningful manner, so that is why we do not do it at the moment.

Rakesh Jain: Any particular reasons we have faced PAT level losses in the Opal ware currently?

Shreevar Kheruka: That is easy to explain. When we invested in this new furnace and this new downstream technology, the interest and depreciation costs have increased quite substantially. I would point out one thing, which I think is meaningful - if you look at the EBITDA of Opal was Rs.3.3 Crores on a topline of Rs. 25.6 crores so that is almost say 14% odd. This is including an ad spend of virtually 15% of EBITDA. So, without the ad spend we have 28% or 27% to 28% EBITDA margin. Now the ad spends although incurred will be giving us more benefit in the next quarter, so I expect that this PAT level loss will reduce and be eliminated in the coming quarters.

Rakesh Jain: What is your target ad spends for Opal for the full year?

Shreevar Kheruka: I think about 13% to 14% of revenues.

Rakesh Jain: 13% to 14% and similarly would be for the core business?

Shreevar Kheruka: Yes.

Rakesh Jain: That answers my questions. Thank you so much.

Moderator: Thank you Sir. We have the next question from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: Thanks for taking my question. In the previous calls your forward guidance for the year on opal revenue was around Rs.130 Crores and your target EBITDA margins two years down the road is around 25%? Now that you are doing extremely well are you increasing the guidance upwards both on EBITDA margins as well as revenues?

Shreevar Kheruka: As far as the EBITDA margins are concerned, I would not change my guidance. On revenue the first quarter of the year has definitely seen a good pickup and we hope to beat that Rs.130 Crores number. I do not want to commit to that at the moment, but we definitely hope to beat that number. If I look at the longer-term outlook of 15% to 20% growth, I would stick to that for the time being.

Lakshmi Narayanan: The mix of GT and MT and e-commerce you said e-commerce will be around 15% of the revenues?

Shreevar Kheruka: No, what I said that is what we hope to achieve that. It is not there yet.

Lakshmi Narayanan: What is it right now?

Shreevar Kheruka: I think it is about 5% to 6%.

Lakshmi Narayanan: The GT and MT mix?

Shreevar Kheruka: General trade is about 55% to 60% and modern trade about 10% to 15%.

Lakshmi Narayanan: Thanks so much. I will get back in the queue.

Moderator: Thank you Sir. We have the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir people talk of Opal ware dinner sets only, but I think lot of the other coffee mugs and others gets sold and that is at a lower price point of Rs.300 to Rs.500 as the gift sets. So what innovation is happening on that front? How much would that contribute to our sales?

Shreevar Kheruka: There is a definite trend in the market towards these gifts sets – in set of four, set of six, set of eight kind of gift and so on and we are capturing that trend. It is definitely innovative in terms of what you call the set and how you position it. I would say earlier this was 15% to 20% of revenue but now this will be more like 35% to 40% of revenues. You can see a marked increase there.

Ankit Kedia: Sir you spoke of a new Moon series, which is priced 15% higher. How would the product be different for somebody to pay the premium? Are they different shapes and/or designs.

Shreevar Kheruka: The designs are completely different. The shapes are more premium. It is a Thali shape, so it is bigger. You can put three katoris and a roti on the plate and have a meal very, very easily. There is a lot of space - you can put chutney and pickles and all of that on the plate. If you see the product it will come across as a premium product. The packaging is also more premium. It is, truly speaking, a better product.

Ankit Kedia: Sir the trade margins for Opal ware is one of the highest in the industry for competitors and for us it is nearly 45% to 50% including promotions. Do you see that getting reduced over a period of time?

Shreevar Kheruka: Once we increase sales and we could reach capacity utilization, that could automatically happen.

Ankit Kedia: Sir my last question is regarding bone china. Is the antidumping duty imposed for the first time or is it recurring?

Shreevar Kheruka: No, it is imposed for the first time. It happened may be six months ago.

Ankit Kedia: Sure. That is it from my side. Thank you, Sir.

Moderator: Thank you. We have the next question from the line of Omkar Hadkar from Mirabilis Investment. Please go ahead.

Omkar Hadkar: I have a couple of questions. You are guiding for more than 30% growth in Larah. With a capacity of Rs.180 Crores, you will reach peak capacity in about 2 years and you will be required to add capacity for future growth. How much would you spend on that capacity and how much time will it require to come on stream?

Shreevar Kheruka: I can tell you that any new capacity will take six to nine months to come on stream, but very frankly we have not thought about the new capacity expansion yet. We are focused right now on getting this capacity utilization to be a closer to 100%. It is more or less a replication of current capacity or current technology which we are very happy with. We already know all the suppliers, so from the time we decide, I think six to nine months is the timeframe we are looking at.

Omkar Hadkar: Secondly any feedback on how the Cello products are doing?

Shreevar Kheruka: I would not like to comment on the competitor.

Omkar Hadkar: Sure. That is it from my side.

Moderator: Thank you Sir. We have the next question from the line of Hitesh Kumar from AKSA Capital. Please go ahead.

Hitesh Kumar: Thanks for the opportunity. I wanted a clarification on the advertisement spend guidance that you have shared. For FY2018, we had an ad spend of about Rs.24 Crores on a topline of about Rs.250 Crores. That was for consumer ware both Borosil and Opal together. Now even if we were to assume a modest 15% growth for the year, a 13% spend would be close to Rs.37 Crores. That is quite a substantial increase in ad spends. Is that what we are looking at this year?

Shreevar Kheruka: Yes, that is right. Those estimates for ad spend are more or less correct. We are looking at a substantial increase in ad spends because a couple of things have happened in this year, which has driven this. One is the plastic ban, which has happened in Maharashtra and when I say plastic ban I mean for certain types of plastics. As a consumer trend we see a pretty big move towards other materials including glass. We had to capitalize on this and saw it as the need of the hour. So, we increased our ad budget for that. The other development is that we have now partnered up with the Indian Olympic Association and we believe that this is a partnership worth talking about. That will further increase our ad spends. So that is why we are guiding for higher ad spends. Both of these will really drive the positioning and the branding of the company for years to come, so it is strategic move for us.

Hitesh Kumar: How much would you be spending on this partnership?

Shreevar Kheruka: I am sorry I cannot share that with you.

Hitesh Kumar: But what I wanted to understand is it just one-year spend or it will be recurring?

Shreevar Kheruka: Six years.

Hitesh Kumar: Got it sure. Thank you.

Moderator: Thank you Sir. We have the next question from the line of Hitesh Kumar Jain from HUL. Please go ahead.

Hitesh Kumar Jain: We have about Rs.260 Crores of cash as of March 31, 2018. What is your plan for usage?

Shreevar Kheruka: Absolutely. We have already shared that we are always looking for organic and inorganic extension opportunities and we are continuously studying those. Apart from that we are putting up a warehouse, which will be require utilization of funds. As a part of the amalgamation scheme there is Rs.125 Crores, which will be used for the solar part of the business. So, these are two clear direct paths of usage of the funds. In addition to that I would say that given the growth we are seeing there could be other opportunities coming along the way, so we are quite comfortable with this level of cash. We believe that all of this can be utilized by the business in the short to medium term.

Hitesh Kumar Jain: Thank you.

Moderator: Thank you Sir. We have the next question from the line of Bharat Gupta from Edelweiss Financial Services. Please go ahead. Sir please go ahead and ask your question. Mr. Bharat Gupta your line is unmuted Sir please go ahead.

Bharat Gupta: Thanks for taking my question. I want to know about the presence of the unorganized sector within the country. What is the estimated market size for it?

Shreevar Kheruka: I think the unorganized sector would probably contribute about 50% if not more in the consumer division but this differs by category. For example, Opal would have a lower presence of unorganized competition although Opal substitutes such as a melamine would have a higher unorganized component. Similarly, in bone china there are a lot of unorganized players there, so it is difficult to put a number. It is different category by category, but if I look at it overall, I would say in our estimates about 50% would be unorganized. We will definitely see a move towards more organized players.

Bharat Gupta: Thanks Sir.

Moderator: Thank you. We have the next question from the line of Alana Shah from HU Consultancy. Please go ahead.

Alana Shah: Sir I had a question in the annual report of FY2018 you had mentioned that you have 7.9 hectares of land that would be with Borosil Renewables post the amalgamation. So, does ownership of the property lie with Gujarat Borosil .

Shreevar Kheruka: This is actually the property where the current plant of Gujarat Borosil is situated. I think the value is only a few lakhs. So, it is not meaningful in value. This will remain with Borosil Renewables.

Alana Shah: Okay and my second question is about the two new subsidiaries, ARL and Borosil Technologies., They are both 100% subsidiaries. So, post amalgamation would these two companies be with the Hopewell, that will be renamed Borosil Limited?

Shreevar Kheruka: That is right. They will both move to Borosil Limited, which is Hopewell.

Alana Shah: Okay and the reason behind acquiring the real estate would be?

Shreevar Kheruka: Like I mentioned earlier in the call, in order to monetize the real estate, we need to get certain permissions. Permissions come in the name of the company. We will get a better realization for the real estate if we have the permissions. later we are not looking to develop the property. It is more beneficial for us to sell the company rather than sell the property.

Alana Shah: I understand. Thank you very much Sir.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Rohan Gupta of Edelweiss for closing comments. Over to you Sir!

Rohan Gupta: Thanks Bikram. Thanks a lot Sir. I think we had a pretty long question and answer session. Just a couple of questions from my side before we close. Sir one is that we have seen a very decent growth of 42% in Borosil and 54% in Opal ware for the quarter? Given that the first quarter is slightly weaker, what is your outlook for the entire year and what has the industry growth been during this quarter?

Shreevar Kheruka: Again, I am going to clarify to everyone on the call that for the same quarter last year GST had impacted growth, so in some sense the low base effect is what we are seeing at the moment. So, I do not think that 40% and 50% growths are what we can guarantee for the rest of the year. Although, I would like to say that the growth is very strong even so. I do think we will be on the upper end of our guidance for this particular year. The market looks quite strong. Things are working. I think be it demonetization or GST implementation, both issues are behind us. Consumers and trade have gotten over those two events. I believe that consumer confidence is pretty high at the moment in the country, so we foresee a good Diwali and gifting season. So, my team is quite bullish for this particular year. That is what I would like to say without committing to any number.

Rohan Gupta: Sir Labware has shown high growth whereas we usually see not more than a 10% to 15%. What contributed to that high growth?

Shreevar Kheruka: As I mentioned Klasspack is a low base and I think there we can continue growing well in the next three quarters. The general lab business is again to do with the low base and as well as the Ind-AS

115, which we have noted in the presentation. If you exclude that the growth is more in the 10% to 12% range that you have mentioned. So, there is nothing extraordinary that happened over there.

Rohan Gupta: Sir in Labware there was I think some dip in EBIT margins in the current quarter, so any particularly reason for that?

Shreevar Kheruka: I do not think there is anything meaningful there. There is no change.

Rohan Gupta: The margins have dropped to 17% in Labware while we have seen close to 22% margin in our Labware business last year.

Shreevar Kheruka: In Labware in general the first quarter is the weakest, so I would not be too concerned about that number. I think over the year it will take care of itself.

Rohan Gupta: Thanks Shreevar and thanks Swadhin for taking your time and giving us the opportunity to host this concall. I also thank all the participants who have logged in for the concall of Borosil and thank you and all the best for our upcoming quarter.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.