“Mold-Tek Packaging Limited Q2 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mold-Tek Packaging Limited Q2 FY2018 Earnings Conference Call hosted by Nirmal Bang Institutional 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 the 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. Akhil Parekh from Nirmal Bang. Thank you and over to you Sir!

Akhil Parekh: Thank you Lizaan. Good afternoon everyone on behalf of Nirmal Bang Institutional Equities I welcome you all to the 2Q FY2018 conference call of Mold-Tek Packaging. We have with us Mr. J. Laxman Rao, Managing Director from Mold-Tek Packaging. Without taking much time, I will hand it over to Laxman Sir! Over to you Sir!

J. Laxman Rao: Good afternoon everybody and thanks for your interest in our company's Q2 performance call. I am glad to inform you that the company has notched 25% growth in the PAT in spite of stagnated sales I can say though the sales value has gone up by about 1.5% and true volume has come down by 4.5% from 4630 tonnes to 4420 tonnes in this quarter. This is basically because of steep drop in sales in the month of July. Due to the introduction of GST, there was a lot of confusion and readjustment of stocks, so most of the paints, lubricants and even food companies have concentrated more on GST implementation, not much on building up production or stocks. So that impact has slowly tapered down and from September we see the things coming back to normalcy, but as you know your company is only focusing on growth through food and FMCG sectors where it is more of a replacement demand hence the numbers could be get well and better performance was shown in this industry, products that are sold to this industry and that resulted in a jump in profitability by almost 25% and also a little bit help from the Ind-AS system of tax, deferred tax has come down by about 45 lakhs also helped in improving the bottomline and as usual our sales in food and FMCG continue to grow of course July impact was there and food and FMCG also to some effect in the sense for the last six months at least till August most of the FMCG and food companies who have initiated changeover to IML containers or adopting IML containers have slowed down a bit because of concerns expressed by GST, so the whole focus was on GST.

Now that has become a past, things have started normalizing and we are again getting lot of enquiries for our food and FMCG product. So going forward as I anticipated and interacted with you in the past, food and FMCG will drive a growth of the company and apart from of course paints, thanks to the new projects what we are setting now for the Asian Paints at Mysuru and Vizag, probably they will add to the growth from the end of next calendar year, but food and FMCG will continue to add numbers and growth to the company. RAK has marginally improved its turnover by about 10% to 12% over the last quarter, but good orders have been received from total lubricants, Marmum Dairy, Alsafa and another couple of big dairies are also in the pipeline, so hopefully as expected by fourth quarter that RAK might come to about 50% capacity utilization that is close to the breakeven point. So apart from the generic products we are introducing in the month of December for the ice cream, biscuit sector the Lombardini machine from Italy has been installed successfully and production from them also started for the food and FMCG product labels. This machine has a unique feature of cold foil stamping, which enable foil stamping to standout in the IML and give a very good brand image and images also on the labels, which will be making IML label much more attractive. So this machine addition has been planned in such a way that when our generic products and ice cream and biscuits are launched in December we will have this machine's ability to impress the clients and make them adopt more and more into IML containers. So this strategy might show some reasonable numbers coming up from fourth quarter of this year.

In December, the Molds and Robots everything will be set into production. Hopefully, the order should start rolling from January 2018. So plan to construction at Mysuru has started just we decided the contractor recently. The earth filling will start in the construction should be completed by June, so that the production can be initiated by July or August for trial production and then probably towards the end of the calendar year 2018 we may start our production at both Mysuru and Vizag plants. This is our progress and as you all know the EBITDA margins and per kg margins also improved thanks to increasing IML food product sales and if you have any specific questions or queries you have, you can feel free to ask me after this conversation and I thank you once again for the interest you all shown in our company and its prospects. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: Congratulation on good operating numbers. Sir just wanted to get your sense on the volume number for this particular quarter if you can give us and what was the growth vis-à-vis last year?

J. Laxman Rao: In the Q2 you mean?

Mitul Mehta: Yes, Sir Q2 and also if you can tell us the volume number in RAK?

J. Laxman Rao: Yes, the Q2 numbers are down by about 1.5% in volume terms, do you want the exact tonnage?

Mitul Mehta: Yes, exact tonnage Sir!

J. Laxman Rao: Yes, 4630 tonnes in Q2 last has become 4420 tonnes a drop of 4.5%.

Mitul Mehta: Any reason for this drop Sir?

J. Laxman Rao: GST, in the month of July completely entire industry stopped buying any packaging product because they are more concentrating on clearing the stock and are resolving the issues that arrival of GST, so till middle of July we do not see any real activity in terms of push from the industry. So things started normalizing only from August and September. In spite of that we ended up with nominal reduction in the volume that is 4.5%.

Mitul Mehta: October or November has the volume come back?

J. Laxman Rao: It has come back and much better than what it is in the Q2 and as you know this Q3 and Q4 typically our best quarters are Q1 and Q4, but this time Q3 seems to be also good because of the impacts of Q1 and Q2 that suffered due to GST and also in view of demonetisation the Q2 numbers in November and December were not so great last year, but this year we are seeing very good surge and recovery in these months, so we hopefully grow well in the coming quarters.

Mitul Mehta: Also if you can share numbers for Ras Al Khaimah?

J. Laxman Rao: Ras Al Khaimah numbers have grown up by around 12% from 180 lakhs sale last year quarter we have done about 22.1 Crores and in the terms of tonnage if you want 98 tonnes has become 120 tonnes, so about 20% increase in the production.

Mitul Mehta: Sir, this 4420 is it possible for you to break it up between IML and non-IML?

J. Laxman Rao: Yes, IML has now crossed 50% overall value wise, which is much above, but as weight wise in the half year it is around 49% IML and non-IML is 51%, but in the value terms IML is almost 57% and 43% value from the non-IML, so that means 49% of production in IML are contributing to 57% of the sale value.

Mitul Mehta: Sir, you know we have seen players like Jockey and all who are pioneers in IML, but they do lot of outsourcing as far as label go, molds go and we seem to be completely backward integrate, so do you think going forward we would be able to leverage this and built significant volumes on our IML number?

J. Laxman Rao: Yes, that is the plan our ability to manufacture the IML label and robots and molds gives us a much bigger advantage, but we do not close our doors for outside robots or molds because whenever there is a better technology or a faster cycle times we still use some of those molds and robots, but making the majority of the robots in house cut down our capital cost and our knowledge on the robotic enable us to handle maintenance and supply of products, so this gives us an edge over any competitor.

Mitul Mehta: Sir, in terms of your capex that you have outlined for Asian Paints, your Mysuru and Vizag, so what will be the total tonnage for both plants put together and when are we likely to commission these two facilities?

J. Laxman Rao: In the first phase, the capacities are about 3000 to 3500 tonnes per annum and the outlay is around 18 to 19 Crores each plant and the plant at Mysuru is suppose to go into trial production by July or August next year and I hope they will go into commercial production towards the end of the calendar year that is November or December. As far as Vizag is concerned it is exactly three months behind. Trial production has to start in September, October and hopefully commercial production some January 2019, so both the plants will be going simultaneously just three months behind gap between them.

Mitul Mehta: Both are 3000 finally it goes to 7000 tonnes right?

J. Laxman Rao: 3000 to 3500 each and they are supposed to be ramped up double in the next following five years.

Mitul Mehta: 14000?

J. Laxman Rao: Yes, 14000 by 2022.

Mitul Mehta: And this is going to be IML or this is going to be?

J. Laxman Rao: They agree to go 50% of products with HTL and 50% will be still in screen printing and offset printing, but today recently we have received a big enquiry from them about IML, there are asking many details, so hopefully some interest is generated in their marketing to go for IML I am just guessing, but as of today our instructions are to create 50% capacity in HTL and the rest in screen and offset.

Mitul Mehta: Sir, you may to say Asian paint is enquiring about IML?

J. Laxman Rao: That is what, they are, whatever the plants are suppose to be as of today told us to have HTL 50% capacity, balance in screen and offset, but recently they are enquiring about IML, hopefully they have some interest is what I am guessing.

Mitul Mehta: Sir, my last question, you know we have seen spurt in the crude prices, are you seeing any cost inflation on your manufacturing side?

J. Laxman Rao: As of today, raw material prices have still not grown, actually they have fallen a bit in the last couple of months. As I told you many times crude is not directly related to polymer prices of course indirectly it will impact with a lag and second thing is whatever price rise or down that happens in the raw material we passed on very promptly to our clients on a monthly basis so that has a very minimal impact on our performance.

Mitul Mehta: Sir, at peak how much we can produce in our existing infrastructure apart from the new plant that we are going to put?

J. Laxman Rao: See the overall capacity is around 30000 tonnes out of which typically at the most we can do around 75% or 80%, so 22000 to 24000 is possible in a good year, but so far we did only 9300 tonnes in this year and we hope to do at least 10500 to 11000 tonnes in the remaining two quarters. If that happens we will end up somewhere around 20000 tonnes, 21000 tonnes for this year.

Mitul Mehta: This year also we have enough capacity to kind of push the volumes.

J. Laxman Rao: We have enough capacity and we are keep on adding capacity at Hyderabad also. We are adding machine for thin wall food products as one phase is already getting into production in December. The Italian IML printing machine is also part of that first phase and second phase buildings are under construction and machines and molds are ordered, hopefully by May, June next year that also we go into production.

Mitul Mehta: How much of that capacity can add to 30000?

J. Laxman Rao: It will add hardly 1500 or 1600 or 1800 tonnes because it is a thin wall molding, tonnage wise it is less weight, but number of machines wise they are consumable machines 8 to 12 machines, so the number of products that we can produce is in our hands considerably.

Mitul Mehta: Thank you very much and all the best for subsequent quarter Sir!

Moderator: Thank you. We take the next question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Sir, thank you very much for nice result, but I would like to know the topline has not been risen, but bottomline price is more in this Q2 so what are the reasons behind this mold?

J. Laxman Rao: One of the reasons is increased food and FMCG sales and also as I mentioned to you as we increase our IML sale, the productivity and profitability improves considerably. So that is one of the reasons and just a small adjustment in the deferred tax to the extent of 45 lakhs has improved the bottomline that is a small part of it, but that is one of the reasons.

Ravi Naredi: Thank you very much Sir!

Moderator: Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

Anuj Jain: Thanks for the opportunity. I have couple of questions, for our FMCG sales what is the breakup between IML and non-IML?

J. Laxman Rao: 99% of our sales in food and FMCG are with IML only.

Anuj Jain: Sorry, I did not get the number?

J. Laxman Rao: All our sales I can say most 99% because there is some plain charge I do not know, otherwise it is 99% is all with IML, food and FMCG means it is all IML.

Anuj Jain: At the industry level what is penetration of IML in food and FMCG sector?

J. Laxman Rao: Hardly any. Ice cream industry has adopted reasonably well. Other industries like curd to a small extent I can say 10% to 15% of the curd packs are now coming in IML, butter to some extent yes, butter and cheese to some extent they have shifted, but the rest of food products hardly have shifted to IML.

Anuj Jain: So, what is our core value proposition to our customers when we pitch them vis-à-vis the other packaging or the non-IML offering?

J. Laxman Rao: See, when you talk about food, I you have you read the

Anuj Jain: Yes, Sir I have read that notification and the update, which you have uploaded.

J. Laxman Rao: Coming out with new norms wherein they are going to be very strict about not only the container, but also even the inks and decorations that is being used for food packaging. So there is going to be awareness coming up in this country that IML is the best solution for food and mainly food industry and contamination or any kind of health hazards that can happen through packaging should be completely eliminated and if you look at the way the molded containers are manufactured in this country, it is very pathetic. There is no hygienic handling itself, forget about the ambience, so when we are doing such operations in an ordinary manufacturing locations without taking care of the hygiene and avoiding contamination, the food product will automatically carry the same contamination and that can lead to lot of health hazards. So that has been well identified in all developed countries even county like China they are adopting IML as the most preferred decoration technique for any food products that comes in a rigid packaging, so that is not going to drive in our country also people to go for it. For example, even blow moulded containers that are now currently used for many I would call nutritional powders, I do not want to name them, that is not the correct way of packaging, they have been made in blow moulded containers, which are not really flash free, they tend to have manual operation, post operations, which are done manually unless very high cost equipment is used, which I doubt. So given these conditions IML is the best solution where you have world class decoration, photographic finish and hands free operation and robotics take care of the entire hygiene until the packing happens, everything is done in controlled atmosphere also, so going forward IML is the main solution for food industry and I could see from enquiries that are coming from most the MNCs one after the other they are also realizing this and slowly shifting their attention to IML.

Anuj Jain: What is the overall packaging cost for these FMCG products, typical FMCG products let us say it has sold at Rs.100, the cost is Rs.100, so what is the packaging cost involved in that approximately?

J. Laxman Rao: Typically 8% to 12%, you can take 10% as a benchmark that is for small retail packs.

Anuj Jain: Thanks and all the best Sir!

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

Suvarna Joshi: Thank you Sir for the opportunity and congratulations on a good bottomline growth.

J. Laxman Rao: Thanks.

Suvarna Joshi: Sir, I had a few questions, one you mentioned that our EBITDA per kg has increased, so could you just help us how much would that be in rupee terms because I think in the last quarter we had touched almost Rs.30 to Rs.33 per kg, so are we at the same level even in this quarter?

J. Laxman Rao: Yes, we are marginally there 33.4 per kg this quarter compared to 27.8 of last Q2, so there is a considerable improvement in per kg EBITDA.

Suvarna Joshi: Great and I think this improvement has largely been because of rising contribution from the IML tails as such?

J. Laxman Rao: IML products as such mainly due to food products, which were 5% last year and more than 15.5% this quarter.

Suvarna Joshi: Sir, if we see in Q1 also we had maintained the 15% revenue contribution from the food and FMCG and even in this quarter we have maintained that 15%, so you think there is a scope to improve this contribution in the second half of FY2018 since you alluded to in your opening comments that some of the customers had deferred of takes of the containers due to GST, so do you think that could increase in the second half?

J. Laxman Rao: I hope so. Certainly, I hope so because mainly in the fourth quarter we can see a spurt again it was 18% to 20% level because of the new generic products, which we are introducing in December, which might start picking up sales from January and apart from some developmental products for generic specific clients, which might get into production in November and January, so going forward quarter-on-quarter you will see improvement. Our target is to cross 20% for the next financial year.

Suvarna Joshi: We intend to touch about 20% in FY2019 you are saying for the food and FMCG?

J. Laxman Rao: Yes, gradually it will go up and on average in 18% to 19%, we should hit at least 20%.

Suvarna Joshi: Great, that is very helpful Sir and now coming to second part is RAK we said that our production has improved quite significantly, so you mentioned that some of the dairy companies have given us good orders as such, so do you think that you will need to increase capacities in RAK as we go along in this particular year or for now we are okay with the 3000 tonnes that we have at RAK?

J. Laxman Rao: It will be okay for next six to nine months because machines have to be fully occupied and many products have to be launched, actually three more new products molds have been developed in our tool room and they are going to RAK by end of December for which already some orders have been received from clients, so as we increase our product range the capacity utilization improves, which I think would reach peak only by next June or July, so then definitely there will be need to add some more machines, already one or two balancing machines it means some caps or handle molding machines may need to be added before June-July itself. It is not a significant investment may be for Rs.4 to Rs.5 million, so that might happen before June-July, but after June-July there will be certainly capacity shortage and with the accumulation of the new orders probably we may think about small expansion, but not considerable at this stage of time.

Suvarna Joshi: Alright, that is regards the RAK and Sir, you have mentioned that we did about 4420 tonnes of volumes in this quarter, so would you just help us break it down across paints, lubricants, and food and FMCG because I understand food and FMCG 15% is the total revenue contribution, so in volume terms how much would that contribution be across the three segments that we cater to?

J. Laxman Rao: 2750 tonnes is paint, 1370 tonnes is lubricants and about 400 tonnes is food and FMCG.

Suvarna Joshi: Alright, so this was in Q2 FY2018, can we have the comparable quarter of last year?

J. Laxman Rao: Yes, 3190 paints, 1270 lubricants, 140 food.

Suvarna Joshi: Great, we are seeing that the pain has been in the paint segment, so with the GST in fact now tapering off, do we expect a good pickup coming in from the paint segment?

J. Laxman Rao: Yes, it should happen because lot of people must have deferred their painting activity or construction activity due to confusion or commotion of GST, they must be getting back to normalcy and hopefully they should start improving their consumption because paint industry was expecting 10% to 12% CAGR for five to six years, but they must be having a low single digit growth this year in the first six months, so probably they should be also trying to improve their sales in the coming quarters. With GST also if you tamper down, which I do not think they have tampered, they reduced for paints, but if they do that probably there will be a considerable improvement in the paint consumption.

Suvarna Joshi: Sure, that was pretty helpful Sir! I think I will come back in the queue for any further questions, till then wish you all the best.

Moderator: Thank you. The next question is from the line of Shailee Parekh from Prabhudas Lilladher Private Limited. Please go ahead.

Shailee Parekh: Sir, you know the volume data that you just shared with us for Q2 of this year and Q2 of last year can I please get the volume data for the first quarter of FY2018?

J. Laxman Rao: FY2018 numbers are 1760 tonnes for lubricants, 2590 tonnes of paints and about 450 tonnes of food and FMCG.

Shailee Parekh: That gives us a total of about 4800 tonnes in Q1?

J. Laxman Rao: Yes.

Shailee Parekh: Sir, if you had to split this between IML and HTL both weight wise as well as value wise, could you please share the data?

J. Laxman Rao: Yes, weight wise I think I already gave that 49% of the products in this Q2 are

Shailee Parekh: No, Sir in Q1?

J. Laxman Rao: In the Q1, 49% of the products are in IML. They contributed 59% to the value.

Shailee Parekh: Sir, weight wise basically we have maintained the trend at 49:51 in Q2, it is only value wise that it has changed?

J. Laxman Rao: Value wise

Shailee Parekh: I believe you said it was 57% in IML and 43% in screen printing in HTL?

J. Laxman Rao: Correct.

Shailee Parekh: Sir, the EBITDA per kg figure if you could share for Q1 please?

J. Laxman Rao: EBITDA for Q1 per kg was 33.7, and 33.45 this quarter.

Shailee Parekh: Sir, what are the RAK volumes in particular in Q1?

J. Laxman Rao: Volumes were about 98 tonnes we were processed in Q1 and it is up to 120 now.

Shailee Parekh: 120 now right?

J. Laxman Rao: 120.

Shailee Parekh: Alright great Sir! That is all I needed to know. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Harsh Vijay Shah from Silverach Investment. Please go ahead.

Harsh Vijay Shah: My question was basically on the fact that the second quarter has been timid and majority of the sales so far has been looking good in the third quarter, so in the second half you were planning to do around 11000 tonnes in the second half.

J. Laxman Rao: 10000 to 11000.

Harsh Vijay Shah: So, if I just take around 10000, so basically 10000 to 11000 will be around 15% plus volume growth, that you are planning the second half?

J. Laxman Rao: We are hoping that yes.

Harsh Vijay Shah: Second was from the RAK side, so basically what kind of recent enquiries have been happening from that plant and from which sector basically from paints or FMCG?

J. Laxman Rao: Both paints and lubricants and food also, food in the sense dairy products, we are getting very good traction from dairy is all across Middle East. Even countries outside UAE are showing interest and they are actually placed even some orders, so in RAK the growth will come in all these three fields one is food and lubricants and paints.

Harsh Vijay Shah: Sir in this 120 tonnes if you can just break it up against such segments that we already have, what will be the breakup of that?

J. Laxman Rao: We can do that, but probably it should be around 60% food, balance is paints and lubricants.

Harsh Vijay Shah: Sir, that is a different cycle only and since we are very small right now, but just talking RAK has 3000 capacity plant at max if you want to stretch it, till what capacity can we reach over there?

J. Laxman Rao: As I always say 75% to 80% is the best what we can reach, so we can reach about 2400, 2300 tonnes that is almost 550 to 600 tonnes per quarter is possible whereas we are at around 120 for food items.

Harsh Vijay Shah: That is it from side. Thank you and all the best.

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

Jatin Damania: Sir, just wanted to check the run rate of the Mondelez order, what are the current run rate and are we expecting any further increase in the run rate in coming quarters in FY2019?

J. Laxman Rao: Sorry, what is that, run rate?

Jatin Damania: Run rate of the Mondelez order?

J. Laxman Rao: Mondelez orders are increasing. We need to further enhance the quality production from January 2018, so we are making arrangements for that.

Jatin Damania: So, what is the current run rate Sir?

J. Laxman Rao: The numbers I am not suppose to share Jatin, but they are almost double than what we started in February and now they are going to go up another 25% from January 2018.

Jatin Damania: Sir, we have a capacity in place to take the run rate further by 25% right?

J. Laxman Rao: Yes, we are just creating wherever there is a short fall. Those machines or robots are being made are procured and will be ready by end of December.

Jatin Damania: Sir, secondly after the successful exhibition of Mondelez order, have we seen enquiries coming from the other MNCs or the domestic players?

J. Laxman Rao: Yes, one more MNC we added to our fold and the products are starting in the month of November.

Jatin Damania: So, can you name that?

J. Laxman Rao: Probably once we make the first supply I will let you know that will be towards the end of this month. Already the samples have been approved, some final tests are happening and once that is happened I will be able to talk to you.

Jatin Damania: Right Sir! That is all from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: I have three set of questions. The first question is on capex. I read in the press release I think you have guided to 40 Crores of capex in FY2018, so can you give a split between maintenance capex and what is the exact capex in this guidance and also what kind of your run rate likely in FY2018-19 on the maintenance capex side as well as what the capex you will be incurring?

J. Laxman Rao: Maintenance capex is hardly anything in this. There may be few machines, which are replaced accounting to less than 5% of the overall capex. Majority of the capex is going into at our first unit in Hyderabad and unit 6 where we have setting up the new flexographic printing machine that is unit 6 in Jeedimetla and the rest majority is going at our unit 1 where we are constructing world class facilities for food and mainly food industry with complete controlled atmosphere and facilities that are at par with international manufacturers anywhere in the world, so those machines are all majority of them are going to be all electric machine and this facility is halfway through almost, some of the machines were just started and some machines and molds are arriving in December, so end of December itself we will be starting the first phase and second phase by June 2018. This will be housing more than 16 to 18 injection molding machines. Currently only four or five were installed, another five will be installed by December and the remaining six to eight machines will be coming in the month of April and May and installed by June. So the investment in unit 1 alone is around 16 Crores so far and I think another 5 to 6 Crores will go there, so at 20 to 25 Crores is the total capacity addition for food and FMCG in this year, which we announced and informed BSE and NSE also few months ago. So major investment compared to the rest is all balancing 5 Crores in the printing, which I have already told you, 20 to 22 Crores in unit 1, so out of the 40 Crores outlay for this year almost 27 Crores to 28 Crores is happening in these two locations itself.

Nikhil Mathur: And going forward in FY2019-FY2020 we assume that the capex levels are going to taper?

J. Laxman Rao: Taper, I do not think so because the way we are getting the enquiries from the food industry and FMCG, there will be unknown certain rise in demand for which we need to create capacities in a short notice period like four to six months, so if you ask me frankly as of today only the Asian Paints project each both of them we need to invest at least 20 Crores is visible for the next financial year apart from what we had invested in this year and there could be some more investments in the food and FMCG to catch up with the volumes and increasing demand, but this may not be as high as 40 Crores like this year, at least another 10 to 15 Crores can happen in that direction also as we progress.

Nikhil Mathur: Secondly Sir, on RAK what is the peak sales potential that we can see from the current installed capacity and also what EBITDA per kg are we targeting from that plant compared to what we have in India?

J. Laxman Rao: I clarified last time also, EBITDA margins are similar in both the countries or regions we noticed, only advantage..

Nikhil Mathur: Why I asked you because in India you have a combination of IML and non-IML whereas I believe RAK is entirely IML, so I guess your EBITDA for this should be slightly higher compared to your Indian operation, please correct me if I am wrong?

J. Laxman Rao: I am talking about IML only. I am talking about the IML EBITDA here will be equal and there. There are HTL products also there, so there will be somewhat better than Indian. If you look at as a overall Indian is always less because of the screen printing and offset, so if you are taking IML to IML, there is no much difference that is what I mean and then you have the advantage of income tax being, there is no income tax and all profit that are generated in RAK that is the only silver lining for an Indian competitor setup there.

Nikhil Mathur: Sir, what would be the peak sales production based on the current installed capacity?

J. Laxman Rao: Yes, I said 2400 tonnes in a year, so around 200 tonnes could be the possible capacity, and currently we assume only 40 to 45 tonnes.

Nikhil Mathur: Sir, is it possible to quantify on value terms in this?

J. Laxman Rao: Value terms is around 70 lakhs per month.

Nikhil Mathur: Thanks a lot Sir!

Moderator: Thank you. We will take the next question from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: Sir, thank you for the opportunity again. Sir, we have been talking of about 40 Crores capex for FY2018 and about another 30 to 40 odd Crores for FY2019 again, so all this capex is likely to be funded from our internal sources or we will need to take on some debt on the books?

J. Laxman Rao: As of today, the internal generations are almost 30 Crores per year after paying the dividend, so that would be more than enough to take care of the next year needs, but more than that we also have a deep unused working capital limits, which you can be used as and when we require excess funds and that can be refilled with internal generations quickly, so term loans are also not possibility at least for the year 2018-019. Going forward if there are any big opportunity comes and bigger projects have to be setup that is only when we will be looking at term loans.

Suvarna Joshi: Sure Sir, that requirement may happen only beyond FY2019 likely in FY2020-21 when we will have to probably expand capacitates for Asian Paints again after the first phase of

J. Laxman Rao: No, not for Asian Paints, Asian Paints expansion is considered in 2018-19 itself, if any opportunity comes our way in terms of big FMCG or food kind of an orders that require quick addition of capacity may be geographically at a different location or in our existing plants that is when we may need a bigger short of to investment, at that time probably we may have to dig into term loans, otherwise as of today I do not foresee it for next one or one and half year.

Suvarna Joshi: Fair enough Sir! Sir, another aspect was on, if you could just highlight was as to what is the kind of industry growth that the rigid packaging segment is reporting in India and what is it like globally if you can give some thoughts on that will be really helpful?

J. Laxman Rao: No, I did not have the statistics, but what I heard few months ago was overall packaging industry in India is growing in double digits 10% to 14% and rigid and flexible are also overall is in the same bracket, but we are not really going to follow the trend we can do better because we are trying to do replacement demand, replacing tins, replacing glass bottles or replacing some blow moulded containers or replacing our offering rigid injection molded containers in place of monocottons or film poaches stuff like that, so being a replacement demand I cannot really quantify what can be the maximum growth if possible and what not.

Suvarna Joshi: Sure Sir that is it and the last one which I wanted to understand was, how are we placed in terms of the large order we were expecting from the domestic paint company who intends to foray by the end of this Q4 of FY2018, so what is the traction on that are we still on with it the way it was or we have seen any changes to that as such?

J. Laxman Rao: I do not see any changes, still negotiations are going on commercial negotiations. They are also considering another one or two suppliers, so more data will be coming at any moment in the next few weeks. The only difference in these three months is it has moved to commercial level of negotiation.

Suvarna Joshi: Fair enough. That was quite helpful Sir! Thank you so much once again and wish you all the best.

Moderator: Thank you. We will take the next question from the line of Shailee Parekh from Prabhudas Lilladher Private Limited. Please go ahead.

Shailee Parekh: Sir, I have a followup question. The last time we spoke you have mentioned that we were speaking with certain pharmaceutical companies and cosmetic companies for offering packaging solutions to them, how far are we with regards to that?

J. Laxman Rao: I mentioned that, but we are at present in touch with two cosmetic companies with whom we are sharing designs and talking with them, not much with pharma, I said first we will concentrate on cosmetics because there the volumes are better unless this is a different product for pharma, so as of today we have two enquiries simultaneously going on, I can say two or three product enquiries going on, so probably we may click with one or two in this quarter, but if that happens again we need four to five months to set up the molds and robots, but certainly we are aiming at cosmetic industry also.

Shailee Parekh: And should that happen, would it be a significant contribution to the volumes or it would not be really?

J. Laxman Rao: It will be reasonable, I would not say very significant as food, food will continue to be a more significant player in IML because of demands of hygiene and contamination free products, which is also required by cosmetics, but food being the volume business the significance will be more for food and other products.

Shailee Parekh: But the margin profile would kind of be the same?

J. Laxman Rao: Margin profile would be different, it can be definitely better also in cosmetics because the destination and other things they are ready to pay for it, so hopefully at least equal to food are better.

Shailee Parekh: But anyways even this has to contribute in which of a small way also you know it is not going to happen until June of next year perhaps?

J. Laxman Rao: Yes, May-June yes.

Shailee Parekh: Alright. In continuation with my question the previous time when I asked you about the volume breakup, in Q2 of last year would you be able to share the value and volume wise breakup between IML and HTL please?

J. Laxman Rao: IML and HTL?

Shailee Parekh: Yes, last year volume, I mean in last quarter Q2 of last year?

J. Laxman Rao: IML and non-IML?

Shailee Parekh: Yes.

J. Laxman Rao: Last year Q2 is it?

Shailee Parekh: Yes value wise and volume wise please.

J. Laxman Rao: Overall IML 1360 tonnes in Q2 last year.

Shailee Parekh: No, Sir I was asking about the volume wise and the value wise breakup that you give?

J. Laxman Rao: Value is 24 Crores.

Shailee Parekh: No Sir, you know have you said in Q2 of this year it was 57% was the IML and 43% was non-IML.

J. Laxman Rao: Percentage?

Shailee Parekh: Yes, Sir!

J. Laxman Rao: I will give you that. It will more or less similar in terms of percentage wise. Q2 of last year 43.3% is the sales value and sale volume is 39.4%, so 39.4% of IML products have contributed to 43.3% of sales.

Shailee Parekh: And the other question I had was on the tax rate, would you please be able to guide us as to what would be the tax rate for our company, for H1 it has been about 33%, is that what we work with going forward?

J. Laxman Rao: Yes, it will be somewhat similar.

Shailee Parekh: Alright. Great. Thanks so much.

Moderator: Thank you. The next question is from the line of Akhil Parekh. Please go ahead.

Akhil Parekh: Sir, just couple of questions, one you mentioned about the volume breakup of paints, lubricants and F&F could you please repeat that number I just missed that part actually?

J. Laxman Rao: In the Q2?

Akhil Parekh: Yes, Q2 as well as in Q2 2018 and Q2 2017 both.

J. Laxman Rao: Q2 of 2018 1372 tonnes of lubricants, 2744 paints and about 400 food.

Akhil Parekh: And for Q2 2017?

J. Laxman Rao: Paint is 3190, lubricants is about 1272, 140 to 150 tonnes of food and others.

Akhil Parekh: Sir, would you be able to quantify in terms of percentage of sales how paints, lubricants and F&F did for this quarter?

J. Laxman Rao: This quarter the paints were about in volume terms

Akhil Parekh: Percentage of sales Sir!

J. Laxman Rao: Percentage of sales as in rupee value 58% has come from paints, 26.5 from lubricants, 15.5 from food.

Akhil Parekh: Got it Sir1 Sir in terms of this unit 1, which we are doing the expansion at, so apart from Mondelez, is this capacity expansion happening for Mondelez or is it any other client?

J. Laxman Rao: No, Mondelez is hardly 20% of the rationale capacity, the rest is also many other clients.

Akhil Parekh: Would you have big clients apart from only food and FMCG?

J. Laxman Rao: As of now MTR and Amul are there in curds, but comparatively that is much smaller comparative to Mondelez, but couple of new products we are developing would built up reasonable numbers and all for new players.

Akhil Parekh: Sir, in terms of sippers you had mentioned last time that we might see some traction this December for PVR or Inox any light on that?

J. Laxman Rao: They were still, till last month they were talking about GST PVR people, now I think our marketing is again in touch with them now, so it may take another few months, at least a couple of months before we start that because our hands are also full with other products and Mondelez as of today, so we were also taking it a little bit low on that.

Akhil Parekh: Sir, in terms of Mondelez is lickables product, so the initial order which we had got, so would it be right to say that we have this 100% utilization level for that product what that order at the start, are we selling that quantity till now?

J. Laxman Rao: Yes, whatever quantity they initiated in the month of February-March is almost double now and will be further improved by another 20% to 25% next year.

Akhil Parekh: When you say there is going to be enhancing of quality so it for the same product right, only cables only?

J. Laxman Rao: Same products, volume has been enhanced.

Akhil Parekh: So it will be plus 25% from January 2018?

J. Laxman Rao: Yes, January-February it will catch up.

Akhil Parekh: Two new MNC clients were added you had mentioned on this, would you be able to name that?

J. Laxman Rao: Naming I can say by end of this month once we start the initial supplies.

Akhil Parekh: That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Taral Shah from Kitara Capital. Please go ahead.

Taral Shah: I just wanted to know how much peak revenue we can generate from the Hyderabad facility, new facility which is coming up?

J. Laxman Rao: This is going to be about 1500 tonnes as I mentioned, food and FMCG products are sold at considerably high price somewhere around Rs.250 to Rs.260, so it can generate volumes of up to let us say 40 Crores.

Taral Shah: Thanks Sir!

Moderator: Thank you. We will take the next question from the line of Aditya Solanki from Dalal & Broacha. Please go ahead.

Aditya Solanki: I just joined the call a bit late, can you just tell me what was the reason for de-growth in topline and EBITDA margins?

J. Laxman Rao: Yes, EBITDA margins have improved because of increased IML sales and increased food product sale and topline growth was not so good because of the drop in sales in the month, especially in the month of July due to the implementation of GST.

Aditya Solanki: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Akhil Parekh for his closing comments.

Akhil Parekh: On behalf of Nirmal Bang Institutional Equities, I thank you everyone for joining the call. Thank you Laxman Sir for answering all the questions very patiently. Over to you in case if you have any closing remarks, Sir1

J. Laxman Rao: Thanks to Nirmal Bang for arranging this conference and I also thank all the participants for their interest in our company and patiently going through the conference and details. If you have any further queries you can always send us an e-mail and we will be able to get back to you as soon as possible. Thanks once again and you all have a nice day.

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