"Mold-Tek Packing Limited Q2 FY22 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited"

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MODERATOR: **MR. SUMANT KUMAR – MOTILAL OSWAL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to the Q2 FY22 Earnings Conference call of Mold-Tek Packaging hosted by Motilal Oswal Financial Services 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumant Kumar from Motilal Oswal. Thank you and over to you, Sir.

Sumant Kumar: Thank you. Good afternoon everyone and very warm welcome to Mold-Tek Packaging Limited Q2 FY22 Post Results Earning Call hosted by Motilal Oswal Financial Services Limited. On the call today we have management team being represented by Mr. Lakshmana Rao. We will begin the call with key thoughts from the management team thereafter we will open the floor for Q&A. I would now like to request their management to share their perspective on the performance of the company. Thank you and over to you, Sir.

Lakshmana Rao: Good afternoon. Thank you very much Sumant and thank you all the participants being present on the call and for your interest on our companies performance. I am very glad to inform you that our company has recorded almost 100% jump in PAT for the H1 ending September 30th compared to the previous year and on a QoQ that is on a sequential basis Q2 on Q1 the company has posted 41.6% growth in PAT and 30.7% compared to the last year Q2. So, overall the performance is well supported by growth in the paint segment and secondly by the food and FMCG. In spite of raw material price hike of almost 26% compared to the Q2 last year company could sustain its margins or rather improve its margins from almost Rs. 37.2 per kg in the Q2 last year to 42.7 which is more than 14.9 say 15% growth in the EBITDA margin has been achieved in spite of huge raw material price hike which was 80.16 in the previous Q2 has gone up to Rs. 113.5.

So, a jump of Rs. 34 is almost 45% increase in the raw material price, but we could successfully pass on the price increase to our clients based on our agreements we have with them and with the better utilization of units that Mysore and Vizag and to some extent at Satara the profitability has shot up by 30.3% compared to Q2 last year 45.6% compared to Q1 of previous Q1 that is June quarter and by 97% H1 on H1. So going forward too, the company has solid plans and expansion projects coming up to support the growth and those details I would like to share with you on Q&A to have more clarity and specific nature of disclosure. So, I now give the call back to Jacob to start the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rishab Kothari from White Oak Capital Management. Please go ahead.

Rishab Kothari: I had a couple of questions firstly could you help me understand which were your key client addition for the quarter?

Lakshmana Rao: The new clients that were added are mainly in the food and FMCG Visakha Dairy, Swagruha Foods, Kumaran Sweets, The Bread Basket, and Cake World these are all the clients that were added in the food and FMCG segment and couple of them are in the edible oil segment.

Rishab Kothari: And also could you highlight on the contribution of say the top 5 or top 10 clients your overall sales?

Lakshmana Rao: Yes overall sales almost 70% of the overall sales are contributed by the top 7 to 8 clients almost 40% plus contribution come from Asian Paint alone. The second biggest is sometimes Mondelez sometimes Nerolac and sometimes Hindustan Levers and nowadays I think it is Hindustan Levers which is around 10% of our sales and then going down we have Mondelez, we have KNP, we have Berger paints and then we have food companies like Amul and others who are contributing 3% to 5% to the sales. So, the top 10 would certainly contribute to 70% of our sales.

Rishab Kothari: These figures are for H1 right?

Lakshmana Rao: Yes these figures are for H1.

Rishab Kothari: Can you talk about the raw material scenario for the company there are lot of volatility in the raw material prices and so what is your perspective on the margin side and the raw material side?

Lakshmana Rao: See if you notice for the last 6 months the raw material price have shot up. From December there were 90,000 per ton. There were almost 135,000 that is 1.35 lakh per ton in the month of Jan, Feb onwards and they dip a bit in May, June and again from this quarter that is July onwards price started forming up. In September they touched almost like 125,000 per ton. Now currently actually in the month of October again the cost Rs. 130 per kg and I think this is the peak it cannot be worse than this because crude price has not really shot up to that level when compare it to what it was 6 months ago to today and other input cost also have not shot up as much for the refineries, but however shortage of raw material might be a reason that has got this kind of havoc in the raw material price hike, but I think going forward thing should taper down gradually and reach at least 110 range by March next year. However, our agreements with all our clients is based on raw material price that means if it goes down we have to pass on the benefit to them and even it goes up we need to and they automatically raise prices up as 1st of every month. Some people like Asian Paints and others we have one month or two months agreements and with 90% of rest of our clients it is all based on the price first announce by the Reliance. So that way we are more or less covered the vagaries of raw material prices then coming to the performance the improvement is mainly because of better utilization of capacities especially in the new plants which have been setup at Mysore and Vizag for Asian Paints and those brand capacity utilization has shot up and in fact we are again expanding those capacities in this current financial year because of the projections given to us are very aggressive and they are in line with what they have given three, four years ago, but little bit **(Inaudible) 8.48**. So, we need to start that growth little earlier. So, company has taken all the steps to catch up with their demand increase as early as from January 2022.

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

Suvarna Joshi: I had a couple of questions the first one if you can just help us understand the volume breakup in absolute terms for IML as well as non IML and across the three key industries that is paints, lubes, FMCG?

Lakshmana Rao: The percentage of sale of paint has gone up from 53%, 54% last year Q2 to 59% this year lubes fell from 23 to 19 and food and FMCG also reduce a bit from 23.4 to 21.5. So, the major growth for the current year has contributed 48% growth has come from paint 12% to 13% from lubricants and around 20% from food and FMCG.

Suvarna Joshi: Sir this much on the volume front?

Lakshmana Rao: You want absolute numbers.

Suvarna Joshi: Yes sir that will be really helpful?

Lakshmana Rao: In the paint sector is 94.5 crores, lubes 30.7 and food and FMCG 34.5. So, totaling to close to 160 crores.

Suvarna Joshi: And how about the absolute volume number if you can help us?

Lakshmana Rao: Volume number also are similar, but paint is almost 4,815 tons, lubes is 1,568 which is a degrowth actually and food and FMCG is around 1,200 which is also little degrowth mainly because of drop in edible oil container sales in this Q2 comparatively previous Q2.

Suvarna Joshi: And sir this drop in edible oil containers would be primarily because of the rise in raw material cost or what explains that drop if you can?

Lakshmana Rao: Two reasons which I last time also explained in June, July quarter June quarter which is very big impacted in edible oil the basic raw material that is crude oil the import has gone up by almost 50% to 70% during the last 6 months and it will continue to be high. Now recently government has taken some steps to reduce import duties and make it little easier for them to import the vegetable oil, crude oil before refining. So, that price hike has not enabled those companies to use our expensive containers in the place of tins or blow mold container. So, there is a price hike in our containers also because we pass on the raw material price hike to them. So, what they used to get let us say at Rs. 100 or Rs. 110 they now shot up to Rs. 120, Rs. 130 so for them the Rs. 20 to Rs. 30 for even a can of 15 liter is a big margin and as it is the basic oil price has shot up. So, they were not able to cope up with the price hike and pass it on to the consumers it is being a commodity product, it is very price sensitive. They were even in the months of only in October we see again the volume picking up because of the festive season only in September and October until then there was a gradual decline offtake in the edible oil sector.

Suvarna Joshi: And now coming to the point again on the volume growth, so if I see the press release our net revenue has grown by about 34% whereas in quarter the volume growth is about 8%, so is the understanding right the balance growth that we have seen that is approximately to the range of 26 odd percent is contributed by a realization growth or would there be an element of product mix as well in this 26% growth in realization?

Lakshmana Rao: No, the main raw material growth is the inflationary number the income gone up by 34% mainly because the input cost have gone up and we could collect it from the clients. So, if you look at the raw material price of Rs. 80 in the Q2 last year to Rs. 113 it is a 45% jump and our raw material generally is to constitute somewhere around 55%, 60% of our sales. So, 55% to 60% or 45% comes to almost 25%. So, whatever is the difference between the volume numbers and rupee numbers is mainly due to the inflation of the raw material and that is why I always encourage all of you to look at per kg EBITDA as a main basis for our productivity or improving profitability shot up from 37.2 in the last year Q2 to 42.76 in this year it is almost say 15% improvement in the EBITDA margin.

Suvarna Joshi: Again on this EBITDA per kg aspect in a Quarter 1 concall also you mentioned that 42 seems a little unsustainable now again in Quarter 2 because of the increase raw material prices which we are able to pass on it has kind of come at 42, do you think that for H2 also we will be able to match up to this number or there should be some kind of decline over there going forward or any guidance on the EBITDA per kg because I remember you had guided that we will be able to maintain between anything between 38 to 40 for FY22 and gradually with product mix changing we should aim for Rs. 44, Rs. 45 per kg on the EBITDA level?

Lakshmana Rao: I hope you would not complain that we did better I am just joking what I am saying is so we want to be conservative in our estimates and this time I would say it is not majority of reason for improved EBITDA is improved performance of our units 8 and 9 that is at Vizag and Mysore where the capacity utilization has reached almost 90%, 95%, but of course the overall companies numbers have gone up only couple of percentage points, but there because of the demand from Asian Paint both at Mysore and Vizag our capacity utilization has peaked up and even other units have supported from Hyderabad or from Daman to Satara to catch up with the increase in demand that is one of the main reasons for improved EBITDA and going forward now slowly the edible oil packs are coming back into picture for the last couple of months I do not know how it will go after Diwali, but and our fleet packs also picked up in the last two months slowly is contributing about couple of crores in this quarter and may be probably 4 crores, 5 crores in the next quarter. So, this new additions and new packs will certainly improve our pumps also are slowly picking up we now added two more clients in the pumps division and we are working with another big client for a small modification which is accepted by them would lead to production from month of December or January almost like a million pumps a month. So, going forward I think now I can talk about a margin of Rs. 40 to Rs. 42 or could be Rs. 42 for the full year if possible going forward. If the raw material at least remains where it is today because if it keeps going up our edible oil sector might get further impacted that is only worry we have all other factors are almost agnostic to raw material pricing because they cannot sell their products without that whereas in the case of edible oil there were other alternatives like metal tins because they are not completely shifted to our kind of plastic packaging even today. So, they sometimes shuffle the numbers so they take less number of our containers and more number of metal tins and keep the price differential also so that people who are more interested in buying at Rs. 30 less or Rs. 25 less they might pick up a metal cane. So, that is only volatility we have going forward if your raw material price further goes up. The rest of the things will remain well and in fact pumps and seat boxes are going to add some decent numbers in Q3 and you all know that our Q4 is the best generally the fourth quarter is the best because ice creams and cheese and all the food product consumption shoots up starting from January. So, I think the H2 should be better than H1 definitely because H1 in Q1 we got affected by COVID in the month of May and June and that is why Q1 numbers they are much better than the previous year they are still less than Q2 by bit 40% or so. So, going forward hopefully the COVID is under control H2 should be better. So, probably we can look at 42 or 43 kind of EBITDA margin for the full year.

Moderator: Thank you. The next question is from the line of Akshay Chheda from Canara Robeco. Please go ahead.

Akshay Chheda: Sir just two, three questions from my side sir firstly if you can help with the revenue breakup and the volume breakup between IML and non IML?

Lakshmana Rao: Yes revenue breakup and even the sales tonnage breakup has dipped a little bit in this quarter for IML products basically because of sales have grown mainly in our unit 8 and 9 which are meant for Asian Paints who are still not into IML. So, it dip from 62% to 59% in tonnage 66% to 62.5% in value.

Akshay Chheda: Sir currently we are operating in any inflationary environment and if we see the industry are facing this pressure the gross margins are etcetera so do we sense that because I think based on the numbers that is not visible because even in such a challenging environment we have been doing a Rs. 42 that is EBITDA per kg so that is quite commendable, but do we still sense that there is some pressure from our clients?

Lakshmana Rao: See the pressure from clients when the prices go down basic advantage and we pass it on immediately. So, this is understanding which has been going on for last 20 years to 30 years. So, there is no such pressure established clients asking us to change the formula of course the only edible oil which is hardly 2 years relations we have with them as I explained they are not really completed shifted to our container that is a volatile segment which I think the worst has been already seen because the drop was considerable like more than 20% drop in volumes in edible oil container sales in the last 6 months. So, because of festival market maybe demanding our containers which are more attractive, more tamper evident counter feed. They again rise in October, but I do not know at last the raw material still goes up, but we are not putting all our x in that basket because we have many other new products that are being added to our range as I told you couple of new pumps are under development which may start yielding some numbers from January onwards we have seat boxes already picking up numbers another four new small restaurants packs and packs for butter and readymade food we have under development which will be coming into production by December, January. So, whatever dip in edible if at all happens packs if it stays where it is today I think we can continue to do Rs. 42 EBITDA per kg going forward.

Akshay Chheda: And last question sir any volume guidance for say FY22, FY23 and we did speak about 35,000 for FY22 so any change there and going forward how do you look at it?

Management: Yes actually this year we have currently in the first 6 months the growth is around 26% in tonnage terms, but to sustain this may be difficult because this is based on a bag the Q1 of last year. However, the numbers are positive and we hope to close at least in the region of 18% to 20% volume growth in this current year maybe 20% is possible with the new products that are being added if they are added in time as I am thinking. So as guided to you last year or few quarters ago a 20% CAGR growth is on cards for this year and for next year we have actually couple of major development that are happening. One is you all know that in IBM we are making an entry and IBM products for pharma, cosmetics and FMCG we find good traction and reasonable inquiries are coming in our way of course the pilot project to start would be April next year. So, it might not add immediately in the first couple of quarters, but during the next financial year those numbers will be definitely sizably added and you all know that the Q1 and Q2 of this year mainly Q2 got impacted by second wave of COVID and ice cream sales have fallen again from May onwards affecting the food and FMCG numbers which I hope if it is not there next summer it will considerably add because we have couple of new SKUs developed before Hindustan Levers and even one SKU for Amul during this low time and we are in discussion with Arun ice creams for about 2 new SKU if that also is added next year we could see a very good jump in numbers for food and FMCG apart from pumps which now two more new models are getting into production by January, February. So, next financial year maintaining a 20% CAGR also we are very confident and in fact if you notice today or yesterday I think two days ago we gave a notice for fund raising plan board meeting on third of November to raise some funds and the quantum of which will be decided later because of one opportunity that is coming on our way which we have been waiting for quite some time the details of which I cannot disclose now, but if that happens then there will be a sudden spurt of activity and investment in the next 6 months. So, if that happens reaching the 20% growth next financial year is not a big deal.

Moderator: Thank you. The next question is from the line of Rishab Kothari from White Oak Capital Management. Please go ahead.

Rishab Kothari: Could you help us understand your relationship with Asian Paints they still contribute approximately 40%, 45% of your sales so just want to understand what percentage of Asian Paint containers are actually supplied by us and what is the sort of breakup of Asian Paint containers like IML or non IML breakup and what percentage of IML containers do we supply to Asian Pains?

Lakshmana Rao: See my numbers will be approximation because I do not have their internal data, but based on my observation of how they share the business volume hi-tech maximum volume of their business followed by Mold-Tek and then there are another four to five suppliers for them at various locations. So, on average they have at least 4 suppliers at each location and we are there at other location other than the North region that is Rohtak and we are trying to enter that also through our plant at near Kanpur hopefully it may happen next year onwards. So, having said that Hitech gets almost 40% to 45% of their total requirement at least 40 in my opinion and we Mold-Tek may get around 20% and rest of the three, four players get that remaining 40%. So, let us say they get about 10%. So, we are at 20% of their overall requirement is my guess and then coming to your question of IML, non IML. They are completely non IML they have little bit of HTL, but not IML at all. So, whenever if they intend to go for IML then the MLMS may come into picture today HTL yes out of their 20% of the business they deal with that or say if they deal 100 with us in that 25% to 30% are HTL the remaining 70% are still screen printing and BOPP printing which is in fact is not really very modern decoration. So, as of now IML from Asian paints is zero.

Rishab Kothari: But like you mentioned that approximately 60% of the tonnage comes from IML products?

Lakshmana Rao: IML and HTL together.

Rishab Kothari: So that IML and HTL together.

Lakshmana Rao: Yes.

Rishab Kothari: And none of the other paint companies are also going for IML products as of now?

Lakshmana Rao: Berger is having couple of new brands in IML and Nerolac has couple of brands, but not the main brands because of small cost differential, but their concern was other suppliers are not ready and if they are to move to IML that dependency and Mold-Tek will go to almost 100% as of today, but I heard couple of our other companies are also making smaller containers of 1 and 4 liter on IML and that might provoke paint industry to go for IML and going forward.

Rishab Kothari: Can we expect that as the paint industry moves more towards IML our role is going to increase substantially even for Asian Paints?

Lakshmana Rao: I guess so because the kind of infrastructure, the kind of backward integrated facilities like making the level ourselves which is a very big input for the in mold labeling process. The label itself and labels availability in time and labels quality for molding makes hell of difference for the output of IML production. So, in that segment we have gone leaps and heads over our competitors. So, going forward probably if any paint company moves towards IML they will be dependent on us much higher than what they are dependent as of today.

Rishab Kothari: And if I may just ask one more small question so do you have any idea about Hitech progress on transitioning towards in mold labeling?

Lakshmana Rao: I think Hitech has acquired some Robos long ago, few years ago and very old news two years ago two and half years news when we all met in one of the IIP meeting was that was that they were still struggling to control the rejections that is what I heard, but maybe you guys have better information than me on this side.

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

Karan: Sir can you guide us with respect to the CAPEX plan for the current year and possibly for the next year?

Lakshmana Rao: Yes as you are aware just for statistic purpose what were the investments what we made till 2014-2015 was more than close to around 140 crores, 150 crores whereas last five years the investments are to the tune of 260 crores. So more than two times investments were made in five years compared to the first 30 years mainly because of our widening product range increasing number of SKUs in our product range and of course geographically expanding our footprint in the 8, 9 locations now. So, coming forward we also announces that as Kanpur we started a leisure premises to catch up with the time because of the COVID delays and I am glad to inform that last month we started commercial production there meetings the needs of Nerolac. Now Berger is setting up a plant there and they are going into production by next year April they say probably June, July they would certainly go into commercial production. So, we also have their word if not commitment that they will also be buying from us because we have been associate with the Berger for more than 25 years now and that plant Sandholi has to be setup during the next financial year already we acquired the land and other formalities are being completed and as early as Jan, Feb we may start construction and get ready for production by calendar year middle or end second half of 22. So, that investment for Sandholi will be in the tune of about 20 crores and we have announced our entry into IBM, IML recently that is injection blow molding it is completely a different line of activity comparative injection molding what we do, but similar in nature, but the wider applications of IBM are mainly in food, FMCG and pharma. Pharma regulated market that is whatever drugs that are made in India tablets or nutraceutical or whatever by many pharma companies in India have to be supplied in IBM molded containers with majority of them with child resistant caps. So, there are couple of big players like Shreeji and Triveni, but not many of them or others have abilities like Mold-Tek has in terms of mold manufacturing in terms of getting better productivity through proper process which is similar to IM injection molding. So, we feel that our entry into IBM will lead growth for us in the coming years if not immediately here 22-23 may not be a big jump in IBM numbers, but from 23-24 onwards I foresee that segment adding good numbers to the Mold-Tek growth and our strategy is to have the USP of IBM with IML which none of these three top players are adopted, couple of small players are doing here and there, but not in an organized sector. So, having the ability to manufacture IML label and even robotics we will be able to connect it fast into the IBM with IML also. So as I anticipate around 30 crores investments happening next year in the land, building of course land is already acquired, building and machinery of the phase 1 of IBM and maybe part of phase 2 during the second half of financial year 22-23. So, I foresee expansion of our Satara, Mysore and Vizag plant mainly Mysore and Vizag to catch up with the numbers projected by Asian Paints for the year 3 and our year 4 need another 15 to 20 years. So, forward next year the visibility is there for at least 65 crores to 70 crores investment made and we are now as I told you working on one opportunity turns around in fact there are two opportunities we are chasing if that happens we may have to make some quick investments as early as June next year in the next 6 months, 7 months. So, if those things happen the investment could even cost 100 crores in the next financial year otherwise definitely around 60 crores for sure.

Karan: 60 crores for the current financial year?

Lakshmana Rao: I am talking about 22-23 current financial year already we invested about 38 crores and we have plans to invest another 15 crores, 16 crores. So, the current financial year will end up something like 55 crores to 60 crores, but if those two opportunities which I was talking happen we may have to rapidly do that even in from month of December itself. So, those two opportunities come up next year 55, 60 also would not be sufficient probably where will I go for up to 120 crores of investment.

Karan: And sir Mysore and Vizag initially had capacity of 3,000 metric ton per plant so now the second investment will increase the same to how much?

Lakshmana Rao: Initially it was only 1,700, 1,800 then last year it was made 3,000 and now we have been asked to in at least in Vizag we have to make it 4,500 and in Mysore we are yet to get revised estimate, but previous estimate itself is 4,200. So, if they do not tell anything means we have to make it anyway 4,200. At Vizag the indication is it may have to be little higher than 4,200 tons. So, overall gain in these two units will be at least 3,000 tons.

Karan: And how are things shaping up in the pump segment which is somewhere 4 crores in the first quarter so how are things in the second quarter and do we revise our estimates for the full year?

Lakshmana Rao: The pumps as I explained in July comes. The numbers of sanitizer pumps have almost come to nil because use of sanitizers hand wash has considerably come down in spite of the second wave of COVID. So, the numbers were not so great in terms of sanitizers pumps, but now our concentration was on baby oil, shampoo and other kinds of other segments. Both of them whom we are working one for baby oil and another for shampoo they are both MNCs details of which probably I will be able to talk in the next quarter details and their numbers are also considerably good I am talking about 0.7 million pumps per month each. So, those numbers when they are added as I explained in July the next financial year we will see a good jump in pumps.

Karan: And last bit on Mondelez so we were suffering quite a bit in last two years so like are we on track at least start the historic revenues?

Lakshmana Rao: The Mondelez revenues have stabilized like what they were last year there is no drop or no growth and they are stabilizing their quantities and some export opportunities to Thailand and Vietnam they are giving us which is making the numbers steady and they also have no plans of expanding it beyond current level of 3 million pieces a month which in last two years ago was even 5 million currently they are averaging around 2.5 to 3 million. Some bad months it is 2 million and in good months it is almost 4 to 4.5 million. So, on average, I guess they will be going at a pace of 3 million per month, which is what it was last year.

Moderator: Thank you. The next question is from the line of Kanishka, an individual Investor. Please go ahead.

Kanishka: Hi, my question is, two questions here. One; can you share some developments on the business potential which you are working on, from the takeaway restaurants' food packaging, how is it shaping up and how you see the potential in that particular thing because that is growing pretty quick? And the second one is, you know your new venture, which is the packaging for pharmaceutical industry and cosmetic. If you could give us little more details about how your discussions are progressing and how you see the opportunity in that, one is domestic and in terms of, if there is a potential to even do exports packaging for those kinds of products? Thank you.

Lakshmana Rao: Yes. Coming to your first question, the food and FMCG but for the Covid period, the growth would have been still better because whatever is impacted has impacted ice-creams and cheese and butter and chocolates and that kind of consumables were very badly affected last year and partially affected this year. And going forward, I hope all these will be our past and there will not be an impact of Covid on day-to-day life. Then the food and FMCG sector will boom again and numbers can go up I mean, I am talking about our absolute numbers of food sales can grow at least 25% to 30% next 3, 4 years and the size of the industry if you ask me, it is very difficult to predict because none of the I would say, hardly 5%, 10% of the industry has shifted towards IML containers and that itself, for us it is Rs. 140 crore turnover last year, probably another Rs. 100 crore must have been met by another five, six players who are there in the small containers' business in the country. So, it is hardly a Rs. 250 crore business as of today but the potential in my opinion can be a few thousand crore, like to Rs. 3000 crore to Rs. 5000 crore, if everybody started opting in more hygienic and more well decorated packaging products for food and FMCG. You take spices, you take hing, you take products which are of mass consumption, are still coming in labelled and manually produced containers, manually decorated containers but there will be a day when most of these companies, whoever is in whatever way is related to food, have to use IML containers because they are made hands-free and decoration also hands-free and the product is completely compliant to FSSC 22000 standards which are not really implemented in India. So going forward, if those implementations become stringent, more and more companies have to shift IML containers, whatever they sell in supermarkets has to happen, 90% of them in the food side have to be in IML containers. So, the scope is very high but you know, incidents like Covid have reduced the progress and extensive use of IML but otherwise, the positive side of Covid is, it is driving people towards more hygienic and more environment friendly products because in IML, the sticker is also polypropylene, so you will be able to grind the containers altogether, whereas a container with a paper label or a sticker will be contaminating the grounded material. So, world over, the IML has been preferred for most of the food and FMCG products because of that concern. In India also, that concern is slowly improving, so going forward that is why I am very bullish about growth in food and FMCG sector for our containers. And coming to your question of IBM …

Kanishka: Can I just add to this particular part, specifically if you could also share the companies like Jubilant food works and all, which is the Dominos and they are getting into Birayani packets, so I am seeing lot of organized players and even this food distribution side is getting strong traction and particularly the consumption is happening from the people who are at the upper middle strata of the population, so my sense is that, I am sure that you would have had some discussions with these people, so in which direction is it going, do you see that they are open to adopt it?

Lakshmana Rao: Yes, they are, infact the names that you said half of them we are in touch with them and even PVR, even Coke & Pepsi's we have been in touch with them but last few years have been so bad for everybody that they are all keeping these kind of new developments in the back burner or they are periodically get in touch with us as to find out what is happening, another negative is the steep price in the raw material of plastic which is again making us think twice before they change from cardboard and other types of cheaper packaging, so it might be a challenging task but the change started getting in, the numbers can roll into multifolds, so that will be a guess work as of now, so let us leave it there and coming to the injection blow molding for cosmetics, FMCG and Pharma, we are already achieved at least 4 top players in Pharma, you know Hyderabad is a hub for Pharmaceutical Industries and our company has various contacts in different companies including Dr. Reddy's, Mylan, Hetero, NATCO, Laurus, so you can name, many of them we have supplied some bulk containers in small quantities and they have visited out plant and that initial contact is already there and our existence leading packaging company in the country is already known to them, so when we are moving in, we were always getting some good response from them and in fact to tell you very frankly, COVID, though the consumption of medicines has gone up in USA, the consumption of vitamins, nutraceuticals and other ordinary drugs has come down, because people were more worried about COVID and its treatment and time being they forget about their general health and maintaining vitamins and other stuff which US consumes in bulk. So, infact the pharmaceutical companies in this segment are not really growing, they are just neutral for last 1-1.5 years, but one point you all have to identify and do your research that FDA approved pharma companies, the number has shot up more than 50-55 from 10-20, 2 years ago, so more and more pharma companies in India today are eligible to supply these tablets or medicines, nutraceuticals to USA. So more and more demand has to eliminate, if not America is consuming more, more portion of their consumption might come from India, so that would be an opportunity which will be entering into and I am confident in the food and FMCG, mainly FMCG and cosmetics, we may get better opportunities quickly because we are already serving to GSK, we are serving to P&G, we are serving to Hindustan Unilever, Dabur, most of these companies, Emami we are in touch with them, they are in some small way and Proctor and Gamble we have been associated for quite some time, so all these companies who have neat stuff either food and FMCG products or healthcare products, which are OTC counter products or you look at cosmetics in future, there will be a requirement of IBM with decoration or without decoration, so both ways we are setting up our facilities and we foresee that once we are into that segment, let us say in a year or year and a half, we will be definitely seeking a reasonable market share which as it is today 3G has a turnover of Rs. 500 crore, Pravesha has around Rs. 600 crore in this bottle, all put together it is more than Rs. 2500-3000 crore market, so for us to capture 5-10% might take some time but it is not impossible, so we are very excited about our entry into IBM but as I again said the numbers will start contributing only from '23 onwards.

Kanishka: Right. Sir a last question, quick one on this. I want to know how the management is thinking on this particular part, is a very important factor, since we deal in plastics, there would be a negative connotation to it, in terms of packaging and how it gets reused post first usage, so what are your thoughts in terms or, do you see any significant risk to the business valuations or if where you are supplying if they get more concerned about the ESG, how can that impact us? And how are we preparing for it?

Lakshmana Rao: See, what you read about all the environment issues related to plastic, are all around the film and the pouches, loose bags and thin containers of various packaging products that are used, which are very difficult to collect, regrind and reuse. Two things make it very difficult one is the film as it is, ice or water or anything can drain it all around and spread that products across the streets or across the streams or even sea and all this collection of this material is not worthwhile because of their commercial value being negligible and when you collect also you will not be getting cohesive grinded material which will not have a good demand in the market, so what we are talking and listening even in Europe or even in America is one used, single used film like material or thin vacuum formed or thermo formed container or spoons, even spoons and cutlery are not removed anywhere in Europe, if you notice when you go to restaurants out there everybody is still using them, so what they say single used there is basically film, pouches, the shopping bags and wrapped film around the various products like cigarette packs, you see millions of billions of them, they are wrapped with a very thin film which will never be collected by anybody for no significant value. And then you come to milk packets, milk sachets, they are being consumed billions a day and those film will be contaminated with milk, will be thrown around, so that collection and that product getting back into recycling is almost very less, maybe unless it is a restaurant or a place where they have bulk sale of coffee or other beverages, you will not find those sachets are being supplied on or collected. So, these are the items which are the main culprits of choking of drainage or causing environmental issues, animals getting affected by eating such film or whatever, we all read in the papers. So, if you read about the environmental guidelines recently given also, they are talking about the thickness of 30 microns to 50 and that becoming 80 microns or maybe 100 microns in next 5 years or whatever, none of our products are less than 500 microns, they are all thick, they are easily collectable and infact there is a value, if a container of paint box is collected by one fellow on the road, somebody threw it of using, even if he cleans it spending Rs. 5-10 of his time and water, he will be getting almost Rs. 40-50 for a 1 kg box, because the grinded material is sold at Rs. 90-100 now, so the collection fellow will get Rs. 40-50 for each box he gets and for a small ice cream pack, probably weighing around 50-60 gram even if we collect enough of them, he would be getting another Rs. 20-30, so a grab picker also will not be bothered about a film or a thin material which is contaminated, which is difficult to collect and regrind is the concern today. Maybe, 10 years down the line what more concerns may come up is something which I cannot guess but going forward for next 5-10 years you cannot live without plastic containers and plastic forms of packaging. You can maybe avoid film by going for different types of paper and different types of other applications, again paper comes then the environment, tree cutting and pulp requirement that will be a concern, so you have a double edge knife in those segments of packaging, so a film also cannot be completely overruled but there are jute and other replacements, which again have natural limitations of volumes, so it is a real challenge for film and printing companies who are in that field in my opinion than company involved in molding.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Lakshmana Rao from Mold-Tek Packaging for closing comments.

Lakshmana Rao: Thanks, Sumanth and Jacob for convening this con call and thank all the participants for showing their interest in our company and participating in this call. Thanks for your time and you all take care good day, bye.

Moderator: Thank you. On behalf of Motilal Oswal Financial services Ltd. that concludes this conference, thank you for joining us and you may now disconnect your lines.