BOROSIL®

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November 19, 2024

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Dear Sirs,

Sub: Transcript of Earnings Call

Please find attached transcript of the Earnings Conference Call held on Wednesday, November 13, 2024.

The aforesaid transcript is also available on the Company's website at www.borosil.com.

You are requested to take the same on records.

Yours faithfully,

For Borosil Limited

Anshu Arvind Agarwal

Digitally signed by Anshu Arvind Agarwal
Date: 2024.11.19 14:53:31 +05'30'

Anshu Agarwal
Company Secretary & Compliance Officer
FCS – 9921

Encl: as above

"Borosil Limited

Q2 FY '25 Earnings Conference Call"

November 13, 2024

MANAGEMENT:	**MR. SHREEVAR KHERUKA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BOROSIL LIMITED** **MR. RAJESH KUMAR CHAUDHARY – WHOLE-TIME DIRECTOR – BOROSIL LIMITED** **MR. ANAND SULTANIA – CHIEF FINANCIAL OFFICER – BOROSIL LIMITED** **MR. RITURAJ SHARMA: – PRESIDENT, CONSUMER PRODUCTS – BOROSIL LIMITED** **MR. BALESH TALAPADY – VICE PRESIDENT, INVESTOR RELATIONS AND BUSINESS ANALYSIS – BOROSIL LIMITED**
MODERATOR:	**MR. NILESH PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Borosil Limited Q2 FY '25 Earnings Conference Call, hosted by ICICI Securities. 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 any assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nilesh Patil from ICICI Securities. Please go ahead.

Nilesh Patil: Thanks, Shifa. On behalf of ICICI Securities, we welcome you all to Q2 FY '25 results conference call of Borosil Limited. We have with us Mr. Shreevar Kheruka, MD and CEO; Mr. Rajesh Kumar Chaudhary, Whole-Time Director; Mr. Anand Sultania, CFO; Mr. Rituraj Sharma, President-Consumer Products; and Mr. Balesh Talapady, VP, Investor Relations.

Now I hand over the call to management team for their initial comments on quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, Rituraj, sir.

Rituraj Sharma: Thank you, Nilesh, and ICICI Securities for arranging this call. Good evening to every one of you. The Borosil team is delighted to be communicating with you once again. I'm pleased to inform you that Borosil Limited's Board has approved the financial results for Q2 FY '25 and H1 FY '25 during our meeting on November 13, 2024. We have submitted our results and an updated presentation to the stock exchanges, and they are also available on our company's website for your review.

I'm happy to share that Borosil Limited had a strong performance in H1 FY '25 with revenue from operations reaching INR490.7 crores compared to INR410.9 crores in the same period last year. This impressive year-over-year growth of 19.4% places us among the top performers in the industry, reflecting the strength of our strategy, our operational focus and most importantly, the trust and loyalty of our customers. This growth showcases how well we are navigating challenges and making the most of new opportunities, solidifying Borosil's role as a leader in the market.

In H1 FY '25, the company achieved an operating EBITDA (before investment income) of INR 82.2 crores, up from INR 62 crores in H1 FY '24, reflecting our continued emphasis on efficiency and growth. The operating EBITDA margin for H1 FY '25 was 16.8% compared to 15.1% in the same period last year. The company has incurred higher A&SP expenses of INR 12.8 crores during H1 FY '25 and INR 7.4 crores during Q2 FY '25 as compared to the same period during the last year. The higher A&SP expenses is attributed to the preponement of the Diwali festival this year compared to last year, with the benefits expected to reflect in the subsequent quarter. However, the annual A&SP expenditure is expected to remain consistent with the previous year.

Notably, other income includes INR 8.42 crores from shared service support income with associated expenses captured under total expenses. Profit before tax for H1 FY '25 came in at INR 38.8 crores as against INR 32 crores in H1 FY '24, driven by both operational improvements and higher investment income, which was up by about INR 6.36 crores year-over-year. On the other hand, depreciation and finance costs increased by approximately INR 19.84 crores primarily due to the commissioning of our new borosilicate glass furnace in Q4 FY '24. As a result, our profit after tax for H1 FY '25 reached INR 27.6 crores as compared to INR 23.5 crores during the same period last year.

As per the Union budget 2024, the discontinuation of indexation benefits on long-term capital assets, effective July 23, 2024, has resulted in a reversal of deferred tax credit in Q2 FY '25. This has led to higher taxation for the quarter, thereby impacting the profit after tax by INR 1.33 crores.

Now let's dive into our category-wise performance for H1 FY '25. Borosil's consumer division continues to grow across both glassware and non-glassware categories under the Borosil brand, along with our other opalware range under the Larah brand. The Larah opalware segment celebrated for its modern design and high quality, reported impressive sales of INR 181.3 crores in H1 FY '25, up from INR 158 crores in H1 FY '24, marking a growth of 14.7%.

In our glassware segment, which includes borosilicate microwavables, serving ware, glass tumblers, lunchbox and storage solutions, we saw an exceptional year-over-year growth of 32.6% with revenues reaching INR 116.7 crores in H1 FY '25 compared to INR 88 crores in H1 FY '24.

The non-glassware segment, covering an array of small home appliances, insulated bottles and flask, cookware and other kitchen essentials also posted a strong performance, achieving a 16.9% increase in revenue.

Turnover for this segment reached INR 192.7 crores in H1 FY '25 compared to INR 164.9 crores in H1 FY '24. This outstanding performance highlights the successful execution of our strategy to broaden the Borosil portfolio catering to the varied culinary and serving needs of Indian households. It also reaffirms the enduring strength and broad appeal of Borosil brand across multiple product categories.

During the quarter ended June 30, 2024, the company successfully raised INR 150 crores through a QIP to facilitate the repayments/prepayment of long-term project loans, working capital loans and for general corporate purposes. Of the total QIP proceeds, INR 105 crores have been utilized for the repayment of working capital loans, INR 39 crores for the repayment/prepayment of long-term project loans and the remaining balance after accounting for QIP issue expenses has been temporarily invested in high credit quality short-term money market instruments. We currently have a net debt of INR 88.6 crores.

We are pleased to update you that the external rating agency, ICRA, has upgraded Borosil Limited’s long-term rating to AA- stable, while the short-term rating has been reaffirmed to A1+. This upgrade reflects the healthy improvement in our credit profile and the expectation of stability in the near to medium term. This positive development highlights our strong brand presence in the consumer ware market, supported by a diversified product portfolio. Our extensive domestic distribution network and a broad customer base have been instrumental in achieving this milestone. This upgrade reaffirms our commitment to excellence and positions us well for sustaining growth.

At Larah, we believe dining should blend beauty with functionality, elevating everyday moments into memorable experiences. That's why we are thrilled to present the Premia dinner set collection, a sophisticated addition to our line of premium kitchenware. Designed to elevate dining experiences, the Premia collection is an exquisite blend of aesthetic appeal and practical functionality, making it the perfect choice for modern homes.

The Premia dinner set features intricately embossed designs, adding timeless elegance and luxury to any dining table. Crafted from high-quality materials, it offers exceptional durability and resists every days wear and tear. The versatile design complements traditional and modern settings alike, creating memorable dining experiences.

Since we acquired Larah in 2016, this flagship brand has been on a strong growth path. Larah's success speaks volumes about our strategic vision, operational excellence and dedication to customer satisfaction. Sales for Larah has grown at a CAGR of 22% rising from INR 87 crores in FY '16-17 to an impressive INR 358 crores in FY '23-24. This growth highlights the impact of our acquisition strategy, where we not only refreshed the brand image, but also streamlined operations and adjusted market positioning to unlock new opportunities.

Likewise, our non-glassware segment has turned into a powerful growth engine for Borosil. With a CAGR of 50% non-glassware sales have soared from INR 23 crores in FY '16-17 to INR 387 crores in FY '23-24. This achievement underscores our commitment to expanding our product portfolio and staying ahead of our customers' evolving needs.

The new borosilicate glassware furnace is indeed a significant milestone. By expanding production capacity, we are effectively meeting the increasing demand while strategically reducing dependency on imports. This aligns perfectly with our mission to encourage a shift from plastic and steel towards healthier, sustainable glass options. Combining product innovation with accessible pricing has clearly struck a chord, particularly in categories such as lunch boxes, a product with everyday use that appeals across all age groups. As awareness of glassware's benefit grows, this trend is set for sustained momentum, positioning our brand as a leader in sustainable and accessible choices.

In recent years, Borosil Consumer business has strategically expanded beyond its original focus on microwavable glass products, establishing 3 robust growth pillars. Glassware, non-glassware and opalware that now anchor our sustainable growth path. Each of these divisions has seen substantial growth and is well positioned for further expansion as consumer adoption and usage continue to increase.

Our new product lines, such as launch of Premia, Borosil square mixing bowl, borosilicate barware range, Coffeemate, air fryers and gas stove have stuck a cord with consumers. Likewise, our fresh designs in opalware, including lunch boxes, storage set and kulhad mug have gained significant popularity strengthening our presence in the market and enhancing our brands appeal across a broader audience.

At present, our main objective is to broaden our brand. We are dedicated to transitioning consumers from plastic and melamine to glass storage and opalware, while also encouraging greater use of microwavable product.

To diversify our offerings, we consistently introduce new items such as portable high-grade steel products and home appliances. Our ultimate goal is to position Borosil and Larah as the preferred brands in modern Indian kitchen for all storage preparation, cooking, heating and serving needs.

We are confident in the medium-term outlook for our business. While we may counter phase of slower growth and cautious consumer sentiment, which are typical of market cycles, we remain optimistic about the long-term growth potential.

Our strategy is centred on broadening our consumer reach through precise targeted initiatives introducing cutting-edge products that align with the shifting needs of our customers and streamlining our supply chain marketing efforts for maximum impact.

With that, I would like to throw the floor open to questions. Thank you.

Moderator: We have first question from the line of Mr. Varij Bangur from Brescon Ventures.

Waris Bangur: So congratulations for a good set of numbers. So I think a year down the line, our opalware capacity will be consumed, if I'm not wrong. So my first question is that do we have any product pipeline, let's say, where we want to put up a capacity in order to continue our growth trajectory?

And the second question is on the BIS implementation, like now we are 2 months into the BIS implementation. And do you see that the domestic supply chains are -- have the capacity to fulfil our non-glassware segment or we need to put in our own capacity whenever this inventory from China ends. Those are my 2 questions.

Shreevar Kheruka: As far as our opalware capacity is concerned, I would say that we have at least 2 years to go before we fully utilize the capacity. We have some debottlenecking waiting this year. So I think we will take that call probably sometime in the next year. And as far as BIS is concerned, I believe that we have imported enough inventories and we have domestic sourcing also, which will help us let's say, transition away from imports to domestic sourcing in adequate time, and therefore, it should be relatively seamless, this whole transition.

Moderator: We have next question from Aman from Seven Rivers Holdings.

Aman: I have a few questions. So first is on gross margins. So GM has sort of come off from previous quarter. So is it because of product mix? Or is it because of price cuts? Because some of our peers have mentioned that Q2 had higher-than-expected price cuts affecting their value growth. So how is that progressing for us?

Shreevar Kheruka: Anand, you want to take that?

Anand Sultania: Yes. So it's about the product mix on account of product mix, there is a change in gross margin.

Aman: So to clarify, I don't mean taken any price cuts. Of course...

Anand Sultania: There's been no price cuts.

Shreevar Kheruka: Okay. So we are selling more lunch boxes across the range, then therefore, they are priced slightly lower in general compared to the mixing volume. So there will be some impact there. But I don't think it's worth reading into that trend in the sense that we are not distorting a product to sell to achieve higher sales.

Aman: And sir, we have like done 25% growth in glassware. What's the contribution of pressware products in this? If you could give us some idea there?

Shreevar Kheruka: I think pressware has gone more than glassware in the sense that the other part of glassware are actually -- have some big loads. So pressware only contributes to 30%, but I guess the exact numbers, I'm not having in front of me, but maybe some of my team can clarify.

Rituraj Sharma: So Shreevar, you're right. The majority of the growth is coming from the pressware segment only and from the lunch boxes that we have done.

Aman: And on working capital, so we are at about 8 to 9 months of inventory on cost now. I believe that's planned because of Diwali quarter. But do you have a target for this FY close? If not a target, would you say it will be lower compared to FY '24?

Anand Sultania: So September is not the right month where we look at the right inventory level probably. So October and going forward also third quarter, we'll have higher sales probably. So on an annualized basis, probably -- we should not be much higher than where we were on March '24. And some of the inventories have been added because of the BIS regulations. So overall, I think we should have a comfortable position by the end of this financial year.

Aman: Yes. So -- and sir, one last question. There are some news reports making rounds that Borosil Limited plans to do some CapEx in Gujarat. So if you could share some more information on that. Was it -- is it for bottles or anything else?

Anand Sultania: No, at the moment, we don't have such plans. If there's anything probably it will be approved in the Board and it will be informed to everybody at the right forum.

Moderator: We have a question from Jasdeep Walia from Clockvine Capital.

Jasdeep Walia Sir, does this quarter have an element of higher festival stocking versus last year on account of seasonality and hence, maybe we can expect sales growth likely to be subdued in the next quarter, which is the December quarter?

Balesh Talapady: Yes, Jasdeep, can you just repeat that question? Your voice is a little muffled.

Jasdeep Walia Yes. Sir, does this quarter have an element of higher festival stocking versus last year? And hence, is the sales growth likely to be subdued in the next quarter? Because I think last year's festival stocking would have happened in third quarter, right?

Rituraj Sharma: So, Jasdeep, the stocking is higher because of the earlier Diwali compared to last year, but it does not imply that the sales growth would be lower in the next quarter. Sales growth is a regular kind of a thing.

Jasdeep Walia Got it, sir. Got it. And sir, any -- sir, what is the amount we'll be spending on CapEx this year?

Anand Sultania: We have already mentioned this in the previous earnings calls. The estimated CapEx for this year is about INR100 crores.

Jasdeep Walia Okay. And the broad split of that CapEx is what?

Anand Sultania: So there's about INR25 crores, which will be spent on the second phase of Solar project that we are doing. And then approximately INR25 crores will be spent on the rebuild of both the opalware furnaces, which is furnace 1 and furnace 2. And there is some debottlenecking that will be done to increase the production. That's about INR25 crores, and the INR25 crores is the retention amounts from the previous 2 big Capex's that we have done, which is increase of opalware capacity as well as setting up of borosilicate furnace, that's about INR25 crores. So these are the broad breakup of INR100 crores.

Jasdeep Walia Got it. And during this rebuild of both the furnaces for your opalware facility, do you expect any impact on sales this year?

Anand Sultania: I don't think there will be any impact.

Moderator: We have a question from Vipul Kumar from Sumangal Investments.

Vipul Kumar: So my question is regarding the other expenses, which have risen substantially year-over-year and Q-on-Q also. So what are the main heads where the expenses have increased? Other expenses.

Anand Sultania: So other expenses -- there's an element of power and fuel in that. So other expenses includes the power and fuel cost also. So that's about, maybe INR 11 crores, INR 12 crores. And Mr. Rituraj Sharma has already mentioned that there are some preponement on the A&SP expenses. That's about INR 12 crores, INR13 crores. That's a major chunk of money.

Vipul Kumar: INR12 crores, INR13 crores is for what? Would you repeat, sir, please?

Anand Sultania: For advertisement and sales promotion expenses.

Vipul Kumar: So that is additional INR12 crores, INR13 crores, if I understand correctly, right? Over and above normal?

Anand Sultania: Yes. Over and above last year same period.

Moderator: We have a question from Dhaval Shah from Girik Capital.

Dhaval Shah: A great set of numbers on the top line growth.

Moderator: Sorry for interrupting, sir. Dhaval, sir, can you please be a bit more loud?

Dhaval Shah: A great set of numbers comparatively. Yes. Sir, my question is the other income part, could you please clarify again what is the actual other income and is the other variable towards Scientific Limited for the quarter?

Anand Sultania: Yes. So the other income for the first half includes about INR8.4 crores, which is the shared service income. We have discussed this in the previous earnings calls also, and the attributed expenses basically is covered under the total expenses.

Dhaval Shah: Okay. Okay. And for the quarter, it will be how much?

Anand Sultania: Roughly INR4.5 crores.

Dhaval Shah: Okay. Fine. And my second question is that after -- so as we have visibility for the next 2 years in terms of available capacity for opalware, suppose that for our growth, would you be looking at other categories of glass or it could again be an opalware? Or it's too early?

Rituraj Sharma: So those like currently we are covered, like Shreevar mentioned. And I think the market also is very dynamic and evolving. So I think when we reach there, we will take a call, whether it's glass or in any other category.

Dhaval Shah: Okay. And one of our competitors' capacity of soda line glasses going to be live in -- or should have gone live by now. So are you seeing any sort of pressure or higher competitive intensity in the market?

Shreevar Kheruka: In my opinion -- sorry, go ahead Rituraj.

Rituraj Sharma: No. No. Go ahead Shreevar. Sorry there.

Shreevar Kheruka: In my opinion, the product is a totally different product range. The Soda lime glass is used extensively for bottles. It's used extensively for tumblers, both of which are not core, let's say, to our product range. So I don't believe there's a great overlap of products. So to that extent, I don't think that there is any challenge to our borosilicate or our opal glass sales. And I'm quite certain that they're not really overlapping in any way.

Dhaval Shah: Great. And sir, from our new borosilicate furnace, we would have tried a lot of new products as well as the existing product range. So if you can briefly share with us which product has been quite light and has been a hit in the market. And so yes, so something on the new product, which we have launched because we are the category leaders, and we have a strong market share plus we dedicate being helpful in this.

Shreevar Kheruka: I think our focus here is mainly lunch boxes. And you can probably see that in the market, there's a big shift from plastic to glass, and that's a trend we are kind of doubling down on.

And I think in the foreseeable future, this will continue. So new -- there are many, many SKUs, too many to mention on this call, but we have all shapes and sizes of lunch boxes. And for entry-level pricing of INR499 also. So for different, different customers, we are trying to convince them to switch from plastic and glass by upselling plastic and steel by offering healthy and hygienic and as well as a cost-effective alternative.

So, so far, we see traction there, and we hope that will continue. We do have many other products in the borosilicate range that we still have not been able to launch, which we will do so over the next 6 to 12 months. And with that, we expect to consume our capacity. But if I was to say, one thing which has helped us is the lunch boxes, the borosilicate lunch boxes, which has got good traction in the market already.

Dhaval Shah: Okay. And on the -- one participant asked about lower gross margin. So is it related to higher lunch boxes sale? or is it...

Shreevar Kheruka: As far as gross margins are concerned, it's a product mix issue. It's not -- I mean lunch boxes is definitely compared to selling a mixing bowl, a lunch box has definitely got a lower gross margin. And so the volume of lunch box have gone up, then you have some impact there. But there could be other -- we sell thousands of SKUs. So I mean the important thing to note is that we have not been either -- we'll not either increase -- reduce MRPs or increase our discounts anywhere. It's just a product mix issue. And I would not be too bothered about that from a longer-term perspective. It's just a multiplier effect or product mix effect.

Dhaval Shah: Okay. And sir, have you completely stopped trading now in borosilicate category?

Shreevar Kheruka: Not in the category, We still -- we make pressware. And that we have absolutely stopped trading, obviously. firstly, I would not even call it trading. We were adding value to the product, not just trading it. So -- but we were, say, outsourced -- we had outsourced manufacturing for pressware. And that is something that now we are in-sourced. And therefore, we don't have any reason to purchase pressware from anyone else. But there are some other products in the blown area, blown glass which we do not manufacture, which we will continue to buy in the future.

Moderator: Next question we have is from Aditi from Niveshaay.

Aditi: So I just wanted to know the current capacity utilization from the different divisions like pressware compared quarter-to-quarter.

Balesh Talapady: Can you just repeat that again, please?

Aditi: I wanted to know the current capacity utilization from your pressware division.

Shreevar Kheruka: We would be close to 65%.

Aditi: Okay. And in the last quarter, you mentioned that you achieved to aim around 100% capacity utilization within this year. So do you continue with that? I mean are we online?

Shreevar Kheruka: I think last time, we mentioned that in the next 2 years. So we still -- so this year plus next year, I think we're optimistic -- initially when we had initially projected, we had said we'll do it over 3 years. And we hope to achieve it in 2 years rather than 3. And that's what we…

Aditi: Right. And then the opalware, I think it must be 100% during the quarter?

Anand Sultania: Yes. For quarter 2, it has been 100% capacity utilization. For the first half, it has been close to 85%.

Aditi: Right, right. And could we meet the entire demand, or we were short out of the supply thing for the -- to meet the demand, the existing demand? In opalware segment?

Anand Sultania: I believe we could meet everything that we had orders for.

Aditi: Okay. My next question is in terms of your visibility on revenue and margin for the next 2 years?

Shreevar Kheruka: We've always been guiding on a 15% to 20% growth in the short term CAGR. And I would stick by that, the guidance. It's hard to give a specific number because anything -- I mean, in the short run, in the very short run, things change based on many external factors which are beyond our control. But from our growth perspective, 15% to 20%, should be in the range of what we can achieve, assuming no big external shocks.

Aditi: Okay. Got it. And the last question is, can you comment on your current distribution network as compared to the last year? I mean what growth have we achieved from our distribution network?

Rituraj Sharma: So in our case, we have had growth across channels. And the growth has come from trade, the general trade, the e-com large format stores. So across channels, we have got growth.

Moderator: We have a follow-up question from Dhaval Shah from Girik Capital.

Dhaval Shah: Sir, my question was on the sales channel mix. So given e-commerce has become a large category for consumer-facing products, consumables, et cetera...

Balesh Talapady: Dhaval, Sorry to interrupt you. Your voice is echoing. Can you just repeat the question?

Dhaval Shah: Sir, so my question was on the sales channel mix. Given e-commerce has become a significant channel. So -- and over time, we have seen that the profitability, the margin was -- we were -- it was evolving as a channel. So how would you state the margin across different categories -- sorry, different channels, be it wholesale or a general trade and e-commerce. How is the margin differentiation now? Is it narrowing? Is it same? How is it now?

Shreevar Kheruka: Well, I don't think we have meaningful differences between the various channels in terms of gross margin. And I think each channel has some quarters which are better, and some are worse. But I don't think there is a big gap that we are selling something much cheaper on e-commerce or much more expensive in trade. So I don't -- while we -- of course we know the data, but we don't share that. But I don't think we should look at it from a -- there's no material impact from one channel versus the other, if you look at the overall growth in the channel.

Dhaval Shah: Okay. Okay. And this category being easy to be bought online, our products. So does -- so how is the reaction from the general trade and our off-line channel? Are they -- do we have a separate category for it because it's a very fast-growing category for us? And now we are also there on quick commerce as a category. We are available there as well. So how is the traditional channel reacting to this?

Shreevar Kheruka: I think you have a fairly differentiated strategy for channels in terms of products. So we have -- the way we are set up is we have category managers, and we have product management, and each category manager and product managers speak to figure out what works for the different channels. And therefore, we try and reduce competition among the channels because the customers also coming are slightly different, and they have different needs. So we try and have different product categories for different channels. And that's definitely something which reduces friction in the system.

Dhaval Shah: Okay. So did you notice any extra discount by these large Flipkart and Amazon in their big billion day sales, which was over and above the price which we are selling? Or generally, would you be selling over the year?

Rituraj Sharma: No. In our category, there was no -- I mean nothing majorly noticeable.

Dhaval Shah: Okay. So no extra discount from the e-commerce website side?

Rituraj Sharma: I mean nothing majorly noticeable in the category.

Moderator: As there are no further questions, I would like to hand the conference over to management for closing comments.

Shreevar Kheruka: So thank you, everyone, for your participation and your insightful questions. We really appreciate it. We had a very good quarter from a revenue growth perspective in a fairly challenging demand environment. And we hope we see some green shoots in the future for growth of the demand in the -- of general demand. But in spite of that, I think my team has done remarkably well. And my congratulations to them. And my thanks to all our channel partners and our suppliers for supporting us through and through for the last many years and to of course, our shareholders for supporting us and believing in us. So thank you very much and look forward to speaking with you at the end of Q3.

Moderator: On behalf of ICICI Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.