

BOROSIL®

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Sub: Transcript of Institutional Investors and Analysts Conference Call

Dear Sirs,

We enclose transcript of conference call with Institutional Investors and Analysts which was held on May 15, 2017.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Borosil Glass Works Limited



Gita Yadav
Company Secretary

Encl: as above



“Borosil Glass Works Limited Q4 FY2017 & Financial Year 2017 Earnings Conference Call”

May 15, 2017



ANALYST: **MS. SANGEETA TRIPATHI - EDELWEISS FINANCIAL
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 Q4 FY2017 and full year FY2017 earnings conference call of Borosil Glass Works Limited 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 phone. I now hand the conference over to Ms. Sangeeta Tripathi of Edelweiss. Thank you and over to you Madam!

Sangeeta Tripathi: Thank you operator. Good afternoon everyone. It gives us immense pleasure to host the Q4 and the full year FY2017 earnings conference call for Borosil Glass Works Limited. From the management, we have Mr. Shreevar Kheruka – MD and CEO of the Company along with Mr. Swadhin Padia, who is the CFO of the Company to discuss the results and the strategy for the company. We thank the management for giving us the opportunity to host this conference call. To start off we open the call with brief remarks from Mr. Kheruka on the results and business ahead post which we can open the floor for a Q&A session. Over to you Sir!

Shreevar Kheruka: Thanks for the introduction. Greetings to all of you who have joined the call. Welcome. This is the Company’s third conference call. Many of you would probably be familiar with the Company and its two business divisions - the consumer products division and the scientific products division. I will briefly run you through the highlights of FY2017 and recent developments and then of course open it up for questions that some of you may have.

Overall, I am going to try and stick to the yearly numbers more than the quarterly numbers as they are provide get a better picture. So the Company has experienced very strong overall revenue growth of about 60% for the year. This has been helped by inorganic growth. We acquired two companies in calendar 2016. In January we have acquired Hopewell Tableware, which owns the Larah brand and the Opal glass range of products.

In end of July 2016 we acquired 60.3% of Klasspack. Klasspack is the manufacturer and provider of pharmaceutical packaging glassware, which is basically tubular glassware, ampoules and vials.

In addition to the overall growth of 60% even the organic growth was very healthy. The scientific products division grew at 14% and the consumer products division grew at a little over 27%. Overall, the Company posted a revenue of 375 Crores which is up from 234 Crores in FY2016.

Coming to the growth drivers, we should talk about the Consumer Products Division first. In the Consumer Products Division one of the main growth drivers has been in storage products. The trend in the market is moving from plastic to glass. We have launched a range of products in various shapes and sizes, which give our customers an option for elegantly designed, high quality glass storage products including tiffin boxes, jars, canisters, water bottles etc. We clearly see that this has been in

favour and going forward there is lot of headroom for growth because the market is dominated by plastic. There seems to be a very large opportunity at hand here.

The Borosil brand of course is very powerful and we have been investing in brand building and we will continue doing so in the quarters and years to come. That is going to help us create more pull for these products. We have also been focusing on innovation in new products. I gave you some example of storage but even in the microwaveables and our tumbler segments we have quite a few new products and these new products have contributed more than 13% of turnover.

We acquired Hopewell and its brand Larah in January 2016. We focused during last year on front-end integration and we are seeing a lot of synergy between the Borosil distribution and Larah distribution. We have invested more than about INR 11 Crores in the marketing campaign for Larah and the early results are quite encouraging. Last year we clocked about INR 87 Crores topline in Larah up from INR 48 Crores in the previous year, so almost doubling the turnover of Larah.

Both the performance of the consumer products division which is the glass storage and microwaveables and Larah range of products saw this growth in spite of the impact of demonetization in the months of November and December. In spite of that Q4 has come back quite strongly and we expect that to continue going forward.

Coming to the Scientific Products Division there has been a good growth in the core lab glass ware segment. In addition to that, we introduced LabQuest. LabQuest is basically doing benchtop instruments and we have got good traction. These products are world-class products. We have got a lot of enquiries for this and we have made sales. We now need to improve the supply chain in order to service the needs of a customer better. Since it is new for us, we took a little bit of time to sort that out, but overall there has been a tremendous positive response from this customer segment.

Exports are another focus area. We did over INR 9 Crores of exports which is a small number but a year before we have done about INR 6 Crores, so quite a good jump in the export revenues and also for the lab glassware. Over the coming years this will be another important vertical.

Like I mentioned, we acquired 60.3% of Klasspack in July 2016. We have commenced the process of listing these products with many leading customers. I am happy to say that we have got quite a few discussions going now, in which we have passed the initial stage of testing. Now it goes into commercial discussions in terms of pricing and so on but we have seen almost all customers appreciate that Borosil has made this move and they are more than happy to look at a new alternative for sourcing. I expect that in the coming financial year Klasspack revenues should improve. As far as Klasspack is concerned we also have to invest some capex there in order to ensure that we can service the customers with high quality tubular ampoules and vials.

Overall, I would say growth has been healthy. It has been higher than what our expectation was for the year gone by and going forward I do expect that both divisions will continue on solid growth path.

Coming to EBITDA margins, EBITDA have grown also by more than 60%, which is in line with the revenue growth. EBITDA margin at a consolidated level was 11.5%. We will maintain our healthy EBITDA in the SIP (Scientific Products Division) while in the Consumer Products Division there is a lot of headroom to improve the margins. There are four areas for margin expansion in Consumer Products Division. Number one, we are investing in Lurah in upgrading our facility and that should yield a higher productivity and yield. This investment will be about INR 55 to 60 Crores, which should happen over the next three to four months and I believe the productivity numbers will start reflecting from the second half of this financial year.

Second, is we are investing in a state-of-the-art warehouse. We currently have about six warehouses across the country. With GST coming in it makes sense to consolidate, so we are investing about INR 30 Crores in a centralized warehouse in Jaipur and this will help us service our customers faster as well as with much lower cost of transportation, freight and warehousing element as a percentage of sales.

Third, our advertising budget is substantially higher today because we are trying to create higher brand pull and brand recognition. At the moment we are running at about 11% of revenues. Over a period of time I think this will decline to 7% of revenues and that will lead to further margin expansion.

Finally, with GST coming into effect it may lead to some unorganized players exiting the market and more market power coming to the organized segment. That could also help us improve the margins over a longer period of time.

Coming to the PAT of the company, we registered a PAT of INR 123 Crores. Our standalone PAT was INR 136 Crores and this includes about INR 91 Crores on acquisition of company land by the municipal authority. This has released non-core assets to improve the balance sheet. We are focusing all our efforts on the operating businesses of the company. Without this exceptional item PAT was about INR 45 Crores which is still an increase of 87% over the year before.

There is a higher profit in standalone compared to the consolidated numbers because Hopewell made a loss of about INR 13 Crores and Klasspack had a positive PAT of about INR 0.5 Crores. If I look at Hopewell, out of INR 13 Crores loss recorded, almost INR 9 Crores are to do with acquisition expenses - write offs of stock and debtors which are one-time and which were not recoverable.

Second, we had spent almost INR 11 Crores like I mentioned on advertising whereas steady state numbers should be closer to the INR 6 Crores range so about INR 5 Crores extra over there. These are

the two main areas for which we have had a loss in Hopewell; however, going forward, like I said, in the second half of this year we should see an improvement and margin turning positive.

The Company had a cash surplus of about INR 210 Crores. The Board has recommended a dividend of Rs.25 per share which after including dividend distribution tax works to about INR 7 Crores of total cash payout to the shareholders.

We will be investing another INR 90 Crores approximately in upgrading and capacity expansion for Lurah and putting up a warehouse. As I mentioned, INR 90 Crores which was released from non-core real estate asset sale and the Company has further non-core assets of about INR 65odd Crores which it hopes to liquidate in this year, because we would like to lighten the balance sheet of the Company and focus on the operating parts of the business.

As a principle Company wants to keep about INR 200 Crores of cash as surplus. These funds will be used in the future for funding future growth including strategic acquisitions. We also have changed our treasury policy in the Company and we are now moving almost all our investments into fixed income investments and over a period of time the legacy investments, which include equities and some in real estate debt will be reduced and replaced with higher rated fixed income investments.

Other corporate initiatives include a scheme of amalgamation for which statutory approvals are awaited. I have been told that this would take another five to six months to conclude. The Board has approved a share split of 10:1 so each equity share of Rs.10 will be replaced by ten equity share of Re.1 each.

Also in line with our focus on human resources being a key to the growth of the company, the Board has also approved an ESOP that is Employee Stock Option Plan to align management incentives with long-term shareholder value.

Lastly, I also want to touch upon Gujarat Borosil. Currently Borosil owns about 25% equity of Gujarat Borosil. After the scheme of amalgamation the shareholding will go up to 58%. Gujarat Borosil achieved a sale of INR 188 Crores which was flat compared to the year before. That was because the Company is operating at a virtually 100% capacity utilization; however, the margin owing to various initiatives taken by the management of that Company improved. EBITDA has gone to 25% from 19%-odd the year before and so EBITDA came at about INR 48 Crores on a turnover of about INR 188 and the PAT was about INR 14 Crores.

Finally, just to conclude the Company has entered a new growth phase. We have been seeing the results of that over the last year or two and I look forward to the next two to three years with the same optimism and confidence. I thank you all for listening in. I would be pleased to answer any questions that you may have. Thank you.

- Moderator:** Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.
- Saurabh Shah:** This is Saurabh. Just if you give us some colour on the Gujarat Borosil business. I think you said, you have 100% of the capacity just now and your topline was kind of the same. So what was your volume growth this year and what are your capex plans? What is the state of the market because we are hearing good news obviously on solar expansion in India itself? So where do you see that business going next two or three years and you have a 58% stake in this now so how do you plan to take advantage of that with new capex which are already over there?
- Shreevar Kheruka:** As far as Gujarat Borosil is concerned, there are two capex planned. There are two parts to the manufacturing process. One is you melt the raw material to make flat glass and then after you make the glass you toughen it, you strengthen it by heat and you coat it with an anti-reflective coating. So our capacity was a bit mismatched where we could make more glass but the toughening capacity was not as much. So the first capex, under implementation which will go live from July 1, which is Q2 of this year, is of increasing the downstream toughening capacity which will give us enough capacity to toughen the entire production. This itself will allow us to improve our yields and may add 15% to 17% to revenue, which we should look forward to this year.
- The other initiative is actually a first in its class. Right now the average thickness for solar glass is 3.2 millimeter and we are trying to reduce it to 2 millimeter and without removing any of the product quality or efficiency. So this itself will also allow us to improve our profitability as well as increase the volume of business that we can achieve because we can produce more square meters for the same tonnage. So this capex, like I said, is already underway and we should see this being commissioned soon.
- Now coming to the larger question which you have about solar demand increasing. Yes, that is absolutely right. There is a lot of demand and we have been facing a lot of dumping from China in this business. In spite of the dumping our margin profile has been looking quite good. However, if we want to dramatically increase the revenue say double the revenues or triple the revenues of the business, we would need some help and support from the government in terms of providing a level playing field. So we had filed for anti-dumping and that investigation is currently on. We are looking forward to the results of that particular investigation. My sense is that if it turns out that the government is able to find that the dumping is actually happening which the European Union as well as the North American governments have, and impose an anti-dumping duty on solar glass coming in from China, then I think we would need to spend about INR 200 plus Crores to increase our capacity by 1.5 times. Here I think we would have to just wait for may be a few more weeks for the outcome. Overall the market scenario looks very positive with a lot of growth. On pricing of course probably everyone has been reading the solar tariffs have now become cheaper than coal tariffs so there is a

downward pressure on pricing even for components of the solar module. That being said with the efficiency gains I think we can manage and reduce the cost structure as well.

Saurabh Shah: How do you expect to fund this capex at both stages?

Shreevar Kheruka: The first stage is about INR 60 Crores capex, which has been done through internal accruals and the second stage is about INR 200 Crores to 225 Crores capex. We will raise money for this in the markets.

Saurabh Shah: Debt equity where would we expect, how much of debt and how much of the equity for the two?

Shreevar Kheruka: It is a little bit early. We are still finalizing those terms so I cannot comment on that and I think the management of the other Company would be in a better place to respond to that. That Company has its own CFO. If you like I can put in touch with him and he can answer those questions directly.

Saurabh Shah: We'd like to take that offline if possible. Secondly we saw some hit on the fair value. I think it was 39 Crores just wanted to understand what was the nature of the hit. I think may be it is an accounting question?

Shreevar Kheruka: Yes. If you send an email to us, we would definitely be able to respond to that.

Saurabh Shah: Thanks.

Shreevar Kheruka: Just to clarify one thing, current holding of GBL, Gujarat Borosil Limited, by Borosil Glass Works is 25%. After the scheme of amalgamation, it will become 58%, just to clarify that.

Saurabh Shah: Thanks.

Moderator: The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: We are caught up by the loss of the Larah. Of course it is in the investment phase. But just wanted to know about the opportunity size of this particular segment and whether it a very limited opportunity size where LaOpala is already in a very strong position, thanks to the tax incentive in Uttarakhand plant. We are sort of struggling as that is a disadvantage for us. And what are the plans for the ROCE improvement by the sale of non-core asset and other things, please?

Shreevar Kheruka: So with respect to Larah I would say if you look at LaOpala numbers, which are also out, I think they have grown 3% or 4% year-on-year if I am not mistaken. Larah grew from INR 48 Crores to INR 87 Crores so that is almost I would say 70%-80% growth number. So we do not have much of an issue in growth. I think there is a lot of scope for topline growth there. Recently some further good news has

come which is the Indian government has imposed anti-dumping duty on Chinese porcelain and other ceramic ware including Bone China. This will also help us in Opal glass because that is going to increase the price points of porcelain and Bone China, which will further move customer sentiments towards Opal. So my sense is that as far as demand is concerned we are likely to see a healthy growth in demand for the Opal segment. While you are right that LaOpala is the market leader in that segment, I am not so concerned about that one-time loss that we are having because like I said a lot of that loss is to do with pre-acquisition related accounting entries. However going forward we do need to improve our margin profile there by improving productivity. When we acquired the entity there were many equipments which were not, let us say, as efficient as we would like them and that is the capex that we are making in order to improve the efficiencies over there. Definitely when you are launching a brand you have to compromise on price points a little bit initially but I think that phase is also coming to an end and we would be able to improve our pricing power. LaOpala also would not have the benefit of that Uttarakhand benefit. I think may be it is already finished or it will be finish this year, so that benefit will go away for everybody and after GST comes this does not exists anymore. So this is not so much of a concern for me anymore. The market is growing quite rapidly in terms of the product category and I think we have already shown that and proven that with our growth and revenues.

G Vivek: The plans for the ROCE improvement?

Shreevar Kheruka: When we liquidate this non-core assets, which are not revenue generating right now, we are able to then use the funds in operating assets. Like we liquidated the non-core asset of INR 90 Crores and now we going to invest a similar amount in the warehouse as well as the upgradation of the Larah facility so that will fund improvements in the ROCE of the business. Definitely there will be about INR 200 Crores of surplus cash in the company which will be earning low yields but strategically that is the call the management has taken because we find that it helps us negotiate with the vendors also, it helps us improve our ability to acquire companies and move fast to acquire companies. It helps at the negotiating table. Last year we acquired two businesses quickly without the need to ask the banks for funding so, we will continue that. That will impact the ROCE to some extent but we are okay with that for now. But definitely we will improve ROCEs substantially in the next two to three years.

G Vivek: Any chance of a buyback or dividend payout?

Shreevar Kheruka: Yes, so as far as dividend is concerned we have maintained the same dividend as last year. We already did a buyback last year so buybacks could be something we consider. If we are not able to find anything to in terms of acquisition opportunities then definitely rather than keeping that much cash on the books probably it would be okay to return some cash as we go forward. So we will keep track of this over time.

- G Vivek:** What about the opportunity size for the other products in the CPD division other than Larah?
- Shreevar Kheruka:** These are all in the presentation that we have shared. I think on slide number 9, if you go to slide number 9 you can see the total market size and market growth rates. These are our internal estimates.
- G Vivek:** Thanks a lot. Keep up the good work Sir.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for the opportunity. Sir just wanted to know what is our current capacity in Opalware and what is the capacity expansion plan?
- Shreevar Kheruka:** Right now our furnace size is about 35 tonnes per day and with the new capex we should go to 45 tonnes per day. Now that being said we should consider there is the gross capacity and then there is a yield there is a net yield, which comes out of this capacity. So we expect between the improvement in the gross capacity from 35 to 45 and the improvement in the yield we expect our capacity to increase by 50%. So roughly about 30% will come from gross capacity expansion and 20% should come from yield improvement.
- Tejas Shah:** Sir how much we are spending for this capacity expansion?
- Shreevar Kheruka:** About INR 60 Crores.
- Tejas Shah:** What is the asset turn that we are targeting I believe that this is a Brownfield expansion right?
- Shreevar Kheruka:** That is right. So after spending INR 60 Crores we should be able to have a capacity of anywhere from INR 150 to 175 Crores per year depending on the selling prices.
- Tejas Shah:** Sir you rightly mentioned that there is a huge opportunity in the Opalware space. Have you done any study to estimate size in India along with global benchmarks as disposable income also increases? Is there any study then which actually gives you some ballpark figure what this industry size can go to?
- Shreevar Kheruka:** See very frankly there are studies in other fields not in Opal that I have seen, but generally the numbers of India are so small compared to the global numbers, whether you look at per capita consumption or any similar stuff you start looking at global per capita consumption the number becomes just enormous. So directionally you will find that there is huge scope but that study will not give you any pure number because our market dynamics are very different from the global market dynamics today. Suffice to say that we expect 15% to 20% growth in this industry in the years to come. There can be further growth above or beyond that too but benchmarking to global standards for India across a range of industry makes very little sense. We are really far behind.

- Tejas Shah:** This is industry level you are talking about 20%?
- Shreevar Kheruka:** Yes, industry level 15% to 20% growth.
- Tejas Shah:** Sir you spoke about anti-dumping duty on porcelain and Bone China. Any update on anti-dumping duty on Opalware?
- Shreevar Kheruka:** Yes, the hearings are on. I think we should know in the next couple of weeks or may be a month on the final result of that.
- Tejas Shah:** Sir and there is one more competition coming in the sector, I believe from Cello have they actually started coming into market or still at production stage?
- Shreevar Kheruka:** Look my information is that they have started the furnace. They have fired the furnace but we have not seen a product in the market yet, but I am sure they will come soon.
- Tejas Shah:** Sir looking at your capacity expansion plan LaOpala is also expanding most likely and then Cello is also coming, we believe there will be a price war, which should happen in the market going forward?
- Shreevar Kheruka:** Look that potential always exists. LaOpala definitely and us have been in the market. LaOpala's capacity order expanded as of I think two quarters ago and we have also been like I said doubled our revenues virtually in the last year. So far we have not seen a price war. With Cello coming in it depends on what view they take, but typically I would say consumer products are less susceptible to price wars because just by reducing price it does not really spur consumption much. So my view is that it would not be wise to have a price war, it is not a commodity so it would wise not to commoditize it but that said we have to see now.
- Tejas Shah:** Sure. Sir last question what proportion of our Opalware came from modern trade and general trade what was the breakup?
- Shreevar Kheruka:** I think modern trade was about 25% to 30%.
- Tejas Shah:** And the balance was from the general trade?
- Shreevar Kheruka:** That is right.
- Tejas Shah:** Thanks a lot Sir and all the best.
- Moderator:** Thank you. We have the next question from the line of Rishi Maheshwari from Abraaj Capital. Please go ahead.

- Rishi Maheshwari:** Thank you Sir. Thank you for taking my question. Heartiest congratulations. Very good set of numbers. Sir would request some strategic understanding on your growth path from here on. You had a fairly phenomenal run in terms of distribution and you have also started expanding your product lines, but you know that you just said recently that the scope of this market is still very small there is 15% - 20% growth that is possible. Hence the ideal opportunity would be to expand your product lines even further, is it possible to throw some light on that front, what exactly would those industry lines or product lines be?
- Shreevar Kheruka:** See at the moment we have expanded into like I said glass storage products. We have got into Opal Glass. We have appliances. These are three let us say relatively new product categories. At the moment, I think we have enough runway to grow in these categories with proper marketing and by improving our operating efficiencies which I have already spoken about. I think we should just focus on these areas for the time being over at least next 12-18 months, before we start thinking about any further category additions. We are fairly comfortable where we are at the moment in terms of product line. And for the consumer product, see our point is that we would like to be the No.1 or No.2 in the categories that which we operate in so let us consolidate a position in these categories and then we talk about new ones.
- Rishi Maheshwari:** Sure Sir. Sir one clarification on your shareholding, in the last presentation if I am not mistaken the promoter shareholding after amalgamation was supposed to be under 75%. This presentation suggests it will be about 76%. Has there been any other change?
- Shreevar Kheruka:** The promoters have acquired shares in a company, which holds Borosil's Shares and as a result of that the promoter shareholding has become like this.
- Rishi Maheshwari:** Okay and what is this Group Company Sir, what is the turnover of this Company?
- Shreevar Kheruka:** I do not have the details with me at the moment. I can check and come back to you. It is bought by the promoters. It is not bought by Borosil.
- Rishi Maheshwari:** Sir one more, I realize that the margins in Klasspack are down you mentioned in your opening comments that this was in large part because of pre-acquisition charges. Therefore if you have to look at the normalized margins should we look at removing this 9 Crores and that would be a normalized margins and henceforth we look at improvement in margins from those levels?
- Shreevar Kheruka:** I am sorry I think you are confusing Klasspack and Hopewell. Which one you are talking about? There are two acquisitions.
- Rishi Maheshwari:** I am speaking of Klasspack. I thought that you mentioned about Klasspack where the acquisition cost was higher. I realize that the Klasspack margins have come down.

- Shreevar Kheruka:** I am not clear on your question but Klasspack was marginally profitable this year with a Profit after Tax of about INR 0.5 Crores, but I think you were referring to Hopewell, which has seen the INR 9 Crores of write-offs and other one-time expenses with respect to the Larih business, which is the Opalware Tableware business of the Company.
- Rishi Maheshwari:** Thank you very much. Good luck.
- Moderator:** We have the next question from the line of Dixit Mittal from Subhkhram Ventures. Please go ahead.
- Dixit Mittal:** Sir can you give the EBITDA from your consumer business because in slide #5 you have given BGWL EBTIDA from 40 Crores so can you break up it between Lab ware and consumer?
- Shreevar Kheruka:** We typically do not do that.
- Dixit Mittal:** Sir secondly in Larih you mentioned that 9 Crores is one-time plus you mentioned that normalized ad spend will be around 6 Crores per annum compared to 11 Crores so can I assume that this 14 Crores delta will come in next year even without growth?
- Shreevar Kheruka:** It should say yes. INR 9 Crores definitely and advertising also will come in. The Larih business will have a small disruption in this year when we add this capacity so for about 45-60 days we will be out of production. However that is a separate point but yes, you are right you can assume that this INR 14 Crores will not be a repetitive cost.
- Dixit Mittal:** Sir can you give the gross margin like what is the level of gross margin in this business?
- Shreevar Kheruka:** In which business?
- Dixit Mittal:** In Hopewell?
- Shreevar Kheruka:** You can compare the gross margin with LaOpala gross margins. They are more or less similar, means material margin right?
- Dixit Mittal:** Yes.
- Shreevar Kheruka:** It is more or less similar.
- Dixit Mittal:** Sir lastly do you outsource the manufacturing as well or you make in-house only for all BGWL as well as for Hopewell?

- Shreevar Kheruka:** No, we will follow both models. As far as Hopewell is concerned it is 100% manufacture. BGWL is part manufacture, part outsourced. At the moment Vylene has the lot of the manufacturing. Vylene is a separate Company, which is as a part of the scheme of amalgamation being merged into the Borosil Glass Works.
- Dixit Mittal:** Sir as you mentioned that there may be around 45 days of disruption, so can you outsource that kind of production?
- Shreevar Kheruka:** Opalware is not possible to outsource. We have inventory so we can supply from inventory. It is not a problem. Inventory will reduce.
- Dixit Mittal:** Okay so it would not impact our revenues?
- Shreevar Kheruka:** At the margins, it may have some impact but it should not have a material impact.
- Dixit Mittal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Investments. Please go ahead.
- Aman Vij:** Good afternoon Sir. I had two questions. First on the little bit clarification on the anti-dumping duty so first could you quantify the amount as well as what is the current market size of both the segments for porcelain and Bone China in India?
- Shreevar Kheruka:** Porcelain and Bone China, in our estimate is about INR 500 to 600 Crores revenue in India. That is organized. There would be lot of unorganized sales in addition. As far as anti-dumping duty is concerned, I am sorry, but I do not have the exact percentage with me off-hand. I can check into that and come back to you.
- Aman Vij:** No problem we can get back. The second question is on Klasspack. Could you throw some light on the opportunity? I think it is very good in this segment we being only the second player, so the growth trajectory and may be the margins trajectory also?
- Shreevar Kheruka:** As far as Klasspack is concerned, in the eight months we had this business we did about INR 20 Crores which was a growth of about 15%-odd if I am not mistaken compared to the prior year. This business requires a longer gestation because we have to get a lot of approvals from the pharma company and as I see that happens in this year we should see growth ramp up in this year. Margins were also improved. Owing to current low revenue in the business today the fixed cost as a percentage of sales are higher. As we increase revenues our operating efficiencies come into play. So I hope to grow this business by more than 20% and current EBITDA margins are about 13% in the eight months since we acquired. I would hope that we would improve that to the high teens this year.

- Aman Vij:** So to get that to the normal lab glassware margins would take sometime?
- Shreevar Kheruka:** Right.
- Aman Vij:** That is it from my side. Thank you for now. Thank you.
- Moderator:** Thank you. The next question is from the line of Janiel Jhaveri from J&J Holdings. Please go ahead.
- Janiel Jhaveri:** Thank you for taking my question and congratulations on a good set of numbers. I just wanted to know what is the 11.93 Crore one-time write-off?
- Shreevar Kheruka:** For non-core asset, it is prudent as per Ind-AS to revalue the assets the Company is holding for disposal. So this is primarily real estate and we had Knight Frank to value it and this is the value they came up with. So we had to take a provision for that.
- Janiel Jhaveri:** So this is the 90 Crores flats, which are now worth 79 Crores, I assume?
- Shreevar Kheruka:** It is not INR 90 Crore. I do not know the exact number but I think it is INR 73-74 Crores worth. There are three properties of which there is one property, which is held at the low value the book which is not been revalued because as per the standard you have to hold it at book or current value whichever is lower. So this is taken as per prudent norms of Ind-AS even if market value is a bit higher.
- Janiel Jhaveri:** Sir finally what is remaining on the books so there is one property, which is at this old value?
- Shreevar Kheruka:** Yes, so I think that should be about INR 70-odd Crores in my estimate. INR 62 Crores is on the book but 70odd Crore should be the realizable value of non-core assets which can be sold.
- Janiel Jhaveri:** Okay and then that 70 Crores would give us a value of how much approximately?
- Shreevar Kheruka:** I am talking of market value. INR 62 Crores book value in our estimate has a market value of INR 70 Crores or so.
- Janiel Jhaveri:** Okay, so is this the rate because of demonetization that 12-13 Crores has come down?
- Shreevar Kheruka:** I do not know. Knight Frank did indicate that the velocity of realistic transaction have reduced and there is some distress in the market so it could be because of demonetization or could be the general real estate market. I am not the expert there so I cannot really give you a definitive answer but this is as per their reports.

Janiel Jhaveri: Okay and as per my understanding this is the flat that the promoters also live in, correct?

Shreevar Kheruka: Yes, three flats one of which the promoters live in.

Janiel Jhaveri: Would this be the one?

Shreevar Kheruka: This includes...

Janiel Jhaveri: That is combined value of three flats. Okay.

Shreevar Kheruka: Yes.

Janiel Jhaveri: Also another question I wanted to know is, are we planning on demerging Gujarat Borosil at any point of time?

Shreevar Kheruka: At the moment there is no plan.

Janiel Jhaveri: Okay and for NSE listing of this company?

Shreevar Kheruka: NSE listing can only be done after the stocks split is through.

Janiel Jhaveri: So that is planned.

Shreevar Kheruka: We are considering that Yes.

Janiel Jhaveri: Okay. And finally how much investment has Borosil made into Gujarat Borosil including I mean non-equity?

Shreevar Kheruka: They are preference shares of about INR 90 Crores.

Janiel Jhaveri: Once we have another partner that is going to come in that 90 Crore would be returned to Borosil?

Shreevar Kheruka: We are still working on that bit. I am not yet clear on this subject. It depends totally on the fund raising structure Gujarat Borosil.

Janiel Jhaveri: Okay but that would also weigh on the return ratio of this company?

Shreevar Kheruka: That is right, and we are cognizant of that and we are trying to improve that.

Janiel Jhaveri: So the 210 Crores cash that we have plus there is 90 Crore plus whatever is going to come from the flats?

- Shreevar Kheruka:** That is right. Exactly you are right.
- Janiel Jhaveri:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.
- Ashish Kumar:** Thank you Sir. Congratulations for good set of numbers. I have only one minor query. Post the merger you will have 76%, so you will need to sell down 1.28%. What is the timing for that or will there be a fresh issuance of capital to kind of get it?
- Shreevar Kheruka:** I do not think we need any fresh capital. I think SEBI gives some time. Merger itself will take another six months and probably SEBI will give another few months to do that so there is no urgent need to do it immediately. But we will definitely have to comply with SEBI guidelines so it will happen at some point.
- Ashish Kumar:** Thanks.
- Moderator:** Thank you. We have the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** Good afternoon. Sir first on this advertisement expenses on Hopewell you have almost done a Rs.11 Crores on that. That is roughly 13% on the annual revenue which you had around 87 Crores on Hopewell. So would 12% to 13% of the sales continue for next couple of years or what is the plan on that expenses?
- Shreevar Kheruka:** Like I said I think Hopewell should be about 6% to 7% in terms of the ad and sales promotion expenses. The percentage number will reduce from what we did last year.
- Rohan Gupta:** So the absolute amount will roughly be 10 to 11 Crores roughly?
- Shreevar Kheruka:** No I think the absolute amount would probably be INR 6 to 7 Crores because if you take a revenue of 87 and including growth of this year may be we are looking at INR 6 to 7 Crores spend in Hopewell this year on advertising.
- Rohan Gupta:** I mean FY2018 you have only spend 6-7 Crores while this year in FY2017 you have already spent 11 Crores?
- Shreevar Kheruka:** That is right, because this year we have already established the brand to some extent and now it is a question of maintaining that brand.

- Rohan Gupta:** You are saying that in the first year we accelerated expenses?
- Shreevar Kheruka:** That is right.
- Rohan Gupta:** You wont increase the ad spend and focus on brand building? .
- Shreevar Kheruka:** No increase may be true for Larah. We will be spending more in the Borosil Consumer Division meaning in transparent glassware. We will be allocating more advertising budget there. At a group level we did about INR 25 Crores including the INR 11 Crores on Larah. We plan to maintain that INR 25 Crores number this year. But the weightage will be more in the transparent glassware Business.
- Rohan Gupta:** Will be more in a Consumer Business?
- Shreevar Kheruka:** Correct.
- Rohan Gupta:** Second we can see margin improvement in your scientific ware business in the current quarter. Is there any onetime benefit?
- Shreevar Kheruka:** No one time benefit. In the scientific business, the last quarter of the year always has higher sales because customers use up their budgets. For us fixed cost remains the same and the revenues increase substantially so that is why margins look better.
- Rohan Gupta:** It is 25% EBIT margin in a scientific ware business this is only because of higher sales because of the seasonality in the business?
- Shreevar Kheruka:** There is seasonality this is right. Both our businesses have a seasonality factor.
- Rohan Gupta:** Compared to last year from the March quarter it was 28% margin has come down to 25% then?
- Shreevar Kheruka:** I do not know where you all getting this numbers from.
- Rohan Gupta:** Your segmental numbers.
- Shreevar Kheruka:** Last year we had some expenses related to the acquisition which were debited. May be that is what you are referring to but I am not sure exactly. I will have to come back on this. But according to my understanding there should not be any reduction in margins in either of our divisions even in the last quarter.

- Rohan Gupta:** So just one last thing. Is there any further potential of value unlocking? I was hearing in your interview given to media that you were talking about Rs.60-70 Crores more unlocking in terms of investment potential right?
- Shreevar Kheruka:** Yes, I just mentioned that we have some non-core assets in the books, which we hope to liquidate in this year.
- Rohan Gupta:** That you value as Rs.60 Crores. If I am not wrong it is the three flats, which you are talking about, is that right?
- Shreevar Kheruka:** Yes that is right.
- Rohan Gupta:** So out of that one which you are already using it for the staying purpose so will that move from the books of the company to the personal capacity?
- Shreevar Kheruka:** It could. There is a possibility for that to happen.
- Rohan Gupta:** Thanks a lot. Thank you so much.
- Moderator:** The next question is from the line of Kinjal Jagani from M.M. Savla Consultants. Please go ahead.
- Kinjal Jagani:** Good afternoon Sir. Congratulations for good set of numbers. Most of my questions have been answered. I want a small clarification. You have said 11% is your advertisement expenses. Is this 11% of consolidated turnover?
- Shreevar Kheruka:** Yes, consolidated consumer turnover only. So just to clarify our total advertising for consumer including Borosil Consumer Division and Hopewell, which is the Larah brand was INR 25 Crores and our total revenue of Consumer Division were about INR 220 Crores including Borosil and Larah. I am only talking about the consumer division not including the Scientific Product Division. So the consumer division did INR 217 Crores Borosil plus Larah. Out of that we spent INR 25 Crores on Ad spend. That is why I am getting 11% actually slightly higher than 11 may be 11.5%.
- Kinjal Jagani:** Thank you Sir. All the best.
- Moderator:** We have the next question from the line of Suhani Doshi from Edelweiss. Please go ahead.
- Suhani Doshi:** Sir my one question is how do you see the margins moving from here on for the next two three years since we have so many corporate exercises happening within the Company?

- Shreevar Kheruka:** I think the margins in the Scientific division will be relatively stable with a positive bias because again GST impact will come and that should help us. As far as the Consumer Division is concerned, I would like to see a substantial margin improvement. I have already got into the four improvement areas. I can highlight them again briefly. One is improvement in Hopewell because of higher productivity and second is because of reduction in our cost of warehousing and freights basically distribution cost with the centralized warehouse and GST coming into play. Third is the advertising and sales promotion as a percentage of sales will normalize from 11%-odd to may be 6% to 7% and finally GST will have a separate positive impact on the traded items of the Company.
- Suhani Doshi:** Okay and when it comes to the growth prospects for your scientific as well as consumer if you can help us?
- Shreevar Kheruka:** When I say medium run over next three years we hope to do a CAGR 15% to 20% in Consumer Division and 10% to 12% in Lab Division. Klasspack could be higher. Klasspack we hope to do 20%.
- Suhani Doshi:** Thank you.
- Moderator:** Thank you. Next we have a follow up Janiel Jhaveri from J&J Holdings. Please go ahead.
- Janiel Jhaveri:** Thanks for taking my question again. Just wanted to know the Vylene margins were they included in the FY2017 results?
- Shreevar Kheruka:** No. The footnote has been given in the presentation, which gives you what Vylene margins were. The EBITDA for Vylene for FY2017 was INR 12.4 Crores as against 10.5 Crores for the year before. This is a provisional number.
- Janiel Jhaveri:** Okay so that means then this will be actually included in the margins in the consumer ware business next year?
- Shreevar Kheruka:** I think the merger may happen in the last quarter or may be in the Q3 of this year so obviously the numbers will only consolidate after merger but in FY2019 you should get the entire impact of this. Vylene does both consumer and scientific so it is going to be split between the two.
- Janiel Jhaveri:** Thank you.
- Moderator:** That was the last question. I would now like to hand the conference over to the management for closing comments.
- Shreevar Kheruka:** Thanks everyone for all your questions. I hope we could answer most of them. For a few questions I said that we would come back. Please contact us via email and we will try and provide the answers in

the best way we can. Appreciate you all listening to us and I hope we will continue the growth we have had in the last year or two in the coming year as well.

Just a couple of things that I want to emphasize - for Q1FY18 as you may have heard from other companies too, our distributors may reduce stocks because of impending GST. So that is just a concern which should subsequently get normalized over the entire year. Second, we will be continuing our strategy of selling more products to the same customer, both in the scientific division and the consumer division. So I hope that we will have success in this year itself. Thanks very much. Look forward to chatting with you guys after the Q1 results are through. Thanks.

Moderator:

Thank you very much. On behalf of Edelweiss that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.