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Mold-Tek Packaging Limited

Q1FY17 Conference Call Transcript

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Management:

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Moderator:

Ladies and gentlemen, welcome to the Q1 FY2017 results conference call of Mold-Tek Packaging Limited hosted by Emkay Global Financial Services. We have with us today Mr. Laxman J Rao, Chairman and Managing Director of Mold-Tek Packaging Limited. Along with Mr. Rao, we also have senior management of Mold-Tek Packaging. As a reminder, all participant lines will be in the listen-only mode. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhaval Mehta, Research Analyst of Emkay Global. Thank you and over to you Mr. Mehta!

Dhaval Mehta:

Thank you Karuna. Good afternoon everyone and welcome you all. We would like to thank the management for giving Emkay the opportunity to host this call. We have with us Mr. Laxman Rao, Chairman and Managing Director along with senior management of Mol-Tek Packaging. We will start with an opening remark by Mr. Rao followed by Q & A. Over to you Sir!

J. Laxman Rao:

Good morning everybody. Thanks Dhaval for arranging this call. I just want to give some highlights of the quarter's performance and then we can go on to the questions and answers.

I am very pleased to inform you that the company has clocked a 20% volume growth quarter-on-quarter compared to the first quarter last year, we have converted 5220 tones of polymers as against 4330 last year Q1, resulting in 20.5 % rise in sales volume. That has reflected in a handsome growth in EBITDA which has gone up by 32.30 % and profits after tax shot up by 35 % from 5.82 Crores to 7.83 Crores.

Accordingly, the annualized earnings per share have gone up from 8.20% last quarter to 11.32% or 2.83% for the particular quarter, as against 2.06 of Q1 last year. This handsome growth is propelled by growth in orders that have flown in from paint industry, because paint industry has a robust growth in the first quarter and also from public sector undertakings of Indian Oil and HPCL converting into IML, which has enabled Mold-Tek to grab these orders, because even today Mold-Tek continues to be the lone supplier of IML containers of bigger size which are consumed mainly by paint and lube industry.

Also some orders were received from FMCG and food industry, which have marginally increased the sales, but major orders of FMCG from Procter & Gamble, production would start from August, which would result in further increase in FMCG and food sales in the coming quarters. I am also pleased to inform you day after tomorrow, that is, on August 5, we are inaugurating our plant in RAK with a capacity of about 2500 to 3000 tones in the initial phase. Some of the orders are already received there from Shell and AkzoNobel in Middle East and also from some paint industry like RAK Paints. We are in talks with other paint industries like Jotun and Asian Paints out there. We are also in talks with some dairy industries that all want to see our facility starting and some of the clearances from the Food Inspectorate also were obtained. So probably in the next 2 to 3 months, we will be getting those clearances and for those products also, manufacturing would start.

Going forward, you might have all read the news about Asian Paints giving us an opportunity to set up two plants, one at Mysore and other at Vizag, Andhra Pradesh. These will be initially having a capacity of about 3000 tones going to production in the year 2018-2019 and to reach about 8000 in Mysore and 6000 in Vizag by the year 2021-22. So this will be a great opportunity because almost on the sales volume of last year, it is almost 80% in next five years time. So this kind of growth in numbers would be helping us to maintain 20% CAGR which we could achieve in this quarter.

Going forward, Food and FMCG also, we are in talks with Cadbury for one of their famous chocolate brands and we are also in talks with Nestle for their coffee cups and instant coffee. So these new products would be added in the next coming quarters and as expected, the Food and FMCG numbers will become significant in the coming quarters. So overall, the outlook looks good for the coming quarters. We hope to close this year at 20% growth over the last year volumes and may be reasonable improvement in the profitability.

I would like to restrict my talk on this. I think I have covered all the aspects. If you have any specific questions, you can now take over and I request Dhaval to take over and start the questions and answers.

Moderator:

Thank you very much Sir. Ladies and Gentlemen, We will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Question and Answer Session

Ravi Naredi:

Last quarter, IML was 44 % and others were 56%. Any changes in this quarter?

J. Laxman Rao:

Yes, we have done 47% in this quarter on IML as against full year of 44% last year and 40% of Q1 of last year.

Ravi Naredi:

RAK will start in this current quarter?

J. Laxman Rao:

Yes. Day after tomorrow we are inaugurating the plant and there are few small orders to start with from the paint and lube industries. Food industry might take another 2 to 3 months for all the clearances we require. So it will become more contributing reasonably from the 4th quarter onwards.

Ravi Naredi:

What is the position of order from BPCL and HPCL, which you have talked in last call?

J. Laxman Rao:

HPCL now we started supplies in the month of June and IOCL various samples are under clearances now. Some small supplies are made in June. It will be reflecting better in the coming quarters.

Ravi Naredi:

How much order we can expect in this financial year 17 from HPCL and BPCL?

J. Laxman Rao:

Order value is, I think, put together for more than 50 Crores for 2 years. So we can expect at least 20 to 25 Crores sales coming from these two public sectors.

Ravi Naredi:

This will be additional sale, because we are not supplying these things to BPCL and HPCL last year?

J. Laxman Rao:

Exactly.

Ravi Naredi:

Asian Paint plant installing in Vizag, what will be the capex size for Mysore and Vizag?

J. Laxman Rao:

Mysore will be little bigger but initially I am expecting both will be of same size. Eventually, by 2020-21, they are expecting us to provide 8000 tones of output from there and 6000 from Vizag. So initially we will be setting up a plant of 3000 tones in the calendar year 2018. We are going to production by middle of calendar year 2018 in Mysore, and in the 3rd or 4th quarter in Vizag. So both the plants will be operative in 2018-19.

Ravi Naredi:

Any further expansion plan you are taking place in this quarter in any other plant beside this?

J. Laxman Rao:

RAK plant is a major expansion.

Ravi Naredi:

That is okay. You are going to start in 2 days. But Mysore, Vizag and any expansion you have planned?

J. Laxman Rao:

No more locations we are planning. But there will be enhancement in Unit 1, that is, our Hyderabad Unit, because of the new FMCG orders that we are getting in. Those machinery needs to be added. There is no need for any land and building, only machines and robots.

Ravi Naredi:

Any new order you have received in this quarter and which you would like to share with us, Sir?

J. Laxman Rao:

I think I indicated last time Procter & Gamble's order for Ariel containers. That will be going into production on 20th or 25th of August. You will be seeing the containers from next month in the market. We are in a final stage with Cadbury for another reasonably big order.

Ravi Naredi:

Thank You Sir.

Moderator:

Thank you. Next question is from the line of Ankit Agarwal from Centrum Broking. Please go ahead.

Ankit Agarwal:

Thank you Sir for taking my question. Sir, I just want to understand, how much of Asian Paints and Castrol requirements do we be currently catering to and what growths can we see over there? Also if you could give us some idea from a value perspective how big can the P&G Ariel orders and Cadbury could be? Thirdly, if you could break down the 20% volume growth that we have seen in terms of like-to-like basis from existing products how we have grown versus what growth would have come from addition of new products?

J. Laxman Rao:

Coming to Asian Paints and Castrol, Asian Paints our market share, in my opinion, it is a guesstimate will be hardly around 20%, because Hitek continue to be their favoured supplier. So they get almost 40% to 50% of their business. So what we get from Asian Paints should be in the region of 20%, because there are another 2 or 3 players in different locations like Rohtak they have couple of new players, Ankleshwar they have new players. There is a company called Parekh Plast, which has been with them for the last 10 to 15 years. So they are being given opportunity somewhere. But of late, their experience with us in Satara, where we have set up the plant and given them excellent service, especially our containers have become best suited for their fast filling automated line. So they have given us both the plants' opportunity at Mysore and Vizag. I think my guess is 20%. Castrol, we continue to be 90 plus. Only those small grease packs and here and there one or two industrial brands they buy for the sake of having a second source. But for that, almost 90% of Castrol's requirement we cater. Now Shell last six months ago they have made an announcement that Shell has converted 100%, when I say 100%, it can be 90%, of their need for next5 years. They have given 5 year-long term contracts last year. So that is about past clients and your next question is Ariel and Cadbury orders. Ariel order, initially, would be in the tune of about 6 Crores, value wise and that can go up depending upon the market response. Ariel moulds are completely invested by Procter & Gamble. That way they have also shown their commitment by investing more than 70 lakhs on the moulds. So Cadburys would be an opportunity of almost 2 million pieces a month. We are at the final stage of negotiation and are laying out a plan of launch, because they want to launch it by Jan-Feb next year. So the moulds and robots and all other things are to be put in place. That would be an opportunity of almost 12 Crores per annum. So that is the bigger opportunity and other things are smaller ones like Nestle and MTR Foods and these are also happening in the food sector.

Ankit Agarwal:

On my question of 20% growth, if you can break it down from our existing clients, from a like-to-like basis, how we would have grown and from new products, how much of that growth would have come from?

J. Laxman Rao:

The growth is, as I told you, mainly coming from people who are non-IML buyers shifting into IML, thereby the volumes are getting added. One of the additions has come through HPCL and IOCL that may be around 3% to 4%. Growth in paint industry has considerably added up to 8% to 10%. Food industry and food and FMCG growth addition is about 1% to 1.5%. The rest is coming from lubricants, because in lubricants again, Gulf has completely shifted to IML, which was having 28 brands, they have shifted in this quarter. So, that has given entire Gulf volumes to us. Whenever they shift to IML, earlier let us say, they were giving 70% to us and 30% to others, it now becomes almost 90 percent to Mold-Tek. The brand value volume shift is still happening.

Ankit Agarwal:

How big can this opportunity be for us in future also?

J. Laxman Rao:

I think once the Food and FMCG also start adopting IML containers, those numbers' growth will be coming in considerable numbers. Going forward, 4% to 5% per year growth can come from Food and FMCG. The natural growth of 10% to 12% in the paint industry will automatically come to us and apart from that, the shift of brands into IML. So these are the three growth engines apart from RAK. RAK volumes can start from Q3, I would not count Q2 also, from Q3 quarter marginally, but from the Q4, those numbers will also be reasonably good.

Ankit Agarwal:

Sir this new plant, what will be the capacity utilization that we can see in the initial one or two quarters?

J. Laxman Rao:

I will be happy if we do even 20% to 25%. From the next financial year, that is, starting from April next year, we should be aiming at 50% to 60% for the year.

Ankit Agarwal:

For full capacity, what is the revenue potential?

J. Laxman Rao:

Revenue potential at full capacity would be in the region of 50 Crores.

Ankit Agarwal:

Sir lastly on the margins front, obviously some benefit you would have got from the raw material side this year. So how do you see the margins moving, going ahead?

J. Laxman Rao:

We never get any benefit out of raw material as much, because the material passed on to the clients on a monthly basis either way, it is either up or down, the pricing is passed on to our clients. So if you look at it, the trend what you should observe is the EBITDA per kg, we are avoiding the raw material cost. That has consistently gone up in the last 5 years. It was Rs.16 in 2013, became Rs.20 in 2014, Rs.25 in 2015 and Rs.27.5 last year and today in this first quarter, we clocked Rs.28.4. Gradually the EBITDA margins also moved from about 11% to 11.5% to 17.75% in this quarter, which is fully for the last year was 16.8%. Now we are at 17.75%. But I would not take the margin percentage rather I would prefer to look at per kg there the raw material impact has been removed. Even there, we have grown from about Rs.20 in FY2014 to Rs.27.5 in FY2016 and Rs.28.42 in this particular quarter.

Ankit Agarwal:

How do you see this trend going ahead?

J. Laxman Rao:

Going ahead, we may, if not in this year, in one or two years, we should cross 30, at least cross 30.

Ankit Agarwal:

This move will come from what product?

J. Laxman Rao:

Two things, one is better capacity utilization. Second is, a better product mix, where more IML sales are happening and Food and FMCG numbers are being added because in Food and FMCG, we aim at around 21% to 23% EBITDA, percentage wise and not per kg. Per kg, there we aim at almost Rs.60.

Ankit Agarwal:

Per kg on revenue side, what will be our realization?

J. Laxman Rao:

Revenue side realization is about Rs.160, you can add back, it comes to about Rs.160.

Ankit Agarwal:

What was it last year?

J. Laxman Rao:

It was 170, because raw material price was Rs.14 higher.

Ankit Agarwal:

Thanks a lot Sir.

Moderator:

Thank you. Next question is from the line of Aditya Jadhav, Individual investor. Please go ahead.

Aditya Jadhav:

Good afternoon to all. Thanks for the great quarter. I just have a question regarding your new product, which is for the edible oil industry. Can you give us a little bit guidance about that industry, what kind of response you are seeing from the industry, what kind of pickup you are getting from the FMCG companies on that front?

J. Laxman Rao:

On that front, I should admit that the numbers were not as per our expectation. The edible oil industry could not absorb the price differential and unfortunately the raw material prices, which were 72 to 75 during October to January have shot up to 87 now. Currently the raw material price is 87 to 88 for the last two to three months. Then the price delta between a blow-molded can and our 5 Liters square can have become little too high for the edible oil industry. But even for some top brands including Conagra, they are taking small volumes but they are not going aggressive. What we are also doing now is, instead of just hanging on to edible oil, we have now started using to put this containers for ghee and more value added products like fruit pulp and syrups, but there the volumes are not as big as edible oil. So price delta is what is causing even today Bunge and Kamani they are again taking new brands and trying to put it in market but the response and their ability to absorb the pricing is the challenge. So now we are finding other products, which are like say even micronutrients, seeds. So those such products also we are now trying to start marketing. I hope the numbers will start improving from third quarter.

Aditya Jadhav:

One more question is regarding our FMCG and food industry. What would be the revenue contribution of this industry towards our FY 2017 or FY 2018?

Laxman J. Rao:

FY 2016 it was hardly 3.88% and we are now around 5% in this quarter. So I hope this year we might end up somewhere around 7% to 8%.

Aditya Jadhav:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Asif Saraogi from KG Securities. Please go ahead.

Asif Saraogi:

Congratulations on very good set of numbers. I just wanted to know there has been EBITDA margin decline versus fourth quarter. So can you explain what is the reason?

Laxman J. Rao:

The fourth quarter we will be getting the annual discounts of Reliance almost 1.5 Crores per annum. Typically, the annual discount on raw material volume purchase is offered to us in the fourth quarter. So fourth quarter typically there will be a shoot up. If you notice last year quarter one it was 15.2, quarter two it is 15.8, quarter three it is around 17.1 or 17.2 and then in quarter four it is almost 19%. So that difference is basically because of value addition through annual discount which we take in the fourth quarter.

Asif Saraogi:

So can we expect the same trajectory in this FY as well and see the trajectory as we saw last year?

Laxman J. Rao:

Yes it would be because this year also we will be buying almost 22,000 tones. So all that volume discounts they offer in the fourth quarter.

Asif Saraogi:

EBITDA margin guidance can you just map to FY2018 and 2019?

Laxman J. Rao:

If you wanted as a percentage just now I discussed. There is no point in talking about percentage as much. We better talk about EBITDA per kg. EBITDA per kg, which was 27.5 last year we are aiming to hit 29 this year.

Asif Saraogi:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Nidhi Aggrawal from Sharekhan. Please go ahead.

Nidhi Aggrawal:

Thanks for taking my question and congratulation on a very good set of numbers. Sir if you can give me the breakup of sector wise composition of revenue?

Laxman J. Rao:

Yes this quarter also the revenue numbers were similar to previous year 58% from paint, about 37% from lube and about 5% in food and FMCG. Only in food and FMCG they changed it was 3.8 last year, it is now close to 5%.

Nidhi Aggrawal:

So you are expecting this to go to 7%, 8%?

Laxman J. Rao:

Yes.

Nidhi Aggrawal:

I will come back.

Moderator:

Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak:

Good afternoon Sir. Just wanted to check what is our capacity as of now?

Laxman J. Rao:

Capacity as I told you last time also it is difficult to exactly pinpoint that number but we are about 28000 now including the RAK plant.

Kamlesh Kotak:

Are we adding more machines?

Laxman J. Rao:

Yes we would be adding more machines in Hyderabad plant because of the new orders from Ariel and Cadbury. They prepare special purpose little high-speed injection molding machines for thin wall molecule for the food products. So we have just (inaudible) 24.18 such machines in Hyderabad. We are planning to add may be next by January another 3 to 4 machines. Investment of about 3 Crores.

Kamlesh Kotak:

Any incremental capacity also we are putting for the labels or we are having enough capacity there?

Laxman J. Rao:

No this year we already doubled our capacity for labels. The second machine is arrived and being installed now. The IML label capacity will be doubled effectively from August, September. So it already steps have been taken and we are also augmenting our tool room capacity we are adding tool room machines and building to the tune of about 6 Crores in this current financial year. Already part of it has been incurred on the land. Now building and more machinery was another 6 Crores will be invested during the current financial year.

Kamlesh Kotak:

For tool room.

Laxman J. Rao:

Tool room building and machines.

Kamlesh Kotak:

So Sir what would be our capex including this capex as well as the new plants if you can highlight the same for the next two years this year as well as next year?

Laxman J. Rao:

This year as I told you tool room and investment and rest of the building in UAE that we want to defer it little up to November, December but it will happen in end of the financial year or beginning of next financial year. That is another 6 Crores investment. Tool room is 6 Crores and 3 to 4 Crores worth of machines and 2 to 3 Crores worth of molds. So to the tune of 18 Crores would be the investment going forward in the next 12 to 15 months and after that there may be a little smaller investments to add to the specific nature of the FMCG and food grain but for that as I planned there is no major investment. That would come in 2018. So the financial year 2017-2018 we may start and it will end up in the financial year 2018-2019 that will be a huge capex of almost 36 Crores.

Kamlesh Kotak:

For both these plants put together?

Laxman J. Rao:

Both these plants put together. So there will be a small lull in the investment may be starting from next May, June till end of the year but again there will be investment to start off in the calendar year 2018 because land we are already procuring in this year itself for both the plants. For the building construction has to start in the let us say from middle of 2017. So in way it is like continuous capex.

Kamlesh Kotak:

So put together you said how much you are investing in these two plants?

Laxman J. Rao:

Two plants initial phase it will be in the tune of 36 Crores but following to double it we may need only another 18 Crores. As I told you the second expansion is always cheaper. Creating additional capacity would become much cheaper because no land and building will be involved in it.

Kamlesh Kotak:

Sir do we see now that oil marketing response has been weak. So how you see that business shaping up. Is it not going to be a big driver for us as it was been envisaged?

Laxman J. Rao:

We thought so but that is moving into ghee and other areas where we are finding positive response it may take few more quarters but ultimately I think those numbers also will start adding.

Kamlesh Kotak:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor:

Good afternoon Sir. Great set of numbers Sir. Just confirming couple of things. In Asian Paints you are setting up two plants. Both those plants are non-IML?

Laxman J. Rao:

To start with as of now they are saying non-IML but they said they will try to confirm by end of calendar year 2017. What is needed is at the time is only addition of robots. Basically they are not able to shift because their others suppliers are not in a position to supply IML.

Ankit Gor:

With the probability or possibility higher they are shifting?

Laxman J. Rao:

I think by that time probably they would take a call on IML. We are pushing them to accept IML and take heat transfer label from others that proposal is going on with their marketing department. So few things may happen during this next 12 months.

Ankit Gor:

Sir I must have missed one thing. What is the current capacity cumulatively buying this RAK plant?

Laxman J. Rao:

I just mentioned that it would be in the tune of 28000 to 29000 tonnes.

Ankit Gor:

RAK would be addition.

Laxman J. Rao:

Including RAK.

Ankit Gor:

Thanks a lot that is all from my side. Thank you.

Moderator:

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

Pragya Vishwakarma:

Can you just help me with IML contribution in the revenue like what was the percentage?

Laxman J. Rao:

Yes I just mentioned that is 47% as against 40% for the Q1 of last year and 44% of the full year last year?

Pragya Vishwakarma:

Another question is if we see this huge jump in our finance cost for this particular quarter so like can you just throw some light on that?

Laxman J. Rao:

It is basically because the funds were locked in the QIP funds were positioned in the bank working capital. The finance costs have come down in the last three, four quarters and now they started. We are utilizing those funds for execution of projects.

Pragya Vishwakarma:

Now the funds have been released?

Laxman J. Rao:

Released, the working capital interest is little going up but in my opinion it would stay somewhere around 50 lakhs per quarter in the next few quarters.

Pragya Vishwakarma:

Okay 50 lakhs per quarter. That is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij:

Good afternoon Sir. I have two questions. Firstly, on the edible oil as you pointed out the scenario is changing. So you had given a rough guidance of around 25 to 30 Crores. So Sir we should revive it downward by 20%, 30% or even more and.

Laxman J. Rao:

I would say it would be half of it may be we may end up between 10 and 12 Crores for the current year from the square containers because the ghee volumes are not as high as edible oil and in the edible oil we are finding the shift is because of the price difference. Now the raw material price again shot up in the last four, five months may be again they may come down once this crude price comes down. They do not happen immediately. There is a lag between petrochemical prices and edible oil prices.

Aman Vij:

This rise in the crude oil price does it effect the other segments like say the PSU shifting to our containers. Would not it be also substitute by that?

Laxman J. Rao:

No, no it has nothing to do with IML containers. IML containers they are coming in because in market all the private players are now in IML like Castrol, Shell, Mobile, and Gulf. Indian Oil cannot be in ordinary screen-printing or SDL. So their marketing has driven the purchase department to go for IML containers. So when they floated tender for IML we obviously got the major chunk of it.

Aman Vij:

Lastly, on a broader long-term trend. We have seen a gradual shift of customers to IML and you said about most of the raw material increase or decrease is passed on but just as a customer because the crude price is low IML and oil base containers become much more attractive compared to other containers. So that will have some kind of say in the people shifting from the frequency or the amount of people shifting from non-IML to IML. So Sir could you highlight say if the crude price go by 10% just an assumption or stay at this level. So do you see the shift from non-IML to IML slowing down a bit going forward?

Laxman J. Rao:

No Aman, actually you should see if the raw material price goes up by let us say Rs.10. Now the current delta between IML and non-IML let us say Rs.150 20 liter container. Let us say we are selling it at 160 and then it will become 160 to 170 so as a percentage why the Rs.10 delta looks smaller. So that would not prevent people not to shift to IML.

Aman Vij:

Thanks for the clarification.

Moderator:

Thank you. Next question is from the line of Asif Saraogi from KG Securities. Please go ahead.

Asif Saraogi:

Thanks for giving another chance. You have considerable capex line up over next two, three years. So all these are incurred by internal accruals?

Laxman J. Rao:

Yes we have very healthy internal accruals in spite of maintaining 40% dividend policy or PAT. So that should take care of all these internal rates.

Asif Saraogi:

Dividend policy will not be affected in anyway because of this?

Laxman J. Rao:

No.

Asif Saraogi:

Thank you.

Moderator:

Thank you. Next question is from the line of Harsh Vijay Shah from Cresta Investments. Please go ahead.

Harsh Vijay Shah:

Thank you but all my questions have been answered.

Moderator:

Thank you. Next question is from the line of Aditya Jadhav, Individual Investor. Please go ahead.

Aditya Jadhav:

Thanks a lot even my question is regarding capex has been answered.

Moderator:

Thank you. We take next question from the line of Amesh Kanani from JM Financial. Please go ahead.

Amesh Kanani:

I just wanted to understand most of our consumer industry is a beneficiary of GST. Do you think the savings that they will be making, do you get a sense that they obviously may get reinvested in the products like yours instead of say passing it onto the consumer?

Laxman J. Rao:

Certainly GST introduction will make FMCG people more aggressive in the market and when they grow more aggressive and more modern trade happens better packaging and attractive packaging will be the mold. So rigid containers only give that look. You cannot get that in a film or a pouch. So obviously many of the food industry people have not moved into rigid packing like Mold-Teks containers is basically because of lack of suppliers of IML because IML is the only process where complete hygiene is guaranteed. There is no guarantee of hygiene in blow molding and other processes. So majority of the FMCG people can go for a blow molded container but food Products Company cannot touch rigid container unless it is produced in a very hygienic manner. So in the case of IML that care has been completely taken. So that will be driving growth and also as GST as it is for Mold-Tek will be beneficial in the sense all the local players who are providing small rigid containers with screen printing or labeling have those advantages of local tax benefits. Today with the introduction of a common tax regime our costing will be more attractive to the MNCs in going trouble.

Amesh Kanani:

So the 20% growth Sir that you are penciling in is you expecting anything as an extra growth for GST or that could be an additional kicker so.

Laxman J. Rao:

Yes it would be a kicker I cannot really take.

Amesh Kanani:

I know it will be very difficult to quantify Sir.

Laxman J. Rao:

Yes I have not considered that.

Amesh Kanani:

Thanks a lot.

Moderator:

Thank you. Next question is from the line of Pravin Sahai from Edelweiss. Please go ahead.

Pravin Sahai:

My question is Sir as you had mentioned 36 Crores of capex for the plant expansion from 2018 onwards and also you had mentioned about the capacity in the Mysore and Vizag it is around 8000 metric tonne and 6000 metric tonne. So is it for these much of a capacity?

Laxman J. Rao:

Yes that will be to start the 3000 tonnes each we need 18 Crores and to ramp it up to 8000 and 6000 we may need additional investment of again another 18 Crores. So total investment in the six years, five years time would be to the tune of 54 Crores.

Pravin Sahai:

That is the clarification I wanted. Thank you Sir.

Moderator:

Thank you. Next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia:

The new two plants which you are talking about for Asian Pains is it going to be dedicated completely to Asian Paints is it exclusive only for their requirements?

Laxman J. Rao:

No such compulsion on us. It is mainly meant for them but we can always take up other orders. For example in the case of Mysore, AkzoNobel is also setting up a big plant just next in the same industrial estate. So we being suppliers to AkzoNobel we will be free to supply to them also but I am not concerned that number in this tonnage.

Dhruv Bhatia:

Secondly in your last call you had discussed about PVR and HUL also you had discussions with both the clients for?

Laxman J. Rao:

Yes HUL is moving. PVR they have some problems of this retail transaction because there will be multiple point taxation because we supply to them and they in turn supply to theatres it was found to be problem. Once the GST comes all these problems will be eliminated and direct billing to the theatres itself as per their call up we can supply. So on that issue PVR is held up but HUL is moving in fact this week my marketing team is visiting them for Surf Excel packaging. So they are also very keen to introduce IML in their brand.

Dhruv Bhatia:

What about Adani Wilmar you had already done a test product?

Laxman J. Rao:

Yes Adani Wilmar all other edible oil companies other than ConAgra they all compliant about the price delta as the raw material prices have shot up by about 25% in the last four, five months we have to ask for revised pricing and that they are finding it not feasible given the blow molding containers being much cheaper. So that is the one major hurdle and second internal hurdle has it been cleared the other hurdle they would pose these lines the filling lines are all meant with blow molded containers shapes and systems. Now for a wide mouth container like ours they need to make changes in there filling lines. So that is the second resistance. Even when we introduced pails in the place of metal drums 20 years ago same kind of resistance happened because the filling lines have to be changed but once the product gets accepted in the market and the demand comes from the market these guys will then take up those changes. So I thought 20 years ago it took two to three years for the entire paint industry to come to the pails from metal and I thought now being a most modern times it may take less than a year but looks like the same pattern probably it will take one to two years for the industry to slowly adopt our new containers.

Dhruv Bhatia:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Nidhi Aggrawal from Sharekhan. Please go ahead.

Nidhi Aggrawal:

If you can help me what is the current short-term and long-term debt?

Laxman J. Rao:

Short-term debt is basically working capital debt which is in the tune of 12 to 18 now it is actually around 18 Crores in end of the quarter and long-term debt is negligible.

Nidhi Aggrawal:

You are expecting to maintain this level?

Laxman J. Rao:

Yes it may hover between 18 and 25 Crores and it may come down towards the year ending to again to 18 level. So on average you can take a debt of about 20 Crores.

Nidhi Aggrawal:

Will the increasing contribution from foods segment impact your working capital cycle?

Laxman J. Rao:

Not really in fact food people they pay faster 30 to 40. So it should improve but this marginal because it is hardly 5% of retail now and that may go up to 7%, 8% by the end of the year. So it may not impact much but it will be only on the positive side.

Nidhi Aggrawal:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak:

Sir can you help us breakup this volume is at 5222 metric tonne right?

Laxman J. Rao:

Yes 5220.

Kamlesh Kotak:

Can we break it up between IML and non-IML volumes?

Laxman J. Rao:

Yes I have it. Non-IML is 2980 the rest is IML.

Kamlesh Kotak:

Could you help me with the same figure for entire year last year FY2016 IML and non-IML volume?

Laxman J. Rao:

We go by screen-printing and non-screen printing so that numbers whatever I am talking the numbers last full year was 10,126.

Kamlesh Kotak:

For?

Laxman J. Rao:

Non-IML the screen-printing.

Kamlesh Kotak:

For screen.

Laxman J. Rao:

Yes. 10,126 and 6750 is IML.

Kamlesh Kotak:

6750 and 10,126 and this time it is 2980 is of screening printing.

Laxman J. Rao:

Yes and 2250 is IML?

Kamlesh Kotak:

Thank you.

Moderator:

Thank you. Next question is from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.

Suvarna Joshi:

Good afternoon Sir. Thank you for the opportunity. Many congratulations on yet another strong set of numbers. Just wanted a clarification for FY2017 what is the volume growth target we are planning to work with. Is it 20% is what you mentioned?

Laxman J. Rao:

Yes.

Suvarna Joshi:

For FY2018 also we will be looking at 20% volume growth numbers?

Laxman J. Rao:

As of now it looks possible because of RAK plant will be handsomely contributing next year. So we are aiming and food and FMCG expected to add number. So even 2018 also as of today we are looking at 20% volume growth.

Suvarna Joshi:

Sir when you are saying food and FMCG we are essentially talking of the smaller pails of 5 liters or are they much smaller phase within that for ghee and other value added products.

Laxman J. Rao:

Yes they are very small 100 ml, 200 ml, 500 ml.

Suvarna Joshi:

So what was the margin differential there. Is it similar to what we have in the 5 and 15 liter phase or is it going to be.

Laxman J. Rao:

In IML we aim at 18% to 19% but any smaller phase in food and FMCG we aim at 21% to 23%. So all these food and FMCG we aim at 21% to 23%.

Suvarna Joshi:

So we are saying that because of the increasing contribution from food and FMCG our EBITDA margin what we have clocked in for this particular quarter of 17.7% odd will be sustainable for the next two years also or much higher than that?

Laxman J. Rao:

Yes unless the raw material prices very abruptly takes place it will be improving marginally year-on-year because of better product mix and better capacity utilization. I spoke about per kg. So per kg EBITDA is also increasing gradually. It was Rs.20 three years ago. It is now 28.42. It may not jump like that in coming years but it will certainly move forward in a positive direction.

Suvarna Joshi:

What are the capacity utilization levels that we are looking at I mean what did we do in Q1 of FY2017 and what do we expect it to be?

Laxman J. Rao:

We did 5200 tonnes out of about 25,000 per annum capacity 6200 may 5200 is around 80% plus that is the best utilization I always used to say. It is 78.4 I believe. It is close to 80% utilization what we achieved in the first quarter.

Suvarna Joshi:

So we will work with 75% kind capacity utilization going forward Sir.

Laxman J. Rao:

Yes, take it 75 because we will be keep adding like say RAK will be added in this month but then the numbers will shoot up in terms of capacity but the utilization may not catch up for the next couple of quarters.

Suvarna Joshi:

So because if we are working with Sir say a 75% kind of capacity utilization then I believe that our asset turn ratios will also look upward from the current levels of 1.4x that we are seeing?

Laxman J. Rao:

No our fixed asset turnover even today is 2.45. So that will improve as we keep improving the capacity utilization. Here we consider the entire capex also.

Suvarna Joshi:

Just one more clarification was that you mentioned that we will require a total of 36 Crores of investments for the Asian Paints plant at Vizag and Mysore together over the next five years. Is that the right?

Laxman J. Rao:

No 36 Crores in the first phase and another 18 Crores in the following three, four years.

Suvarna Joshi:

So we will require a total of about 55 odd Crores over the next five years or so.

Laxman J. Rao:

Yes only for Asian Paints yes. There will be balancing capital additions in all the plants on a year-on-year basis, which may be around 4 to 5 Crores every year.

Suvarna Joshi:

So that will be the maintenance capex largely Sir.

Laxman J. Rao:

Not specifically maintenance, some additions also because like in food and FMCG if we get a bigger opportunity like Cadburys we may have to set up 2, 3 Crores worth of machines to suite to their particular product and IL productivity keeping in mind those opportunities we keep adding few machines. It cannot be really quantified which machines and what cost as the prospects coming we keep adding.

Suvarna Joshi:

Just one last question. Could you just help us with an update on how was we placed in terms of our relationship with Britannia. I mean are we seeing increasing orders from Britannia for their ghee packaging and is this going to be limit for the other dairy players as well. I think you mentioned in your initial comments about foraying into the dairy segment and thereby tapping the growth opportunities there?

Laxman J. Rao:

Yes Britannia has taken the ghee bags and put it in the market it really helped us because lot of other brands like Gokul, Thirumala they all come back to us and they are now taking the ghee bags. So having a big brand adopting our pail is certainly helping us to penetrate into other brands as well but only thing is ghee and those numbers are much smaller compared to edible oil. So to show considerable amounts from that field it may take sometime.

Suvarna Joshi:

That is it from mine end. If I have any questions I will come in the queue. All the best. Thank you.

Moderator:

Thank you. Next question is from the line of Ruturaj Kulkarni, Individual Investor. Please go ahead.

Ruturaj Kulkarni:

Good afternoon Sir. Congratulations on your good quarter. I have few questions. So how is the response from pharmaceutical clients?

Laxman J. Rao:

Actually we are not aiming at pharmaceutical as of today because again the FDI standards that are required to be maintain are much more stringent. Now that we have approved the FSSC certification, which is necessary for food and FMCG, we can aim at pharma in the coming future. As of now we are not supplying any product to any of the pharma companies because there are lot of restrictions and compliances which require a different approach, which now we are I think ready because we have achieved FSSC re-audit also we have gone through without any comments. So I am very more confident on our QA systems that in future we can aim at those segments also.

Ruturaj Kulkarni:

Another question is the new subsidiary work that is going to be commenced, I believe in this quarter and also the additional capital expenditure that we are planning in India. So do you see any pressures in the net profit margins may be for a few quarters here onwards?

Laxman J. Rao:

Because that is being a very small plant compared to the rest of our facilities that being invested with QIP and internal depression. Other than depreciation there would not be a major impact because operational expenditures can be covered with orders that are there on hand. So I would not see that impacting the net profit even in the coming quarters. Could be little negative but not very major impact.

Ruturaj Kulkarni:

Until we achieve more capacity utilization.

Laxman J. Rao:

Capacity utilization yes.

Ruturaj Kulkarni:

As we see the trend that more movement into IML segments from most of the clients so with that into mind can we see there is a upward scope for margin improvement?

Laxman J. Rao:

Yes that is what is happening now gradually and improved volume growth is also factor for increase in EBITDA margin and EBITDA per kg is also increasing which is a much more important segment item to be monitored.

Ruturaj Kulkarni:

Thank you very much.

Moderator:

Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij:

Thank you for the opportunity again. Sir one question regarding adoption of IML by all the competitors so have you feel then moving or thinking of moving to that and if and when this happen will it help us to basically will it ban the market for us or how should we look at that scenario?

Laxman J. Rao:

Competitors have been trying for last three years it is nothing new for them. They have procured robots as early as 2012-2013 itself and they are still struggling to align the processes and all. I hear they are making small supplies here and then but there is a lot of rejections and cost escalations because they have to depend on imported label if they have to achieve the quality what we are giving. So given that scenario yes if not now in couple of years they may able to come in but that also will open up companies like Asian Paints who are major contributors to our numbers to look into IML shift and another advantage for us would be if they come into IML they have to come at a much higher price because they are buying robots at high cost. They are buying label at higher cost. So that will be a good advantage for us to benchmark our pricing and try to get a better realization.

Aman Vij:

As per you no one is trying to make their robots in mold label like you are doing as of now?

Laxman J. Rao:

None of our competitors are attempting that but they are trying to buy the robots obviously from Taiwan or Europe. Couple of them bought it also and labels they are trying to do it here and there in Bombay and Daman to some success even that their label cost landed in their hands will be much higher because the label is a complex stratum it is not a simple film. It has lot of lacquering and adhesive codes that are required to withstand the temperatures provide the charging while robot lifting and all that. So it has lot of technology in it. It is not a simple packing bags or something what film printed film. It has much more in it.

Aman Vij:

Thanks for the clarification.

Moderator:

Thank you. Next question is from the line of Ankit Agarwal from Centrum Broking. Please go ahead.

Ankit Agarwal:

Sir just couple of book keeping questions. On the depreciation front down 2.5 Crores sort of quarterly rates. So just how would they change will coming into play?

Laxman J. Rao:

Depreciation will continue to be at that rate around 238 might become even 250, 260 going forward because of the RAK plant getting into commissioned very soon. So the depreciation overall here can be little more than 10 Crores as against as 8.5 last year.

Ankit Agarwal:

On the tax rate how do we see the tax rate?

Laxman J. Rao:

That is a good question. Actually taxes on RAK are completely exempt because of SEZ status and the dual agreement between UAE and India. So once that unit starts making profit those profits are exempt from taxes.

Ankit Agarwal:

What is the current tax other than that RAK how is the tax rate?

Laxman J. Rao:

Full rate 34%, 33.75% or whatever. So RAK sales start making profit let us say next year that much profit would be added in consultation without tax.

Ankit Agarwal:

Thanks.

Moderator:

Thank you. As there are no further questions from the participant I would now like to hand over the floor to Mr. Mehta of Emkay Global for closing comments. Over to you Sir!

Dhaval Mehta:

Thank you everyone for attending the call. I would like to thank the management again for giving us the opportunity to host the call. Sir would you like to make any closing comments?

Laxman J. Rao:

Dhaval thanks very much for Emkay and also for the analyst and individual investors who are present on the call. I think most of the questions are very probing and I notice that some of the analysts are really analyzing all the aspects of our business and prospects and I hope similar interactions in the coming quarters also. Thank you very much to Emkay once again.

Moderator:

Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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