"Mold-Tek Packaging Limited Q3FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2018 Conference Call of Mold-Tek Packaging hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you Sir!

Abhishek Navalgund: Thank you Lizann. Good evening everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all on this 3Q FY2018 Earnings Call of Mold-Tek Packaging Limited. We have with us the Managing Director of the Company, Mr. Lakshman Rao. So without wasting much time, I will hand it over to you sir and then we can start with the Q&A sessions.

J Lakshman Rao: Thank you. Good afternoon everybody, I am pleased to inform you that company continues to do a decent performance rather than a better growth in this third quarter ending December 31st.

The comprehensive income increased of the rise in equity investment value in Mold-Tek Technologies was about 5.5 Crores, has gone up to 13.28 Crores for this quarter…

Moderator: Sorry to interrupt, excuse me sir this is the operator, sir your voice is running a little soft can you come little more closer to the mike.

J Lakshman Rao: Okay, how is it now.

Moderator: Sir better thank you.

J Lakshman Rao: I will start that the net profit, the profit after tax has gone up to Rs.7.75 Crores from about Rs.5 Crores last year Q3 up by about 52% and EBITDA margin has gone up by about 11% that is 17.15 to 19.12. In terms of our EBITDA per kg also while the Q3 of last year we had about 26.8, has gone up to 33. The overall comprehensive income that is inclusive of the rise in equity value our investment values is up almost three times to Rs.13.28 Crores from Rs.4.36 Crores last year. One of the important aspects of this quarter is the Food & FMCG sales continue to grow and first time in the history it crossed 20% where about 20.28% contribution came from the Food & FMCG sector and the average for the three quarters is up to 17.14% from 5.25% last year. So majority of the growth during the current year is mainly through the growth in Food & FMCG. So another development which we are noticing in the last few months is the revived demand for our edible oil pack both 5 litre and 15 litre which we introduced long ago, but there was a resistance in the market due to high cost and some of the features which were not suitable for their filling line. Those corrections have been done in the last six months and after that the pack is doing pretty well in the market and the numbers started picking up in the last two, three months and even in this quarter that is the Q4, we see considerable jump in numbers for the edible oil packs. So that will augur well to our overall targets of increasing the Food & FMCG sales. Hopefully we will close the current year from 17% in the nine months to probably around 18% overall, that is some 5.25% to almost 18% will be contribution for the Food & FMCG sector.

We are also glad to inform you that we are introducing 12 components and six sets of containers suitable for ice cream, chocolate, biscuits and other food products, the molds and robots all are connected, this is one of our expansion plans of the Hyderabad Unit which we announced in the month of September, October last year. So those molds and machines are all installed and first phase of production will be starting anytime now. Some of the machines already gone into production, but majority of them would be going into production from February to April and much ahead of the June target, we will be starting the commercial production of all these products. So they should add reasonable numbers in the coming quarters starting from April onwards. In addition to this, the company is also planning to add a range of containers for ghee packaging. Already the 15 kg ghee pack is catching up and there is a tremendous demand for the retail pack right from 100 grams to 1000 grams that is 1 kg and this range will be introduced by July, August this year and that should further enhance our range of food packaging products in the market. So with all these plans going on anvil, company expects to see further growth in Food & FMCG going forward in the future quarters. I am also glad to inform you that the Mysore and Vizag plant for Asian Paints are progressing well, Mysore construction started hopefully by June we will complete the construction and by August, September we will be going into trial production. By January 2019 Vizag plant also would go into trial production and both these two plants will add considerable numbers from the year next financial year that is 2019-2020. So all the plants what we were discussing over the last few quarters are still being on track and some of them are ahead and thanks to the jitters of GST being under control now, we see consistent growth and the demand for new ideas and innovative packs which we wanted to introduce in the Food & FMCG.

One of the only setbacks that I see we expected the RAK plant to get into (BEP) Break Even Position by January we got orders from Total Lubricants and Al Rawabi, Al Dahra Dairies in that area but those Line Tiles and commercial component supplies are got delayed to Feb, March and sub January but those orders are on hand now, so probably from March, April or at least from the New Year April we would be operating about the breakeven point in RAK. So this is the basic information I want to share with you, however if you have any specific questions I will be glad to answer them. Over back to the operator.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Rahul Maheshwari from IDBI Asset Management. Please go ahead.

Rahul Maheshwari: Good evening. Very good set of numbers. I have two questions first of all, is the guidance right now the EBITDA per kg is at Rs.31.3 to Rs.31.5, going forward can we expect the guidance which was being given by you to bring it to more than 33, is that being intact and if it is that how is it to be achievable in terms of margins and volume. Can you give some color on that?

J Lakshman Rao: Actually the EBITDA per Kg is turning around 33 now for the Q3 also we achieved 33 so the average is little above 33 and we hope to continue the same or little improved given our increase in sales and contribution from the Food & FMCG, but the pails of 15 litre edible oil though they contribute better than the lubricant and paint containers, they do not contribute as much as the thin-wall containers of small size, but however the overall combined EBITDA margin in kg terms should be improving marginally from 33 as the better utilization happens in the coming quarters.

Rahul Maheshwari: Can we expect by FY2020 to bring to 38 which you had guided in some of the things… bring to 37 to 38 per kg?

J Lakshman Rao: I do not think I ever said that but internally we target to reach 35 that itself is a good number considering the growth coming in from Asian Paint plants which we are setting up in this year and by 2021, they will also be operating and adding good numbers. So the overall weighted average would be I do not think it will be 37, 38 but 35 is a good estimate.

Rahul Maheshwari: And can you give some guidance in the current quarter how was the paint division because across major of the paint division sale has been taken from the Asian Paint and Asian Paint was not up to the mark in terms of the volume growth kind of thing, so can you give some colour what was the contribution no doubt from paint segment during the quarter was Rs.38 Crores but can you give on volume terms how the needle moved?

J Lakshman Rao: Yes you are correct the paint industry has surprisingly not done well, I would not be really surprised because GST is one of the impact on the consumer products like paint, consumers whatever construction product and the impact on Q2 to Q3 is considerable. We also notice our pails movement has come down more than 10% from Q2 to Q3. So thanks to the increase in the food packaging and lubricants also to some extent we sustained and grown in a decent way. Yes paint industry is of concern, this…

Rahul Maheshwari: Sir in the current quarter also you are finding bit of the volume tapering off for paints segment?

J Lakshman Rao: Yes.

Rahul Maheshwari: Any specific reason behind that because there was no such kind of we have gone through GST stabilization and DeMon and all those things so any specific reason behind this paint industry's volume getting tapered?

J Lakshman Rao: By the time, the GST impact is over that is September, October so as you correctly said for this third quarter it should not be blamed on GST but I think the construction activity has slowed down and lot of housing startups have not really picked up in this quarter which are completely related to paint sales. So we are anticipating in the coming quarters there may be a good rebound in demand from the paint industry but as far as the Q3 is concerned it is… generally Q3 is always little less than Q2 because after the Diwali festival the convention of paint comes down drastically but not as aggressively dropped as in this year. This year it is more than 10%, 12% generally it used to drop around 5% to 7% so I would say the drop is about 5% more than what it was used to be.

Rahul Maheshwari: The second question is as you mentioned in your commentary the new drivers of growth which is being visible in terms of the edible oil packaging, you are getting the orders back in ghee and ice cream so what kind of this innovative growth drivers can contribute towards your FY2020 as you said edible oil is a very big opportunity for you so in terms of the overall contribution, how big it can be in terms of the Food & FMCG also?

J Lakshman Rao: Edible oil is more than a Rs.1000 Crores opportunity for these two packs alone but I do not want to guess any big numbers because when we guessed better things two years ago it did not happen, I would be very happy even if you give Rs.30 Crores to Rs.35 Crores additional turnover from edible oil and ghee packs in the coming year that is 2018-2019 and Rs.50 Crores in the year 2019-2020 which are decent numbers but should be achievable but I will keep my fingers crossed because last time two, three years ago when we expected this sector nothing much happened, but this time the packs have undergone complete transformation we have improved the strength and stability and transportation worthiness and even the couple of buyers who have stood by this pack, they also made modifications in their filling lines and transportation logistics which has resulted in this pack reaching very safely and the damages are almost negligible and of course the pricing difference of thin to plastic continue to be there on the negative side, but now the market is ready to pay for the value of the pack and the cleanliness or what you call contamination-free packaging of edible oil. So you might be aware I circulated sometime ago a note published in Economic Times by FSSC that is Food Control, Food Safety FSSC, where they categorically said they will ban the reuse of tins which is very rampant in the edible oil sector and they also indicated that printing and other aspects of edible oil packaging and food packaging will be monitored very closely by FSSC to ensure free from contamination and infections passing through this kind of faulty packaging. So there are some companies looking at that angle also and if that start happening the best packaging possible for them is our pail packaging, but let me not get over excited on that, what I feel is Rs.30 Crores addition in the next financial year from this segment is more than sufficient to keep our growth plans intact.

Rahul Maheshwari: And last question just I want to squeeze. RAK plant as you said that the orders have been deferred you means some mostly getting from April, you earlier told that the average run rate for sales can be in Rs.8 to Rs.9 Crores per quarter. So from FY2019 can we expect full capacity utilization of 3000 tonnes from RAK plant going forward?

J Lakshman Rao: Yes the quarterly we are now touching about the Rs.3 Crores per quarter, the new orders from Al Rawabi, Total Lubricants, and Al Dahra I think the three clients would be in a position to add about a Crore per month so next quarter we can expect that to happen that is April quarter not this fourth quarter for the nine months, we did about Rs.6 Crores as against 1 Crore in the four month of last year operations. This might in this Q4 probably we may do around Rs.2 Crores to 2.5 Crores ending the year at around Rs.8 Crores to Rs.8.5 Crores but net year we are aiming at not less than Rs.24 Crores, Rs.25 Crores for the entire year we could be very close to our breakeven point.

Rahul Maheshwari: But as you have told that – as you earlier told that 3000 tonnes you are getting the order and that capacity can be utilized why it would be just at a Rs.24 Crores to Rs.25 Crores whereas the sales can take place for more than Rs.30 Crores kind of thing?

J Lakshman Rao: Yes it is possible, but given the sluggishness in the economy in those countries I wish to be more cautious in projections but definitely this next financial year we will be gradually breakeven point.

Rahul Maheshwari: Thank you so much sir.

Moderator: Thank you. The next question is from the line of Chinmay Sapre from DSP Blackrock. Please go ahead.

Chinmay Sapre: Sir can you help with the volumes overall and IML volumes for the quarter?

J Lakshman Rao: The overall volume for the quarter in tonnage is 4807 tonnes of which non-IML is 46% that is 2220 and the rest 53.8% is from IML. Last year Q3, it was 50.6. It has now gone up to almost 54. So that is the improvement in the Food and IML pails together.

Chinmay Sapre: And how much would the volumes from RAK this quarter?

J Lakshman Rao: RAK this quarter is tonnes wise you have 240 tonnes, 130 tonnes.

Chinmay Sapre: And Sir in the previous quarter you had mentioned about being in discussion stage with the Food & FMCG client, so what is the status of that?

J Lakshman Rao: In RAK?

Chinmay Sapre: No you had generally mentioned that you are in discussion with one MNC in Food & FMCG.

J Lakshman Rao: Yes. No that is going on, we are now at the stage of sample development and pilot development. So the project might start sometime in June, July.

Chinmay Sapre: But it is not a confirmed order as yet.

J Lakshman Rao: No, no confirm means, they already invested on the pilot mounts and did their line trials and everything, so it is almost confirmed the phase I will start in June, July.

Chinmay Sapre: And you had also mentioned about being in discussion with a paint company for new order.

J Lakshman Rao: Yes, that order is being now slowly taken up on the back wheel because they are deferring their plans and extending their timelines due to GST and other disturbances. I think now they have pushed from March to almost to the end of the year and they are also considering to have same standard molds to have competitive pricing so in which case we may not get a dedicated plant to set up for them like Asian Paints, we may also be one of their suppliers.

Chinmay Sapre: Fine Sir, that is it from my side. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Good afternoon Sir and congratulations on the good set of numbers. Sir what you had given the target of EBITDA per kg around 35 that is for the Indian operations, that is for the standalone business, is that correct?

J Lakshman Rao: Yes we are aiming first at the Indian business.

Vishal Rampuria: Sir, can you comment on the capacity utilization for next two years particularly for Indian operations what kind of the volume growth we can expect for next two years particularly from India?

J Lakshman Rao: Yes we are aiming at, at least 15% annual growth in volumes which maybe in value terms can be better than that. So on volume terms it is only 15% because food and thin wall, on weight basis they are much lighter than the paint and lubricants so a 15% increase is what we are projecting for the next few years.

Vishal Rampuria: Sir in terms on value wise what is the revenue breakup for IML and non-IML for current quarter for this quarter, in terms of value wise?

J Lakshman Rao: In terms of value wise the IML sales have shot up almost close to 60% now that 59.7% compared to 51% last year in Q3, so we are now close to 60%, 59.75%.

Vishal Rampuria: Sir and one more question actually. Sir you have commented on the edible oil, so the traction is largely due to price drop in our product?

J Lakshman Rao: No, actually there is no price drop, actually price has gone up, raw material prices in the last three four months have gone up, now the lines have been corrected by a couple of medium-size players I do not say they are major players in the edible oil sector, but they have very progressive thinking and they have gone aggressively into marketing our pack and found excellent response from the dealers and distributors and we did some corrections in the mould and product designs which enable better logistics and stability in transportation which in turn is helping them to safeguard the end product. So both these two efforts together have really come into a stage where they are completely converting from tins to plastic but that alone is more than a Crore of rupees per month and now another three four active enquiries we are pursuing, so I am confident that the numbers in edible oil should well in the coming quarters.

Vishal Rampuria: So there is no any price drop for our products largely?

J Lakshman Rao: No, the price differential will continue to be there, as I explained to you with FSSC pressing on the oil manufacturers not to use tins especially do not reuse the tins, there is definitely thinking and push for them to look at alternative packaging.

Vishal Rampuria: Fair enough Sir. Okay fine sir that is all from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Bobby Jayram from Falcon Investment. Please go ahead.

Bobby Jayram: Hello. Who are your biggest competitors domestically?

J Lakshman Rao: In where, in what?

Bobby Jayram: In lubricants, paints and in FMCG.

J Lakshman Rao: In paint we have Hitech Plast Containers in Pune, Daman are our main competitors they are Ashish Head Company of Asian Paints, second in the lubricant side also the similar Hitech and Jolly but coming to food side we do not have any organized listed company. There are one or two companies like Kap and Cones in Delhi area and another company is somewhere in Ahmedabad two, three companies are there with small setups in food packaging.

Bobby Jayram: Alright, this food packaging require independent clients like you have with Asian Paints or is it more on a order basis?

J Lakshman Rao: You mean paint container or food. Food is predominantly for Cadbury.

Bobby Jayram: I understand but does that required separate plants that is deducted to a specific manufacturer?

J Lakshman Rao: Plant you mean to you say, a different manufacturing plant?

Bobby Jayram: No, what I mean is you have a dedicated plants for Asian Paints product?

J Lakshman Rao: We have plant at Satara dedicated for paint industry but that does not mean that we cannot manufacture food products there by having an earmarking area with controlled atmosphere, we can also product food products in that plant.

Bobby Jayram: So you do not require separate plants for that?

J Lakshman Rao: There are some changes if you want to really high-productive small components thin wall components there are different setup, injection moulding machine is more suitable but for products like this edible oil pack, even the pail container machines can be used for producing those products. So there is some commonality but there is also need for different set of moulds if the products are smaller and more voluminous in quantities

Bobby Jayram: Alright, thank you.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: My first question is on the volume front when you said 4807 that is included volume from RAK plant as well?

J Lakshman Rao: No this is standalone.

Pragya Vishwakarma: And talking about your investment towards the Asian Paints two facilities which we are putting up what is the kind of capex we have done there so far?

J Lakshman Rao: So far the main investment was on land and buildings have started and moulds also we have started investing. I would say the overall maybe about Rs.10 Crores so far and remaining Rs.20 Crores to Rs.25 Crores have to be invested in the next financial year or in the next few months.

Pragya Vishwakarma: And we expect to commercialize these plants in August and December right, next year?

J Lakshman Rao: Yes August trial production will start in Mysore and December, January in Vizag.

Pragya Vishwakarma: And what is the kind of payback we look from these plants?

J Lakshman Rao: Typically five years, four to five years.

Pragya Vishwakarma: So is it pertaining to this investment or in general, our payback is about four years for any plant?

J Lakshman Rao: Typically we aim at four years payback for any plant and if it is specifically for Food & FMCG it could be even shorter.

Pragya Vishwakarma: And my last question is on raw material pricing, can you give little guidance how the raw materials have moved in last two quarters?

J Lakshman Rao: Yes the raw material prices have been consistently going up over the last four, five months but as I always told you we have no impact of it on the profitability because we pass on the raw material price hike every month to the clients and even if there is a drop in the price, we pass it on the subsequent month. So as the prices go up upwards, we will have a one month lack that is one month disadvantage which we have noticed in this quarter because consistently the prices have been going up, but now they are stabilizing I hope they will stay there.

Pragya Vishwakarma: And as you said, your volume guidance for next two years maybe 15% or so and higher number of revenue maybe due to price realization right?

J Lakshman Rao: Yes.

Pragya Vishwakarma: So what kind of capacity utilization will we have in FY2020 considering your RAK plant is operating at some optimum level and in India also, the expanded capacity in Asian Paints and FMCG is, up so what is the optimum utilization you look for yourself in financial year 2020?

J Lakshman Rao: See in a continuously growing company while we create new capacities and start using them, we will be again adding new capacities and obviously the new capacities take some time to occupy. So I will be very happy if you operate between 70% to 75% at any given time.

Pragya Vishwakarma: And our current capacity would be how much including RAK?

J Lakshman Rao: It was 30000 tonnes including RAK. If you remove RAK it is around 27000 tonnes, out of 27000 tonnes we are going to do I think around 18000 to 19000. How many were done in this nine months. So far we did around 14600 and another 5000 tonnes we hope to do in the fourth quarter, so we might end up to around 19500 which is close to 70%.

Pragya Vishwakarma: So probably FY2019 we will have capacity of 33000 tonnes considering our Asian Paints plant right.

J Lakshman Rao: Yes, Asian Paints 6000 tonnes will be added. Partially at unit I also we are adding some food capacity. So somewhere around 33000 but 33000 would not be available from the day one it will be available from August in Mysore and December in Vizag. So on an average you can say from 27000 tonnes, we may go up to 30000 tonnes, average capacity availability.

Pragya Vishwakarma: Thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Charmi Mehta from Prabhudas Lilladher. Please go ahead.

Charmi Mehta: Sir my questions were on front of volume, Sir, can you give us the details about RAK volumes in Q3 last year?

J Lakshman Rao: 137 tonnes.

Charmi Mehta: And the domestic volumes?

J Lakshman Rao: Domestic is 4800 in this quarter this quarter, Q3.

Charmi Mehta: Q3 last year right?

J Lakshman Rao: No, this year current year.

Charmi Mehta: No Sir I wanted for Q3 last year for domestic and RAK.

J Lakshman Rao: Q3 last year was 4150 and Q3 last year was 0 in RAK because we just started in the end of November or December so negligible.

Charmi Mehta: And can you also give us segmental volumes between paints, lubes, and foods for this quarter?

J Lakshman Rao: In the Q3 or.

Charmi Mehta: Yes.

J Lakshman Rao: In Q3 2364 tonnes in paint, 1821 tonnes in lubes, 625 in Food & FMCG.

Charmi Mehta: And the same bifurcation for Q3 last year?

J Lakshman Rao: IT was 2413, 1536 and 201.

Charmi Mehta: And my last question would be can you give us the value-wise mix of our paint lubes and foods for this quarter and same quarter last year?

J Lakshman Rao: Yes it is Rs.38 Crores this year which was 37.9 last year, so just a couple of points up or down. Lubricants Rs.28 Crores as against 23.4 last year and food is 16.83 as against 4.5.

Charmi Mehta: Okay Sir. Thank you so much Sir. That is it from my side right now.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: Just a question on your other expenditure for the quarter, it was essentially down on a Y-o-Y basis and this trend is being…our last three quarters I am getting the same thing so what is the specific reason for the same.

J Lakshman Rao: Other expenditure coming down you are saying where is the other expense?

Manish Mahawar: Yes if you look at it is around Rs.9 Crores, Rs. 9.5 Crores for the quarter. If you look at last year it is around Rs.11 Crores to Rs.12 Crores around.

J Lakshman Rao: What is the content of that other expenditure?

Management: Other expenditure power and fuel maintenance and every year we use it to provide that CSR expenditure and as in the GST, we have not…

J Lakshman Rao: From where is that coming now?

Management: The other expenditure only, it is not required.

J Lakshman Rao: Where is it appearing?

Management: It is not appearing.

J Lakshman Rao: In Ind-AS accounting practice the CSR expenditure was earlier shown in other expenditure which not provided now that is a considerable amount. That is a major difference between other expenditure, I mean reason for other expenditure coming down.

Manish Mahawar: And secondly is the data available with you, can you give me a last four quarters your standalone as well as an RAK volumes possibly you have already given for this quarter Q3, if possible Q2, Q1?.

J Lakshman Rao: RAK are negligible I have the standalone numbers, can I give them?

Manish Mahawar: Yes, you can give that numbers.

J Lakshman Rao: Yes the sales in Q1 this year 4900, Q2 4420, Q3 4810.

Manish Mahawar: Understood and Sir last question for your Asian Paints new plant which is Mysore and the Vizag FY2020 basically what is the utilization level you are expecting from that two plants?

J Lakshman Rao: FY2020 yes we should be hitting at least both of them together a 50% capacity utilization at least 3000 tonnes.

Manish Mahawar: Sure, thanks and all the best.

Moderator: Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: Sir thank you for the opportunity and congratulations on good set of numbers. Sir just one question, most of my questions have been answered. So one question if you can just throw light on, currently we are saying that about 20% of our revenues in Q3 gain from this Food & FMCG, so if you could just help us understand the revenue breakup for the top clients that you currently service in this particular quarter vis-à-vis the last financial year same quarter?

J Lakshman Rao: Asian Paints continue to be the number one client for us in spite of the drop in their numbers Kansai Nerolac comes number two Castrol is number three Mondelēz has taken the place number four from AkzoNobel which was last year number four in our client sale wise.

Suvarna Joshi: Sorry to interrupt can you give us the percentage contribution that these clients have a share of?

J Lakshman Rao: Yes, I can give you approximately Asian Paints is around 26% to 28% Kansai is around 12%, 13%, Castrol is around 10% to 11, Mondelēz is around 9% to 10% AkzoNobel is around 8% so these are the top five.

Suvarna Joshi: And this was similar one even in the previous year's quarter?

J Lakshman Rao: No previous year Asian Paints were almost at around 35%, 36% so others remain more or less same but Mondelēz was negligible last year less than 1% and today they are almost close to 9% to 10%.

Suvarna Joshi: Sir and the second question is if you can just highlight to us you had mentioned about the same, also you mentioned in your opening comments that some 12 new containers you will be launching for thin wall so how different are these containers from the existing ones and what is the peak revenue that we can expect from these thin-wall containers.

J Lakshman Rao: These thin wall containers are general purpose packaging mainly ice creams are their first focus and then we have food products like toffees, biscuits, or even pasty like pastes and powders which can be consumed for food applications. Actually there are six containers, six containers 12 moulds I said. So these containers at their peak level if they, I mean, all of them run at their peak level and we are able to sell their full production, they will be able to contribute around Rs.30 Crores to Rs.40 Crores per annum so first year we do not expect that. Probably it will be about 20% to 30% but in year FY2019-2020 probably we can cross at least 50% to 60% revenues from that.

Suvarna Joshi: Sure Sir. Sir that is from my end, thank you and wish you all the best. I shall come back in the queue if I have any question.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Markets Securities. Please go ahead.

Karan Bhatelia: Sir my only question is on the effective tax rate on the standalone NPT and on the RAK plant so if you can throw some light on that?

J Lakshman Rao: Effective tax rate of income tax.

Karan Bhatelia: No I said below the PBT line… for taxation this year this quarter is at 34.2 compared to 38.4 for Q3 FY2017.

J Lakshman Rao: That is some aberration due to again Ind-AS way of accounting actually you are correct in Q2, we have provided only 27% as tax as against almost 34%, 35% this quarter that is why the quarter numbers look lesser though the actual PBT is higher compared to Q2 due to that Ind-AS accounting standards, there was much lower taxation last quarter and higher taxation this quarter.

Karan Bhatelia: So for FY2019 and for FY2020 what can be assumed?

J Lakshman Rao: I think yes FY2019-2020 full year you can take 34.2 or whatever is the effective tax rate at full level.

Karan Bhatelia: And at the RAK plant?

J Lakshman Rao: RAK plant is not making profit this year. If, they make profits next year or onwards, they are not taxable because they are in free trade zone and because of the UAE and Indian tax agreement, the profits if they are brought to India are also not taxable.

Karan Bhatelia: That is it.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Sir just questions on RAK, Sir can you help us with the total value and the revenue in terms of the RAK that is registered in the third quarter?

J Lakshman Rao: Third quarter as such, the overall is around Rs.6 Crores I think in the third quarter it is 2.2.

Jatin Damania: So Sir in RAK, are we seeing and in terms of the realization dip because the last quarter we almost clocked a realization of almost around Rs.175 to Rs.180 per kg whereas in this quarter we have seen the realization coming sub 170 so is it that because of the change in product mix or what is that?

J Lakshman Rao: Yes change in product mix earlier we were doing more of this dairy products, but recently w have added lubricant companies like Shell and Gulf where the product size is bigger but per kg realization is lesser than small containers like yogurt containers and all.

Jatin Damania: Sir how do we see the realization trend going ahead in RAK plant?

J Lakshman Rao: Realization trend will moderate because the bigger pails are coming in now. One of the reasons why our capacity utilization low is we were always getting orders of dairy's and small components but the bigger ones were elusive but now we got total lubricants which has developed 18 litre pail for them and also grease pack for them and AkzoNobel who got delayed it by six months so hopefully they will launch in March so these are bigger pails, so going forward also we might see sub Rs.170 kind of value addition but the overall quantities will increase.

Jatin Damania: So that means on the operating level that is on the EBITDA level where we are estimating earlier that it will be in the same in line with the domestic operations, so can we assume that on the EBITDA front we would be doing sub Rs.27 to Rs.28 per kg.

J Lakshman Rao: Yes it should be somewhere around 25 to 27, only advantage we have is the no tax regime so that effectively brings it back to 33, 34 level.

Jatin Damania: Okay sir that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: actually SIR we have plan for Mysore and Vizag from 3500 to doubling the capacity, so can you throw some light on that what is our actually vision when we plan to double that?

J Lakshman Rao: See this is more dependent on Asian Paints plans, according to their plans by 2003-2004 they expect the demand to double and they indicated to us that by then we should be ready with such capacities, so it is based on their projection, we are projecting these numbers and at Mysore, we are also planning to add a division or a part of the production for Food & FMCG because we see a lot of potential in that area and having all centrally producing the thin wall containers all from Hyderabad is also not good, so we wanted to derisk by setting up some facilities for food packaging in Mysore. So in the phase I itself we are going ahead and adding four machines and robots to produce some food product packaging products from Mysore.

Vishal Rampuria: Sir actually there is a bit of confusion in capacity, so after considering the current what we expanded in Hyderabad 3000 so after considering that it is 27000 is that correct, installed capacity currently?

J Lakshman Rao: No actually the 3000 tonnes is not yet completely added, a few machines have come, so hopefully by March and June we will be completing the addition.

Vishal Rampuria: So after considering the Hyderabad, Mysore and Vizag, so our total capacity will reach to 37000 is that correct?

J Lakshman Rao: Yes 36000, 37000 that will be almost January next year. So effectively it will be available for the year 2019-2020.

Vishal Rampuria: Sir actually what is the strategic thought and what is your vision on UAE capacity getting into UAE so you are anticipating a big opportunity in that Middle East kind of the market, so can you elaborate more on this, so just wanted to understand in that angle what is your vision, going ahead if you like to add more than 3000 particularly in that place?

J Lakshman Rao: Certainly in future maybe but as of today our main concern is to make sure the plant is at least 70%, 75% operative by second half of the year, next year and the idea was to reach onto those gulf countries where IML containers are used but they were brought from Turkey and Egypt and other European locations. So we have found that reasonably accepted in the dairy industry. In the paint and lube industry, they are still in the tins so converting them from tins to plastic is taking as longer than expected time and their comparisons of pricing with the tin which is obviously a cheaper product is causing a little delay and given the economic depressed condition, most of those companies are reluctant to shift quickly so that is where our calculations if you ask me gone wrong to some extent, so they were taking little longer time to convert to little expensive pails which of course look better and easy to transfer it and easy it to handle comparing to tin but their economics have little slowed down the adaption.

Vishal Rampuria: So certainly we have higher pricing power in that UAE market is that correct, compared to Indian operations, would we be able to get the higher margins and higher realizations?

J Lakshman Rao: Not really, they are equivalent what I say is the tax benefit is one and adding geographical area is the second thing which was behind our thought process to start RAK plan. Unfortunately the academic situation in UAE and gulf countries in the last couple of years is not so encouraging, so they shift from a little cheaper packaging to better looking but a little expensive packaging is not happening the way we anticipated.

Vishal Rampuria: Fine Sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Sir I have a followup question one thing is that you mentioned that RAK can have an average realization of about 170 per kg right.

J Lakshman Rao: Yes I did not calculate actually what was it, it would be, are we at 170 because there the raw material cost are less it cannot be 170, 170 is in Indian paints and lube industry, but RAK I need to recalculate can you – you can send a question I will reply on email.

Pragya Vishwakarma: Yes okay because if I take 3000 tonnes capacity and assume a realization of about 170 on an average, I think RAK can help us generate revenues to the tune of Rs.50 Crores, Rs.51 Crores.

J Lakshman Rao: Yes at peak capacity, which can be taken safely at around 80% to 85% as a peak beyond that in injection moulding, it is not possible so at peak level that plant can produce around Rs.40 Crores.

Pragya Vishwakarma: Is it possible for you to give us realization for the Asian Paints plant in Vizag and Mysore the new facilities?

J Lakshman Rao: That is again a dynamic pricing as of today our realization here in India is more than 170 that could be even 175 sorry India means in the rest of the plants in India, so we hope similar pricing will be able to get from Asian Paints in those two plants also.

Pragya Vishwakarma: Okay and what is the kind of full year capex we will be doing for financial year 2018.

J Lakshman Rao: Yes, we already did Rs.30 Crores so for in the nine months and the commitments what we made takes it to almost Rs.40 Crores for the current financial year because part of the Mysore plant will be invested in this quarter but most of the investment in Mysore and Vizag will happen in the first quarter of next financial year onwards, which might take the next year investments also to the tune of around Rs.30 to Rs.32 Crores apart from all additions in the Mysore food packaging unit.

Pragya Vishwakarma: Sir, this in nine months I am assuming Rs.15 Crores is going towards Asian Paints plant right out of…?

J Lakshman Rao: Out of 31 no, not yet we have spent around Rs.7 Crores, Rs.8 Crores on land and development fees and architectural fees and some part of constructions. By end of this financial year probably yes we will be close to Rs.9 to Rs.10 Crores we will spend and the remaining Rs.20 Crores would be spent in a next nine months before December calendar year 2018.

Pragya Vishwakarma: And the company is generating enough cash flows to fund it internally for the next year as well?

J Lakshman Rao: More or less because our cash flows this year including depreciation would be in the tune of around Rs.43 Crores, Rs.44 Crores even set off Rs.10 Crores to Rs.12 Crores for dividend, we will still have around Rs.32 Crores, Rs.33 Crores but this year we are spending more than 40 so we dipped a little bit into our working capital which was not utilized, so there we see you might notice that is where the interest has gone up marginally in this quarter compared to the previous quarter because we are using better higher limits in the working capital. So going forward next year we anticipate the cash flows after paying dividend in the tune of Rs. 38 Crores which should be sufficient to take care of our investments next year.

Pragya Vishwakarma: And my last question was on RAK, is the working capital situation better than India in RAK or how is it?

J Lakshman Rao: Yes, working capital is available only thing is they charge lesser interest than India so you get a better pricing there.

Pragya Vishwakarma: And in number of inventory days and debtor days, how is it?

J Lakshman Rao: Debtor days is not as bad as in India or as good as in India. Actually the standard terms in Middle East is 90 days so it is not better than India at all.

Pragya Vishwakarma: Thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: Just one question on the stock exchanges we filed a notification stating that we have annulled the payment of interim dividend so was it for the same purpose of ploughing back the dividend into the bridges or what was the thought process Sir?

J Lakshman Rao: No there is no withdrawal it is only delayed to April because basically there was some miscommunication, if we pay in February it will become a third payment in the financial year. We did pay in April and end of September this year, so this will be a third payment and board felt that would not help anybody in terms of dividend taxpaying and then dividend distribution tax and individuals paying on dividend tax also might get affected so and also as you said there is no point to rush the payments when we already made two payments in a financial year, so board decided to defer it to April.

Suvarna Joshi: So for FY2018 we will have the three dividends that have been announced and has the board announces for the third one?

J Lakshman Rao: No only two, two are paid in April and September, this February we defer to this April that is 2018 April so effectively it will fall in the FY2018-2019.

Suvarna Joshi: Alright great, thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek Navalgund from Nirmal Bang. Please go ahead.

Abhishek Navalgund: Sir just wanted to understand when we say our proportion of food and FMCG is increasing, so let us say in this quarter it was 21% on the base of 5%, 6%, so why it is not being reflected in the gross margins because when we look at the operating margin in this quarter and compare it with the last quarter, it is largely because the savings in the other overheads, which you mentioned that because of change in accounting treatment of CSR expenses as per IND AS. So I just wanted to know that?

J Lakshman Rao: No when we compare it to Q3 to Q3 there is a short up of more than 43% in the EBITDA from Rs.11.11 Crores the EBITDA has gone up to Rs.15.87 Crores. Per kg also gone up from 26.7 to 33, so almost 23% increase in per kg realization, so food increase from 5% to 20% is amply reflected in the increased EBITDA both in terms of per kg and in terms of percentage also.

Abhishek Navalgund: But only my question was see why it is not being reflected in your gross margins, Y-o-

J Lakshman Rao: What do you mean the gross margin, is it EBITDA you are calculating or PBT?

Abhishek Navalgund: No gross margins, your sales minus material cost. So when I say that there are higher margins in Foods & FMCG and my share is going up so basically my gross margin should also improve right?

J Lakshman Rao: But it has improved if you look at the…

Abhishek Navalgund: It is almost flat actually in this quarter and even on the nine months' side so that is what my only query.

J Lakshman Rao: I am not clear because as per the numbers I have in front of me Q3 of last year you are comparing or Q2 and Q3.

Abhishek Navalgund: No Q3 of last year only I am saying so let us say this time it was 40.4 as against 40.7 in the same quarter last year.

J Lakshman Rao: I think that you have wrong numbers.

Abhishek Navalgund: No I am not talking about the EBITDA margins, I am talking about the gross margins. So maybe we can take this offline and next question is actually when you say CSR we are not classifying in other expenses then where do we classify this under new treatment.

J Lakshman Rao: The expenditure spent only should be treated and that is shown where in the other expense. So whichever is not yet spent will not be shown. CSR declared but not spent, earlier it was shown. So last year it was shown, now it is not shown.

Abhishek Navalgund: Ok Thanks. And last question is on Mondelēz order so we had given this Rs.30 - Rs.35 Crores guidance for FY2018 and on the last call you spoke about this 25% increase in the orders coming in, so just wanted to get the update on that.

J Lakshman Rao: Yes we are in track and their growth is coming in.

Abhishek Navalgund: So any guidance in terms so topline from this in next year?

J Lakshman Rao: Yes we are assuming a 15% growth in volume wise and probably we have up to 18% to 20% topline growth.

Abhishek Navalgund: Actually I was referring to this Mondelēz order specifically.

J Lakshman Rao: In Mondelēz we are certainly going to see what we projected more than 24% growth on current year because the product is doing well and we are getting even opportunities of exports.

Abhishek Navalgund: Okay great, thank you and all the best.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from IDBI Asset Management. Please go ahead.

Rahul Maheshwari: As earlier you told that in the current quarter and plus still in the Q3 and going quarter also you are finding some volume tapering from paint industry and you are going for capacity expansion as what the Asian Paint has told. If at all the volume does not pick up what is the other plan for you guys because you are going for such a huge capex plan, so any alternative for that or you would be tapping the other areas?

J Lakshman Rao: Yes it is a good question as I explained to you in Mysore we have decided to go with half of the capacity for food packaging so we will have machines that are suitable both for food packaging and paint industry so that we will not find ourself in awkward situation if the paint industry or Asian Paint does not pick up the way they are projecting.

Rahul Maheshwari: So there would not be any loss on sales you mean to say is that…?

J Lakshman Rao: I would not say there is zero impact of it but the impact will be minimized by having other products like food packaging product also being produced in the same plant, capacity utilization, manpower utilization will be certainly better instead of depending on a single source.

Rahul Maheshwari: So the replacement which you are talking that the 50% would be utilized with the Food & FMCG, it is all the drivers which you told about edible oil, ghee, ice cream or it is apart from that the new FMCG clients that might be like HUL types which would be coming into your picture?

J Lakshman Rao: Yes all the options what you said edible oil if possible, thin wall ice creams and other containers can be moulded, even the new orders which we may get from other MNCs can be molded. So we will be making those plants more, spread the risk on more products than just paint side.

Rahul Maheshwari: And as you said if you look at your top five players contributed to more than 60% to 70% any plans to bring it down this over allocation of one typical client means are you working on multiple clients, how many clients are into, your pipeline for the Food & FMCG can you give some colour on that.

J Lakshman Rao: Oh! Yes all the top clients were in top three it is right from Procter and Gamble, ITC Foods, Nestle, GSK, Hindustan Unilever.

Rahul Maheshwari: All these are already are clients or…?

J Lakshman Rao: No they have tested us, used a little bit here and there like Procter and Gamble did, HUL did.

Rahul Maheshwari: Okay and they are in final stages you mean to say, all these clients whichever has done a sample testing or product testing. I was just asking whatever the clients, which you mentioned just now

ITC Food, GSK all these are into the final stage and what kind of business you are evaluating that they can bring on the table.

J Lakshman Rao: No we are not in final stage with anyone of them, we are in talks and we are only with ITC Agro, ITC foods, we made small supplies of containers for their Atta product recently and for others, we are in different products which I cannot explain now or open up are under discussion, a couple of them are progressing into commitments or orders, a couple of them are still in different stages of discussion, but I am happy to tell you that after the GST stabilized people are now again relooking at their packaging and innovations and stuff like that which was kind of halted in the first six months of the year. So going forward I hope next year, we will be adding at least couple of big projects.

Rahul Maheshwari: And by FY2020 what would be your guidelines today as on nine months the FMCG segment has reached 20% of your total topline, any target guidance you are expecting by FY2020-2021 this ratio to where it can reach?

J Lakshman Rao: 2020-2021 maybe little long to for a scenario to project but for the next year, we will be aiming at, at least 25% by end of the year but average like we are 17 now in the nine months hopefully this year, we may close at around 17% to 18%, so next year I will be happy if we are somewhere close to 22% to 25% range.

Rahul Maheshwari: Thank you so much Sir.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Abhishek Navalgund for his closing comments.

Abhishek Navalgund: Thank you to all the participants and Lakshman Sir for answering all the questions patiently, I will hand it over to you sir if you have any closing remarks.

J Lakshman Rao: I really thank you all especially Nirmal Bang for arranging this conference and to all the analysts and investors who have participated and patiently listen to your conversation. So I can only say that the company's plans are all on anvil. Yes RAK is little bit limping but it will be back on track in the next financial year and all the projects that have been going as being discussed in the past few quarters are on track and I will be very happy to see if edible oil pack takes off or at least does reasonably well in the next year, the numbers I projected can be with reasonable confidence I can say they can be achieved. I look forward to again talking to you in the next coming quarters. Thank you all once again, bye.

Moderator: Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining and you may now disconnect your lines.