



“Mold-Tek Packaging Limited
Q2 FY2023 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mold-Tek Packaging Limited Q2 FY2023 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Sir!

Manish Mahawar: Thank you Faizan. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Mold-Tek Packaging. From the management, we have Mr. J. Lakshmana Rao, Chairman and Managing Director on the call. Now, I would like to hand over the call to Mr. Rao for opening remarks. Post which, we will open the floor for Q&A. Thank you and over to you Mr. Rao!

J. Lakshmana Rao: Thanks Manish and thank you all participants who are interested in our company’s performance. I am glad to inform you that in spite of challenging times and extended monsoon which generally impacts our paint industry demand, we could post a decent growth of 11% in terms of volume growth though in rupee terms it is higher by 14.4%. In volume terms it is around 11% growth in the sales volume and about similar 11% growth in the PAT level 10.5% to be precise, the PAT level. The main highlights of this quarter or rather impediments during the quarter were maintenance costs have shot up because semiconductor shortage in the automated machines like printing lines and to some extent robotic and their non availability has lead to loss in productivity and sales actually. In fact the demand is still better. We could have easily posted a 15% volume growth had we got the spares and support in time, but unfortunately worldwide there is a shortage of semiconductors and electronic parts, spare parts or maintenance parts and supply of printing machines not come in as expected by us. Even machines which are supposed to be delivered in July and August are postponed to November and even December, but now we are taking trials of those machines so hopefully by the end of this month, November we will be having the printing capacities added which would be able to provide us the necessary labels in time to cater to the growing demand. Another additional feature of cost increase is power cost. Unfortunately both Telangana, Andhra and even in Daman there is an increase in power cost to the tune of 12% to 15% which on a cost of 7% of our cost of manufacturing has taken a toll of almost 1% in terms of increase in cost so these two are major and there is of course transport cost increase due to diesel price increase which has also impacted certainly. So in spite of these three cost or disruptions I would say cost and disruptions, the company could post a decent 11% volume growth and maintain an EBITDA of around Rs.41 and hope to see that these hurdles are cleared once the new capacities are added in the month of November and December and look forward to a stronger performance in the coming quarters. This being said I would rather like to go through the question and answers mode

so that more clarity would come to you in terms of performance and what you wish to know so back to operator to start the question and answers please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Chandrika from Rika Enterprises. Please go ahead.

Chandrika: I have two questions for you. My first question is with respect to injection blow molding IBM business? Now the IBM business is a very competitive business with a lot of players in India? What special advantage does Mold-Tek have in entering the business? Unlike IML it is a very competitive business? Also the Pharma companies are currently buying their packing material from other IBM suppliers? Why should they come to us? Why should they shift their supplies to us so what advantage do we have in entering the IBM business and why should the Pharma companies buy from us that is my first question?

J. Lakshmana Rao: There are quite a few players. It is not that there are very huge players. Only few to my knowledge are CG, Pravesha, Grasimar and Gopal Das. The area where we are focusing is not only just in cosmetics, dairy and food and FMCG but also in pharmaceutical export market. In this market majority of the manufacturers of pharmaceuticals are located in and around Hyderabad. Hyderabad is kind of a hub I would say second or third hub in the country and there is a huge expansion of 16,000 acres of land is being allotted to various multinational companies including Indian companies to manufacture pharmaceutical products here in Hyderabad and those land allocations started in October this year and hopefully within the next two years those plants will be up and running and apart from that there is a huge value addition in these products. Unlike ordinary cosmetic or food and FMCG products so that is the area where Mold-Tek is planning to concentrate and we have the knowhow to process materials at a much lower cycle times or higher productivity which is a key for our success in the field of injection molding also having the tool room background, having the processing abilities and nearness to the market especially the Pharma market where the value addition is in the tune of Rs.200 to Rs.250 per kg so these are the points where we are concentrating and we wish to penetrate and become a player of considerable size in the next four to five years.

Chandrika: Thanks. My second question is with respect to dispenser pump? Our performance in dispenser pump has been truly abysmal? I know that Wipro contract has been delayed a bit but even taking that into account our performance has been below par? That is another very commoditized segment? I do not know why you entered it? Last time I asked you the same question? You told me that it is because you have leak proof and tamper proof dispenser pumps and so the clients will buy from us but that has not happened? What is the outlook for dispenser pumps and when will you improve your performance and are we going to continue in that business? What is the outlook for the dispenser pumps over the next two to three years?

J. Lakshmana Rao: Yes I agree and admit that the dispenser pumps our business is not at par with what we anticipated because we started this mainly keeping Wipro in mind which has a plan to set up a big plant in Hyderabad with a requirement of 2 million to 3 million pumps per month which is now just they are picking up 2 lakhs to 4 lakhs per month so that sharp drop in Wipro's requirement has really impacted our performance in dispenser pumps but now of course our pumps have been accepted by Himalaya and several other small players, but those volumes still put together are below 1 million per month while the capacity created is close to 5 million to 6 million per annum. As I explained in the previous call these capacities are fungible that means whatever the investments that are made in the pumps out of let us say Rs.12 Crores to Rs.13 Crores investments made. Other than the specific molds that are meant for dispenser pumps that is to the tune of say Rs.2.5 Crores to Rs.3 Crores all the rest of the equipment are fungible with our food and FMCG products so keeping that in mind we are continuously utilizing those capacities for our other products so if at all there is a hit on the company it is to the tune of Rs.2 Crores to Rs.3 Crores of molds and assembly machines what we specifically invested for the pumps. So having identified that this could be an area of not so great performance in future we are holding for a couple of varieties of pumps what we invested on and trying to break even and recover our costs of the investment.

Moderator: Thank you. The next question is from the line of Saket Reddy from Polasani Enterprises. Please go ahead.

Saket Reddy: Sir any updates on the QR code type any more info?

J. Lakshmana Rao: Yes we have been asked by both Valvoline and Castrol for lines trials. In the case of Valvoline we already submitted the caps and clear coated jars and they will be able to come out with a proposal by the end of this month. In the case of Castrol from the top management there is a request for us to prove the concept online. Those products also are being produced. They wanted a cap to be having the clear coat not only on the jar so we are getting that work done so that they will want to link both jar and cap. In fact there was some problem in their supply chain where there was some proved cases of adulteration so there is a concern now in their minds and they have come forward now to take it little actively so hopefully in this quarter or at least end of this year we may have one of these players starting into QR code.

Saket Reddy: Regarding the Aditya Groups, Grasim's Paint order regarding this product can you disclose the capacity for the plant that you are putting up in Daman?

J. Lakshmana Rao: Not Daman it is in Panipat. Daman is an expansion for our food and FMCG. ABG has given a letter of intent for us to go ahead with setting up a plant at Panipat and their initial projection for the year two is around 2000 tonnes per annum. More details I cannot share

because they are also going with another supplier so they will be having two suppliers at each plant. However our portion is expected to be in the region of 1500 tonnes to 2000 tonnes from year two. The year two is 2024-2025. By October 2023-2024 that is October 2023 we are expected to start commercials of our production there and the numbers will stabilize in the year 2024-2025 and apart from setting up the plant only for ABG, we are also planning to have our food and FMCG product manufacturing in Panipat also which will be able to cater to the Northern clients who are huge in size like say Baddi very near point to Panipat. It is close to 300 kilometers, 250 kilometers to 300 kilometers from Panipat so we will be able to cater to the fillings companies in and across the North region for our entire dairy products, food products, ice cream products, and packaging products which will be manufactured here in Hyderabad so those facilities also will be set up in Panipat by end of the calendar year 2023.

Saket Reddy:

Right and all of the capex programs that you have got regarding the Pharma and even paints all of them are on track? There is are no delays?

J. Lakshmana Rao:

They are more or less on track. Due to machinery supply, everybody is talking about semiconductor shortage and all these automatic lines and all our machines what we use and robotics they are all have somewhere or other semiconductors or electronic components but of course they are not hugely delayed but definitely delayed. In the case of printing machines which we ordered and supposed to come in August in this month we are able to take trials and hopefully by the end of this month the machine will be commissioned in our plant and one more machine is supposed to come in September or October is now coming in December so in fact if you ask for machines now they are talking about one year delivery period but these two machines will adequately cover us for the next two to three years and notwithstanding with that we are also planning a high end technology machine which will be able to cater to our kind of needs in a much faster way so that machine we have selected and picked up. Some trials are going on it. If it is successful the machine will be listed right in December itself so that will further enhance our label printing capacity and take care of our next three to four years of capacity expansions so that is one of the challenge we are having, machine supply in time. We have ordered several machines on Japanese Sumitomo. They are okay. May be there are asking few weeks here and there but probably they will be in time hopefully. Some of the machines are already on the ship. They will be coming by middle of December and some of them which are supposed to come in January may be coming March so these challenges of machinery coming little late by a couple of months is something is impacting the timelines otherwise we are more or less on track. For example the IBM OTC product molds are at final stage of approval. After that they will be at least one and one and a half month of delay for expanding the number of mold cavitations. Currently we do for two cavities to eight and 32 respectively so that may take a couple of months but they are on track. Coming to the Pharmaceutical, we are supposed to start in the Q1. Probably it may slip to April and May. That I already indicated in the previous quarter

because of the machines coming in little late by about a couple of months so instead of January they may arrive in March and commercial trials may start in April so other than that the plant in Daman, the land has been already acquired. Construction is yet to start but that will start by May or June anywhere so that will be hopefully on track and the plant at Sultanpur where apart from IBM we also adding food and FMCG capacities, there we have taken adequate care and ordered those machines and robots much in advance so they started coming in so hopefully they will be well in time for our season starting in March so this is an update on the progress.

Saket Reddy: Right and one last question Sir. The 15% impact that we have seen on sales is it for the overall revenue or it is only for S&F?

J. Lakshmana Rao: What you said 15% means.

Saket Reddy: The 15% due to the maintenance of the robots during the quarter?

J. Lakshmana Rao: No that what I mentioned is the cost of maintenance and cost of acquisition of labels in the absence of additional capacity is 15%. It is not the overall so 15% of that cost. That means if our labels constitute let us say 4% to 5% of our cost, that cost has gone up by 15% due to the capacity being not created as the machines are arriving late and some of the electronic parts have not come in time so to the tune of 0.6% that has contributed to the cost.

Saket Reddy: So you did not have any issues in sales in the quarter because of this?

J. Lakshmana Rao: No we lost some sales during this quarter because we could not supply the IML labels we could not get the IML labels in time because our machine maintenance which requires some electronic parts they came late. Let us say earlier they used to come in a week's time to 10 days time. Now it took about a month to a month and a half to procure those spares so the machines were lying ideal longer and then we are forced to buy these labels from outside but as you know there are not many players in IML label manufacturing and there they were not able to give quality or quantity in time so we lost at least I would not say 15%, 15% of our 23% of food industry is around 3% to 4% of sales we missed in the quarter because of this.

Saket Reddy: Just one more question Sir so the client additions this quarter can you sort of tell more about the industries we cater because of the newly heard names?

J. Lakshmana Rao: Yes they are all new names. They are small and medium companies which we are adding rapidly. On the bigger side more or less all the FMCG and food companies are with us already so most of these names what we have announced today in the BSE and NSE report most of them are old names. Any names of recognizable names I also did not notice but as

my knowledge goes there are a couple of food and agro side we are getting couple of major players interested in it, but for that majority of them are small and medium players in the food and FMCG.

Moderator: Thank you. We will take the next question from the line of Vivek Tolat from Acme Family Office. Please go ahead.

Vivek Tolat: Sir just a couple of questions. One on a bit more of a strategic side and I believe our total volume is going up from let us say 44,000 tonnes at the end of last year to about 70,000 tonnes by the end of next year so out of this incremental 25,000 to 26,000 tonnes that we are adding could you classify as to what would go towards thin wall and what would towards paints and lubes just an overall classification if you have done something on this?

J. Lakshmana Rao: Yes I think we have already put up the slide in the BSE website. While thin wall is around 47000 tonnes, bulk packs about 2600 tonnes, IBM about 2000 tonnes so these are the plans for this year that means about 11,5000 tonnes will be added during this year in these three areas thin wall, bulk packs and IBM and coming to the next year we will have that Panipat plant of IBG to be set up and we are also in discussion with them for another plant. I cannot disclose the quantities because we have not received the LY so if that happens that plant also needs to be set up before the end of 2023-2024 so next year again we will have about 4000 tonnes to 5000 tonnes of bulk packs expansion and IBM this is the first phase where we are starting 2000 tonnes probably if not in Pharma in the other fields of IBM there may be some expansions in the year 2023-2024 so another 2000 tonnes of IBM and about 4000 tonnes to 5000 tonnes of thin wall will be added so another 11,000 tonnes to 12,000 tonnes will be added in those areas and as per Asian Paints projections given to us again another 2000 tonnes of bulk pack production has to be added in Mysuru and Vizag so all these put together we will be reaching our 24,000 tonnes to 25,000 tonnes of expansions during the next two financial years.

Vivek Tolat: Okay thanks that is very helpful and my second question Sir if you could throw some light on what sort of approval process do we need for the Pharma and IBM? Is it as rigorous as the US FDA expansion or is that already started? What sort of timelines are we looking for that?

J. Lakshmana Rao: Yes it is a good question. It is not equal to FDA, but it is definitely a rigorous process which will take at least three to six months from client to client so I will not be projecting any big numbers even for the next financial year. There will be some numbers to come in because by the time we start in April then the approval process might take three to six months so that means only by middle of next financial year we will be in a position to start commercial invoicing of Pharma products but not stopping with it. We have already acquired on major order from Iodex for OTC IBM products, the production of which is

expected to start in January or February probably in February and that will be adding numbers in the next financial year. If all goes well in that the order value is close to about Rs.7 Crores to Rs.8 Crores per annum and we are also having some dairy products. Our clients are asking us to develop and in those products orders also confirmed. They will be produced on the pharmaceutical machines because in the same premises manufacturing other products is rather luxury but we would do that instead of keeping the machines ideal and hopefully those numbers also will be added in the next financial year but coming to Pharma in a big way the numbers will start little bit in the second half of next financial year but definitely in a decent manner from year 2024-2025.

- Vivek Tolat:** Understood. Thanks a lot Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.
- Jenish Karia:** Thank you for the opportunity. Sir if you can just help us with the volume and value numbers for IML and non IML segment?
- J. Lakshmana Rao:** IML and non IML segments as I told you are more or less stable. Last Q2 it was 58.7% for all the labeled containers. Now it is 62.5% which is also similar to Q1 which was 61.8% so there is a marginal improvement in the total IML and labeled containers from 58.7% to 62.5%.
- Jenish Karia:** And the value wise? This was volume?
- J. Lakshmana Rao:** In terms of value wise from 62.3% to 66.6%.
- Jenish Karia:** Sir if you can just go ahead on value wise numbers for three segments paints, lubricants and FNF?
- J. Lakshmana Rao:** Yes paints has dipped from 59% last year to 53.8% but lubes have gone up from 19.3% to 22% and food and QPACK that both come under food and FMCG has gone up from 21.4% to 24.1%.
- Jenish Karia:** Okay thanks and that is it from my side.
- Moderator:** Thank you. The next question is from the line of Harsh from Marcellus Investment Managers. Please go ahead.
- Harsh:** A couple of questions from my side so my first question is on the debtors front so in FY2021 our debtors stood at around Rs.90 Crores? That went up all the way to Rs.143

Crores in FY2022 and in H1 FY2023 it has again gone up to Rs.159 Crores so why are we seeing this rampant increase in debtors?

J. Lakshmana Rao: See debtors increase is related to sales as you all know and if you see two years ago the raw material price was low and the sales number as per se was around Rs.400 odd Crores. Today our sales number for the first half itself is close to Rs.400 Crores. For the full year it may be Rs.780 Crores to Rs.800 Crores so when you have doubled your sales automatically debtor levels also will go up that is one reason and one of the other reasons for the increase in debtors is though we are restricting all the new clients to either advanced payment or 30 days credit older clients like Asian Paints and others they are on the way to increase their credit period not only for Mold-Tek but with all the suppliers other than SSIs so we are kind of committed to their philosophy and that is where we are extending our credit, but when it comes to the new clients and especially small and medium clients, we are very strict about it so we are maintaining 0 to 30 days credit. That has what has made the credit debtors situation still under control so 90 to 158 is mainly because your sales have gone up from Rs.420 Crores to Rs.430 Crores two years ago to Rs.800 Crores or Rs.780 Crores this year. That is the major.

Harsh: How much has Asian Paints increased its credit terms?

J. Lakshmana Rao: I cannot give you exact details, but definitely they have increased.

Harsh: Okay and my second question was that in the paints industry you have set up specific plants only for Asian Paints till now and now we are setting up plants for Grasim so Asian Paints has done well over the years but however what if Grasim does not do as well and we are faced with the plant which is not utilized its optimum capacity so what will be our plan of action in that regards?

J. Lakshmana Rao: See as I told you we are very careful in our assessment for setting up any new plants and we are also have a plan B like producing our food and FMCG products in that region so our selection fortunately Grasim has lot of faith in Mold-Tek and they have I cannot say that they have given us an option but they were respecting our options and they have given us Panipat where we wanted to be in the North to cover our food and FMCG clients in that area which is far from Hyderabad where we have this facilities as of today so food and FMCG will be growing rapidly once we have a plant in North and able to capture those clients in that area. Similarly we are also planning to choose another location if they offer which is towards South and gives us more access to those markets so that way we are prudent in our investments and we will have other products also other than just paints to make sure that our investments reap good benefits. Another idea in the long term if not immediately may be two to three years down the line is to even have the IBM facilities in those plants so that our product range is wider and our risk is mitigated.

Harsh: Okay Sir any particular reason why we are waiting for Grasim to allow us to open a plant in South like why cannot we open a food and FMCG plant even without Grasim?

J. Lakshmana Rao: Today we are in a position to go ahead with the current expansions and there are so many things on hand. We have the IBM going on at Sultanpur, pharmaceutical unit coming up at Sultanpur. We have a new land taken at Daman where we are forced to complete the plant there in the next six months for our West based food and FMCG majors and we have Panipat to be completed by end of 2023 and there we are planning a food and FMCG so with so many projects on hand and so many molds and robots to be installed and erected South can wait for a little bit and sooner or later once we have the commitment from any of the clients like ABGR or others we will be in a position to take a call on it and South being not so very far from Hyderabad we will be in a position to handle till then.

Harsh: Okay thank you. Got it.

Moderator: Thank you. The next question is from the line of Vikram H an Individual Investor. Please go ahead.

Vikram H: Good evening Mr. Rao and thank you for the opportunity. So first of all Sir given that we are already mid way through the Q3 any sense across your various business segments in terms of demand?

J. Lakshmana Rao: Demand wise touchwood we are on a pretty strong wicket. The problems of printing labels and getting the labels in time is still continuing till October, but situation might improve from November because our machine is under trials now and probably it will reach our site in the second half or end of November so from then things will improve because there are not much depth. Typically Q2 and Q3 quarters are weak because in the Q2 there will be heavy rains. Movement of goods and painting activity comes down and even consumption of frozen and dairy foods comes down in the Q2 and Q3 though the festivals are there some areas like sweets and some consumable products will improve like edible oil and others but sooner after the festival that is from October and November onwards again there will be a lull period till December so if you look at the historical data of Mold-Tek performance we always have the best Q1 and best Q4 and Q2 and Q3 are typically below these two quarters so by the time end of Q3 we will be coming out of the printing capacity problems and we will be adding huge capacity. In fact out of from three machines we have we will be five machines by the end of November or middle of December and we are also planning a sixth machine with a much larger versatility. If it is selected and trials are successful it also will be added by January end so that means we are more than doubling our IML and HDL label printing capacity by January and then we do not foresee any problem of losing sales which happened to some extent in this Q2.

Vikram H: Got it but from a demand standpoint customers across the three segments we are not seeing any slowdown?

J. Lakshmana Rao: Yes there is not much slowdown. Paint has not so grown in this quarter. I think the paints are up by only 4% whereas lubes are pretty strong. They have gone up 26%. That is not just because lubricant sales have gone up. That is basically we are able to bring in more clients into IML and also won some long term orders from the private sector giants like Valvoline, Benzol and others so that has enabled us to improve our overall numbers in the lubricant industry.

Vikram H: Got it and second question Sir really on the following year which is FY2024 any sense of what topline growth you are looking for at a very broad level for 2024 and 2025 given many of your initiatives will actually come through some in 2024 and most of them in 2025 any broad guidance?

J. Lakshmana Rao: Our target has been always to be in the bracket of 15% to 20% volume growth. I think in this year 2022-2023 we will achieve that because we have a strong beginning and Q4 will certainly be again strong this year we will be achieving a historical growth in our company. We never crossed 15% volume growth in the past at least past 20 years so this year I am confident our growth will be very close to 20% unless any drastic things happen in the economy we should be able to reach 20% of volume growth for the first time in the history of the company and we are aiming at maintaining that for the next two to three years in a row. The confidence comes from the fact that next year IBM ordinary products and a little bit of Pharma products would be adding around 2% to 3% growth and we continue to grow in thin wall and Qpaks by 50% to 40% growth. That on a 24% works out around 9% to 9.5%. The indications from the paint industry there will be certainly double digit growth. If that happens we will be adding another 4% to 5% to the top line growth so all put together my calculations comes for a 15% volume growth for sure and if the Pharma picks up a little bit and Panipat starts some production numbers and Daman add some Asian clients we may be very close to 20% so for next year 15% looks definitely possible to achieve. As you correctly said the 2024-2025 will be again strong year for us because the Panipat will be contributing in a big way in a reasonable way and Pharma will certainly be adding numbers in a decent manner so for the next three years I can see the range of 15% to 20% volume growth is possible.

Vikram H: The last piece was really around your capital allocation in terms of all the capex that you are planning how are you planning to fund that because you are obviously have internal accruals. You have debt. You could even do an equity raise so any broad sense on that?

J. Lakshmana Rao: See we have more than Rs.100 Crores to Rs.120 Crores of internal accrual and net of dividend. It may be in the tune of around Rs.90 Crores to Rs.100 Crores so that will be

more than adequate to take care for the next couple of years, but if any short fall in that we can easily borrow because our debt equity is less than 0.1 as of now including the debt of working capital so there is a tremendous scope to borrow in case of any big needs arise. I foresee the needs arising rapidly from 24% to 25% in the field of Pharma IBM but till that time it will be the plans for paint companies. Even Asian Paints is talking about today do not take my word. They are also having some expansion plans in the next few years and definitely we may get an opportunity to take part in those opportunities but that may not happen in the next year but may be in the next two to three years so looking at that our internal generations and debt will be more than adequate to take care of annual investments in the tune of 100 to 120 Crores.

Moderator: Thank you. We will take the next question from the line of Kuvam Chugh from Aditya Birla Sun Life Mutual Fund. Please go ahead.

Kuvam Chugh: Good afternoon. Thank you for taking my question. I had this question on our lube business so even though we had strong growth year over year sequentially there is quite a sharp decline from Q1 to Q2 from over 2600 tonnes to less than 2000 tonnes so what lead to this decline in volume?

J. Lakshmana Rao: Typically Q1 to Q2 there will be a drop in lube consumption all over the country because the movement of goods slowed down in monsoons and number of miles a truck clocks in a day comes down due to monsoon and disruptions on the travel so generally Q2 and Q3 are weak for lubricants. What 27% growth I projected or what we achieved whether it is 30% growth in FY2022 over the Q2 of last year so on Q1 it is very difficult to reach such numbers because in Q1 we hit Rs.55 Crores and now it is Rs.40 Crores in the Q2 so that is almost a 25% drop which is normal in our sales trend. That is why typically our Q2 and Q3 numbers are at least 7% to 8% below the Q1 and Q4 numbers. Q4 will be again an active part of the year where lot of transportation happens, storage and consumption happens and movement of goods happens. Painting goes on a full brisk speed during summer and pre summer. Lubricant movement and consumption increases. Food and FMCG mainly frozen foods and dairy shoot up in the summer so that is why our Q1 and Q4 that is I would say rather January to July and June ending is the best period for our product demand and the remaining six to seven months they taper down. They pick up little bit briefly around Diwali but again there will be a lull for a couple of months and then the storing for the next seasons starts from January so January to June is our best time then things will be slower in the Q2 and Q3 because of the reasons I explained.

Kuvam Chugh: Okay and in our Q1 conference call we highlighted that there was a DEF brand of lube that was driving growth so that trend has continued into Q2 or was that more of one off against Q1?

- J. Lakshmana Rao:** You mean that DEF product that I mentioned.
- Kuvam Chugh:** Yes?
- J. Lakshmana Rao:** Yes that has continued to be one of the reasons for our decent growth in the lubes sector. Actually lube sector has not grown more than 5% to 6% in this year but we grew by 30%. That is an indication that still the DEF growth is coming in and also some of the majors in the private sector have given us long term agreements like what they did one or two did last year. This year again another two to three clients have given that by shifting more of their products into our gamete also including some of the IML conversions so that has given us a good growth in lubricants.
- Kuvam Chugh:** On the pumps side of the business in an earlier conference call you had highlighted that Wipro has guided for a scale up in volumes towards the end of this fiscal start of next fiscal year? Is there any uptake there is that still going on?
- J. Lakshmana Rao:** Actually in fact the indication from them there will be a further delay so in the pumps segment we are not seeing a great future but definitely we are penetrating into Himalaya and other majors but with them they have committed volumes to some other suppliers so a part of the volumes they started taking as trail lot was supplied but major volumes would start from December and January. Even then the volumes would not cross more than 1 million to 1.5 million per month as against our capacity of about 6 million per month so on that front we are still on the defensive but as I said the capacities are fungible. All the machines, auxiliaries, and land building everything that has been set for that project or product within our unit one at Anaram are being used for all other products whatever are possible on those machines like thin valve food products and caps and other closures so absolutely the machines are put to best use. The only thing is the investments of the mold and assembly machine that is costing put together Rs.3 Crores are partially utilized and that will continue to be so for the next few quarters is what I guess because until Wipro sets up in Hyderabad and start picking up the committed volumes of 2 million to 3 million the production requirements of pump may not go up.
- Moderator:** Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.
- Rahul Maheshwary:** Good evening Sir. I just had one question as you mentioned about the volume growth and plus the plans which would be coming towards the Pharma and the IBM can you also give some color on the EBITDA per kg how it will scale up looking from a two to three years perspective from currently?

J. Lakshmana Rao: From the basic EBITDA impact as I mentioned in my note to BSE and NSE is that maintenance and breakdowns in our printing and printing capacity could not be ramped up in time. We have incurred additional costs in procuring those labels from outside with higher price and lower quality which has impacted our output reasonably not very badly but certainly about the tune of around Rs.1 Crores to Rs.1.5 Crores additional cost has been incurred and there is an increase in the power cost in all three states where major shares where we are operating that is Daman, Hyderabad and Andhra Pradesh. These three places they shot up the power cost by around 12% to 15% so we need to now recover it from our clients which should take a few months, but certainly we will be in a position to recover in the next few months so these are the reasons for the dampened EBITDA otherwise the EBITDA would have been healthily at around 42 to 43 by now. Having said that with the addition of Pharma in the year 2023-2024 to a very small extent but from 2024 to 2025 in a decent manner we will be in a position to ramp up the EBITDA numbers towards 45 levels so as I indicated last quarter also in a couple of years we can look at EBITDA in the region of 45 and another reason for my confidence is we are ramping up our printing capacity by almost 100% by this December which will enable us to make all the labels in-house and stop buying labels from outside even HCL labels from outside, which itself will be saving of about Rs.3 Crores to Rs.4 Crores per annum even at OPM level so that will improve the margins for the next few months soon after the capacities are created by January so with these two points one is the in-house making of entire labels, the second is getting into Pharma over the next two years would be a driver for our EBITDA improvement.

Rahul Maheshwary: Sir as you mentioned because of the sharp jump in the power cost how much leeway or pass through we can recover from the clients? How the agreement or how the terms is being set so that whenever going forward also any such situation of higher cost takes place what is the lead time takes place to recover the entire high cost which will be borne by us?

J. Lakshmana Rao: This kind of conversion costs we talk to our clients once in a year so we will not take them up on a monthly basis. Whenever the labor costs are enhanced by the Department of Labor and power costs are increased by the Electricity Boards we take up the matter with the clients and they typically take three to four months to approve it. 70% to 80% of them approve it. Another 20% to 30% of them will drag on it for a while but certainly may be in six months to one year time they will definitely cover up those costs.

Rahul Maheshwary: Okay thank you so much Sir.

Moderator: Thank you. The next question is from the line of Y Rohit Reddy an Individual Investor. Please go ahead.

Y Rohit Reddy: So my question the first one is regarding the export orders so can you brief on quantity involved in export orders, I can see from the quarterly presentation so what are the margins for the shipping costs?

J. Lakshmana Rao: Shipping costs are now under control not only for Middle East but also for the USA and I am glad to inform you though they are not very huge orders beginning has taken place with our exports to USA. The numbers are slowly scaling up. I do not have the exact revenue number but I think in the region of about this year we might do at least Rs.2 Crores to Rs.3 Crores or may be Rs.3 Crores to Rs.4 Crores worth of exports to USA. That is for various food products and even restaurant packs in the Indian restaurants mainly and also may be other stores. With this entry we are even planning some BD efforts, business development efforts in USA later in the year so that there are enough customer references for us from our Indian clients or NRI clients who are now currently buying from us and those can be used to even get into the lead from the direct consuming clients in USA like B2B so that opportunity can only add sizeable numbers but this will be an opportunity of maximum Rs.5 Crores to Rs.6 Crores per annum but that will be with a decent margin and decent quantities.

Y Rohit Reddy: Thank you and regarding is it only for FMCG are we looking in the IBM kind of those orders?

J. Lakshmana Rao: Currently it is all FMCG because in IBM we are new entrants so food and FMCG is the one area where we have pretty strong presence and pretty wide product range so that is where we can convince foreign buyers on our strengths. Talking about IBM at this stage is too premature because we are just entering with one or two products and may be another 10 to 12 products of pharmaceutical. Though they will be exported they will be exported to Indian Pharma companies who fill their products and export. Of course we may get some export recognition for that but direct exports we can only start after our products are adopted by Pharma companies in India then we can directly find export of this containers to various countries not only USA for other filling companies which fill their tablets and powders and sell to US and Europe. They will be buying from us so that is another opportunity but that is a long shot sometime after 2024-2025 onwards.

Y Rohit Reddy: Thank you Sir. My next question is regarding the raw material costs and also how much is the mix of the recycle and normal domestic?

J. Lakshmana Rao: Our raw material is stabilizing. The prices are stabilizing in the region of 105 to 110 for the last four to five months which shot up to 140 during February and March in last financial year and now they are hovering around 105 plus or minus Rs.3 to Rs.4 Crores for the last four months so there is some kind of stability there.

- Moderator:** Thank you. We will take the next question from the line of Gnanchand from Value Educator. Please go ahead.
- Gnanchand:** Good afternoon Sir. Is there any update regarding QR coded IML? Have any clients launched it from the market?
- J. Lakshmana Rao:** Yes I explained about QR coded IML just a few minutes ago. There is a revived enquiry from Castrol because they have found some issues in their supply chain related to tampering and misuse of containers but they are asking for a complete solution including the cap or spout to be QR coded which is a little challenge we are trying to address. Meanwhile Valvoline is also taking steps in the direction but concrete things have not yet happened. Hopefully in this quarter we will be able to move a little bit ahead.
- Gnanchand:** My next question is regarding IBM Pharma? Is it also possible to manufacture Pharma bottles via blow molding?
- J. Lakshmana Rao:** There are bottles which are beyond on 1 liter or beyond 800ml are produced by EBM. Even we may have to have one or two machines of EBM ultimately once our product range is established.
- Gnanchand:** Okay because for large capacities?
- J. Lakshmana Rao:** Larger bottles not for bottles below 500ml. It is not viable and it will not give the kind of finish which IBM can give.
- Gnanchand:** Right so is there any margin difference between IBM and EDM Pharma bottles?
- J. Lakshmana Rao:** There will be definitely a EDM within EDM Pharma bottles will fetch anybody much higher margin than the regular bottles because of the care you need, because of the hygienic conditions you have maintain, and because of consistency you require to deliver whereas in other products like edible oil packs or shampoo bottles not that nobody is bothered but definitely they are not as much concerned about the hygiene and consistency as a Pharma company would require so definitely there will be a difference in value addition, pricing between different segments.
- Moderator:** Thank you. We will take the next question from the line of Kuvam Chugh from Aditya Birla Sun Life Mutual Fund. Please go ahead.
- Kuvam Chugh:** Good afternoon. Just one more question from me, could you share the volume breakup by paints, lubes and FMCG?

- J. Lakshmana Rao:** Yes volume breakup in paint is 4850 tonnes, lube is about 2000 tonnes and 1520 tonnes in food and FMCG including Qpak.
- Kuvam Chugh:** Okay that is very helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.
- Jenish Karia:** Thank you for the followup. Sir if I look at the realizations for the food and FMCG they have rather been flattish for the quarter or any specific reason for the same?
- J. Lakshmana Rao:** That is what I mentioned to you. In the note also we have given to BSE and NSE that due to the purchase of IML labels from outside we have incurred costs in this quarter particularly because maintenance space especially electronic spares and semiconductor spares are not coming in time leading to longer breakdown of machines which pushed us to buy the labels from outside at a higher cost. It is not only higher cost with lower quality and higher rejections which has caused stagnation of EBITDA in this quarter and even we lost some sale to the tune of 3% to 4%.
- Jenish Karia:** So the additional cost incurred is reduced from the revenue for the segment if by what you say?
- J. Lakshmana Rao:** There are two impacts. One is we could not execute all the orders in the mainly IML product range and thereby we lost some sales revenue. Second is we have incurred higher costs by getting this labels printed outside and having the issues of quality and rejections which would have been avoided had our capacity expansion happened in time or had the spares for our machines were available in time. Both these two issues have cost a little loss of revenues and increase the cost of IML label overall, going forward we expect a decent improvement in the EBITDA.
- Jenish Karia:** Good. I will take it offline and second question is with regards to the IBM Pharma project so the realizations that we are targeting in that will it be at par with the competitors or at discount or how we will be positioning ourselves in that market?
- J. Lakshmana Rao:** This is too premature to talk about the pricing strategy for Pharma products but definitely there is an entry point through competitive pricing but whatever we pass on can be easily achieved through proper productivity management which Mold-Tek is having a strong in depth knowledge so we hope to be maintaining this similar pricing and enjoy the similar EBITDA margins which the current competitors are enjoying. There is no need to offer huge discounts and try to get into a price war because there is an expected increase in the demand for these bottles and caps in the coming quarters as I said in coming years at least.

In a couple of years huge plants are coming up at Hyderabad in the Pharma Park. Already the city is moving towards that. Lot of lands and real estate activity started towards that part of the city and land allocations have been started in October so we will be definitely seeing plants coming up by 2024-2025 in two years time and being located in Hyderabad and well established contacts with the Pharma companies in supplying some of the bulk packs 10 liter and 20 liter packs in a small way and our reputation being one of the best molders in the country we do not need to compete on pricing front to enter but if that be the case also we have the ways to maintain our EBITDA and improve our EBITDA level.

Jenish Karia: Albright thank you so much for that.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Rao for closing comments.

J. Lakshmana Rao: Thank you very much for all the participants in taking interest in our company's Q2 performance and thanks for the interest shown and the time spent. I also thank Manish of Antique and their coordinator for their time and opportunity. Wish you all a good day and enjoy the evening. Thanks and bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking this concludes this conference call. Thank you for joining and you may now disconnect your lines.