ISO 9001:2008
BUREAU VERITAS
Certification

MOLD-TEK
Packaging Limited
(Formerly known as Moldtek Plastics Ltd.)

MTPL/SECT/020/2023-24 **Date: 5th May, 2023**

The Secretary, Listing Department, **BSE Ltd.,** Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai-400001. **Scrip Code: 533080**	The Manager, Listing Department, **National Stock Exchange of India Limited,** Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai-400051. **Symbol: MOLDTKPAC - EQ**

Sub: Transcripts/Outcome of Analysts/Investors Conference Call for discussing the Audited Financial Results of the Company for the fourth quarter and financial year ended on 31st March, 2023 and other Business Updates

Ref: Regulation 30(6) of SEBI (LODR) Regulations, 2015.

This has reference to our letter dated 28th April, 2023 where-in the Company has given intimation to the exchange(s) about the schedule of the Analyst/Investors conference call of the company for discussing the Audited Financial Results of the Company for the fourth quarter and financial year ended on 31st March, 2023 and other business updates on Wednesday, the 3rd day of May, 2023 at 4:00 P.M. (IST).

In this regard, pursuant to the requirement of Regulation 30(6) read with Para A of Part A of Schedule-III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcripts of the Analyst/Investors conference call of the company and the same has been uploaded on the website of the Company at:

https://www.moldtekpackaging.com/investors.html

For Mold-Tek Packaging Limited

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"Mold-Tek Packaging

Q4 FY '23 Earnings Conference Call"

May 03, 2023

MANAGEMENT: **MR. LAKSHMANA RAO JANUMAHANTI – CHAIRMAN AND MANAGING DIRECTOR – MOLD-TEK PACKAGING**

MODERATOR: **MR. ABHISHEK NAVALGUND – NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Mold-Tek Packaging Q4 FY '23 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder all participants 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you, and over to you, sir.

Abhishek Navalgund: Yes. Thanks, Lizann. Hello, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all to Mold-Tek Packaging Limited 4Q FY '23 Earnings Conference Call. We have with us Mr. Lakshmana Rao, the Chairman and Managing Director of the company, along with the finance team as noted. Without further ado, I would request Lakshmana Sir to start with his opening comments, for after we can open the floor for Q&A. Thank you, and over to you, sir.

J. Lakshmana Rao: Hello, good afternoon, everybody. I hope you can hear me better. Thank you very much for your interest in our company's performance. I'm glad to inform you, we recorded one of the best volume growths in our company's history. That's a 16.3% volume growth and PAT is up by 26.3%. Overall, it's a very satisfying year. And as we also mentioned to you, several projects are on the annual. Sultanpur, only Phase 1 started in the last week of March, and the main Pharma division will be going onstream in the second quarter of this year.

Followed by three projects for Aditya Birla Group at Panipat, Cheyyar and Mahad. Our unit expansion at Daman in the second unit of Daman. And also unit at Sandila to be started during this current financial year. So as explained, as announced earlier, we crossed our investment target. Actually, INR130 crores has been invested in the current last financial year ending March 31.

And it looks like we'll have a similar kind of investment of about INR120 crores, INR220 crores in the next financial year in these five projects I just mentioned. So I think we can rather go on question-and-answers to cover more information about our company's performance. Over back to the operator so we can start the question-answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Karan Khanna from AMBIT Capital.

Karan Khanna: Yes. Sir, my first question is on the Pharma Packaging business. If you could elaborate more in terms of where the things stand currently and the key hirings that you've done in companies, you are working within the regulated Pharma segment?

J. Lakshmana Rao: Yes. We have people joined, that the core team is already in place and a couple of them are joining in the month of June. And the buildings are now shaped up. Several machines are on different stages of completion. Few molds have been received, but mostly the project assembling, and trial runs will start in June, July. And hopefully, August, September, commercial production will start in some areas.

Areas like regulated market, where we need longer period for client clearance, may go on until next year for clocking turnover. But there are other products which we'll be parallelly introducing in July, August, which might start contributions from the second half of the current financial year itself.

So this is briefly the Pharma packaging position as of today. But certainly, in the Q2, there will be a movement towards commercial production, and additional volumes revenues can start adding up from October onwards in a small way.

And once the regulated tablet packs are also come in a big way, that is from next -- though they start in October, August, September, the real sale can start only next year because of the long time for approvals. However, there are products, which we are introducing in August, September, which would be adding to the revenues starting from third quarter.

Karan Khanna: Sure. As a follow-up, what would the ambition be with respect to the scale of the IBM Pharma Packaging business over the next three years until FY '26? And could this also open up an export opportunity for Mold-Tek?

J. Lakshmana Rao: Yes. Certainly, export opportunities will be there because we are adding a few more products into the product mix, which probably I'll be able to share in the next quarterly meeting in more detail. So these products have export potential or at least export replacement potential.

And also this pack size there in three years, we envisage that initial this year, including the OTC product of Iodex, probably we'll be able to achieve a turnover around INR10 crores. But going forward in three years from this INR10 crores, we are aiming to come anywhere around INR75 crores to INR80 crores turnover in the Pharma division which will go should go as per plans.

Karan Khanna: Sure. That's very helpful. My second question is on your lubes business. Can you help us break down the 30% volume growth? How much of this was driven by underlying growth in the industry volumes? How much from DEF sales and from conversion into IML, QR-coded IML containers?

J. Lakshmana Rao: I didn't have exactly the details, but DEF is certainly more than 12% to 15%, that much I can say. And QR-coded Shell has converted partly of its brands into QR codes. And IML conversion and QR code together could be the balance 15%. Sorry, given that 7% to 8% industry growth, may be around 8% to 10% is the growth coming from a shift in IML and QR code.

Karan Khanna: Sure. And lastly, on the SMA business, what kind of volume addition has been on account of addition of Kissan and Horlicks custom pack?

J. Lakshmana Rao: Actually, it will be -- I'm a little disappointed to say that. So far, only trial lots have run for Kissan Jam. In the month of May, they indicated lifting about 4 lakh bottles as against stated 15 lakh -- sorry, jars they have committed. So hopefully, only from June, these products will be fully productive.

In spite of that, we have recorded 32.6% growth in Food and FMCG without these 3 products contributing to the production. As I mentioned earlier, these 3 have the potential to give almost another 7%, 8% growth in the Food and FMCG segment. I'm sure from June onwards, hopefully, these 3 products will be contributing.

Moderator: The next question is from the line of Sandeep Agarawal from Naredi Investments. Please go ahead.

Sandeep Agarawal: Sir, my question is regarding, sir, what is our internal IRR assessment regarding these investments?

J. Lakshmana Rao: See, we always have an IRR we wish to have, rather. 4-year IRR, time to recover the funds that is -- but keeping 1 year as the project and preliminary. It's 20% on 5 years IRR period.

Sandeep Agarawal: Okay. So just housekeeping question. So what is the -- in balance sheet investment amount is INR51.6 crores. What is including in these investments?

J. Lakshmana Rao: Sorry, how much you said?

Sandeep Agarawal: Investment amount, which is INR51.6 crores. So.

J. Lakshmana Rao: Investment is INR130 crores, actually.

Sandeep Agarawal: Sorry, sorry. Investment line item in balance sheet.

J. Lakshmana Rao: Investment line item in balance sheet.

Sandeep Agarawal: Which is INR17 crores previous year.

J. Lakshmana Rao: What are you referring to? Maybe capitalized amounts are not included in this.

Sandeep Agarawal: No, no, it is not a capitalized amount, sir. It's financial asset and subgroup is investment, which is INR17.08 crores previous...

J. Lakshmana Rao: Noncurrent assets. What are you saying is the financial assets? What did we say?

Management: Investment in technologies.

J. Lakshmana Rao: That is the investment of Mold-Tek packaging in technology, MTPL shares. That is by virtue of the share price of Mold-Tek technologies has gone 3 times. The investment value has shot up from INR17 crores to INR51 crores. That is an internal benefit, but we don't put it in the P&L. It comes in the balance sheet.

Sandeep Agarawal: I understand. I understand. Sir, can I ask a question regarding the Mold-Tek technology?

J. Lakshmana Rao: Okay. If it is a brief one, let's go quickly.

Sandeep Agarawal: Yes. So what is the growth outlook for next 1 or 2 years? Have you seen any challenge due to current economic environment in the U.S.A.?

J. Lakshmana Rao: No. Actually, our economy and our line of activity in MTPL has no big relevance to U.S. economy because what growth is driven MTPL is the electrical vehicle market. We have many, many new models have been introduced by several automobile companies. So there is a big surge in demand for our services, mainly in designing and simulation. In Mold-Tek technologies, we have 2 divisions: Civil and the mechanical.

Sandeep Agarawal: Yes. Civil and mechanical, yes.

J. Lakshmana Rao: And mechanical is now growing rapidly, which was back, it was rather a dark horse till now. It has started performing for the last 7, 8 months. And the future looks very bright for the next 3, 4 years. So that is where Mold-Tek technologies is pushing itself in electrical vehicles market. And we got an opportunity in 2019 to do Tesla project. So that background is really helping us in attracting inquiries and orders from several other automobile companies.

Sandeep Agarawal: Okay. Sir, last one is can you provide any guidance regarding the next year order, next year order booking similar in hand? Any such data in civil and mechanical, both division?

J. Lakshmana Rao: Yes. So we have around 25% to 30% growth there because we achieved 49% growth in the previous year. And we are on a bigger base of $18 million this year. We hope to hit somewhere close to $23 million, $24 million, or maybe $23 million.

Moderator: The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Congrats on a good performance. My first question is on signing up Pidilite paints as a customer. Is it possible to highlight some details in terms of which geography will you be serving? And what could be the revenue potential maybe over the next 3 years?

J. Lakshmana Rao: I wouldn't be able to tell you such a detailed one, but it is for the new brand of products where IML is being used. And they've given a commitment for us to pick up all the IML pails from us and also some part of the hedge tail that we heat transfer label paint.

Accordingly, we started supplies to them 3, 4 months ago. But I think at least the business will be worth around INR8 crores to INR10 crores in the beginning. And as our association grows with Pidilite, it has every possibility to at least double or triple in the next 3, 4 years.

Bhargav Buddhadev: Okay. So you are expecting about INR20 crores, INR30 crores of revenue in the next 2 to 3 years?

J. Lakshmana Rao: Yes, it is possible.

Bhargav Buddhadev: Okay. Okay. Secondly, with regards to Shell, out of 20 SKUs, about 4 SKUs were under QR code. So have they increased this?

J. Lakshmana Rao: Actually, we have shifted this machine, and there is some disruption for a while in April. But now that machine is in place, once the third machine, flexor machine, Flexo machine has been arrived from supplier. And now the printing machines are all set. So we have given them clearance that in case they wanted to introduce more and more QR-coded items, we're all set to go with it. So hopefully, starting from June, July, they might introduce more QR coded paints.

Bhargav Buddhadev: Okay. And any update on Castrol sign-up because I believe it was under pilot?

J. Lakshmana Rao: Castrol is still considering, and they have taken trials with us. But their marketing team has to take a call. Unfortunately, 2 months ago or 1 month ago, they started rebranding Castrol all over. Their logos and everything are undergoing change now. You might have noticed in the market some new logos have been introduced. So I think their marketing team is more focused on that change. And hopefully, they'll come back once they set that in place.

Bhargav Buddhadev: Okay. And lastly, has the Satara plant of Asian Paints ramped up. It was under maintenance? So how has been the progress?

J. Lakshmana Rao: They have ramped up, they have started, I think, the production -- I mean, not that they stopped or anything which was going on and ramp-up also has been completed partially and it's going on.

Moderator: The next question is from the line of Kaushik Mohan from Ashika Stock Broking. Please go ahead.

Kaushik Mohan: Congratulations for the great set of numbers. Sir, can you guide us on the next coming couple of years or 3 years, what would be your OPM margins? Or like what is your EBITDA margins that you're focusing on?

J. Lakshmana Rao: Yes. Going forward, we have a combination of new paint clients like ABG, adding to our numbers, and new segments like Pharma, which we'll be adding to our numbers here also.

So given this combination, the way is better because even with, as you know that in Pharma, we have much higher value additions. And you might have noticed a steady 30-plus percentage of growth in Food and FMCG. And with our plan to set up Food and FMCG plant in North by Jan 5th of '24, along with ABG Paints plant, we will be able to access Food and FMCG clients more easily in the Northern region. And I'm hoping that this trend of 30-plus percentage of growth in Food and FMCG division will continue for the next few more years. Having said that, in all probabilities, the EBITDA margin from around INR40 now should reach around INR42, INR43 in the next 2, 3 years per Kg.

Kaushik Mohan: Okay. Got it, sir. Sir, another one. What is your plan on the capex? And how is your plan going on increasing the capacity utilizations for all the plants? Are you focusing to make it? Because on an average, the capacity utilization stands around 76 percentage to 77 percentage. Any focus on increasing that and putting any capex, new capex?

J. Lakshmana Rao: There's a big capex plan I already explained, INR130 crores we completed this year. And we hope to spend again another INR130 crores to INR140 crores in the year '23, '24, mainly for the Sultan power plants second phase, followed by Panipat, Cheyyar and Mahad plant for ABG. And in Panipat, not only ABG, we are also setting a Food container -- Food and FMCG product base also.

And Daman-II project is there. And Sandila, we have committed to starting this year. So all these projects put together this year again, there will be investment in the tune of INR130 crores to INR140 crores, which is considerable because if you wish to know the company's overall investment till 2019, that is almost for a period of 33 years, company has invested only INR275 crores. And in the last 5 years, we have invested INR275 and with this INR140, probably it will go to INR430 crores investment in the last 5, 5.5 years.

Kaushik Mohan: Got it, sir. Sir, what will be your asset terms on an average?

J. Lakshmana Rao: The asset term, it's always tend to be in the region of 1.5 to 2. In the greenfield projects, it's 1.5. And in brownfield, we crossed 2, 2.5. But majority of the projects now are growing are all greenfield. If you look at 5 plants which are coming up, they will be contributing maybe in the year 2 or year 3 in the region of around 1.5. But as they progress with expansions and brownfield expansions, which the clients have committed, then the asset turnover will start keeping towards 2...

Kaushik Mohan: Got it, sir. And sir, how about your cash conversion cycles? Like is it under control or like how about the inventory days that I wanted to understand more?

J. Lakshmana Rao: Inventory and debt remained more or less same. Like what is that it has come down? One minute.

Kaushik Mohan: Yes, sir.

J. Lakshmana Rao: The inventories have come down from INR95 crores to INR85 crores. And INR143 crores of trade receivables have become INR123 crores, an increased turnover. So there's a much better improvement. Maybe in number of days, I don't have a count, I can't tell you...

Kaushik Mohan: That's fine, sir. That's fine. So sir, what's your targeted on the focus on ROCs? Are you focusing to be on 25% less ROCs in the coming years? Or any focus over there because you have some ...

J. Lakshmana Rao: Around 25%. But it's a new greenfield project, it is difficult to reach 25% ROCE. But once we stabilize and start earning on the capacities created, it is possible to come close to that. So currently, we are near 20%, 18% to 20%. Sometimes it is 20%, 21%, last 2, 3 years ago. And since we are expanding rapidly and some of the greenfield projects like you've included, we have land worth of around INR30 crores purchased recently, but nothing started on it. So it is going to happen this year.

So that way, if you look at all the complete investment, which is effectively being utilized, it looks for 18, 19. But once those projects are completed and start yielding results, it can cross

20% and might reach even 22%, 23%. But these ongoing expansions going on because we are creating capacities in multiple locations. So for the time being, a 20% ROC is what we can watch in the next couple of years.

Kaushik Mohan: Sir, and the last final question. Sir, can I understand which brand actually contributes a major chunk of your revenue? And if possible, can you please put them on your presentations?

J. Lakshmana Rao: I can't tell you 1 brand as such. But Asian Paints is our largest client even today. It's more than 30% contributions from this client. And several paint and lube companies and the brands of Mondelez, brands of HUL still contribute for sizable numbers. But probably, I don't know. I'm guessing Hindustan Lever's brand could be one single brand, which is contributing to the maximum amount to our revenues.

Kaushik Mohan: Sir, I have 1 specific question on the single brand called as Nandini from Karnataka. How about that brand, sir?

J. Lakshmana Rao: Yes, Nandini, we started. We started entering Nandini's sales. I mean it's not very considerable now. But still, our relation has started a few months ago with them.

Kaushik Mohan: So sir, on Nandini, which products are you focusing on majorly?

J. Lakshmana Rao: I think, I guess it is curds and ice creams.

Kaushik Mohan: Cards and ice creams. Got it, sir. So for this Nandini, exactly for Nandini, sir, where is your -- which location of the plant supplies the project?

J. Lakshmana Rao: Our Hyderabad plant is serving today, our Food and FMCG completely is only from Hyderabad. We have a small setup of square pack containers that is Ghee and oil containers being supplied from Daman in a small way.

But 90% of our sales in thin wall or at least 85% happen only from Hyderabad. That is why we are now planning to have Panipat plant, the capability of Food and FMCG products. so that it will be able to cater to the North, Northern region. And similarly, Daman-II plant at Daman is also going to cater to the Food and FMCG sales in the Western region. These 2 plants will go on stream by next season. That is Feb-March next year, '24.

Kaushik Mohan: Got it, sir. Got it. Sir, can I assume what kind of sales can be the potential sales for Nandini? Can it be around currently at least INR5 crores, INR6 crores revenue coming from them?

J. Lakshmana Rao: Maybe per annum, but not very significant as of now. I know that our marketing team has penetrated into Nandini and started supplying a few months ago. But I don't think it has become any big client as of now.

Kaushik Mohan: Got it. Got it.

J. Lakshmana Rao: But we got an...

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Congratulations on a great set of numbers, sir. I hope I'm audible.

J. Lakshmana Rao: Yes, you are.

Darshil Jhaveri: Sir, I just want to know what kind of growth are we targeting for the next 2 years? Because a lot of capacities are coming online. So any indication of our revenue or volume growth target that we might have?

J. Lakshmana Rao: I said it last year, and I continue to hold on to the same number. We are aiming an annual CAGR of at least 15% to 20% volume growth in the next 3 years. That's very clearly visible to us. And it can be better if some of our clients who are, I mean proposing or targeting their own numbers if they achieve, we can be closer to 20%. But you can take for guidance 15% to 20% as our annual growth rate for the next 3 years.

Darshil Jhaveri: So okay, that's helpful, sir. So sir, with the new capex, could we quantify how much capacity total in metric tons are we adding in current and in next year, I think we are at 45,000 metric tons, correct, sir?

J. Lakshmana Rao: Yes, 45,000 metric tons, as we progress. But at the beginning of the year, that is April '23 -- '22, we were around 42,000 tons. And today, we are close to 49,000 tons because some of the IBM machines are on the way. And with that tradition happening in IBM a month or 2, we'll be somewhere close to 50,000 tons.

So from 42,000 to 50,000 is what we have created in the last 1 year. And going forward, I guess, we should be reaching close to 60,000 tons after all these 5 plants are completed, which may take 12 to 15 months.

Darshil Jhaveri: Okay, sir. And how much in terms of our capacity gains. So how much time does it take to scale up a new addition? So maybe it could take a year to reach optimum utilization? Or how would that be?

J. Lakshmana Rao: Utilization of at least 75% capacity utilization would take minimum 1 year for any plan to reach because of the client themselves at this time, they are new in the market. And also there won't be much teething troubles because it's a proven process, and we have complete control on the various variables of the injection-molding process. So -- but I would keep safely 1 year period for the take-off.

Moderator: The next question is from the line of Sundar S from Avendus Spark. Please go ahead.

Sundar S: My first question is with regards to the paint volumes. So this has been another quarter where paint volumes have been relatively flat on a year-on-year basis and realization has also come off. So is it a slowdown in the end market? Or have we lost any share to any other player in the markets?

J. Lakshmana Rao: I don't think we lost any major client nor any volumes to a client, but I can't guess whether our growth is equal to the growth of the paint industry. But my opinion it is a maximum plus or minus 1%.

So when we grew around 5%, the paint industry might have grown 6% to 7% or maybe 5% to 7%. So -- but there could be some variations in other numbers, like the individual paint companies' numbers, which I'm not able to comment.

Sundar S: Right. Sir, my second question stems from this. We just indicated that you want to have a 15% to 20% kind of volume growth guidance. Now how much of this could be impacted if there is a slowdown across the paint segment? Because this is not something that we start going into this year, the paint industry volumes have been low. Is there anything that you're picking up from that segment in terms of order book, something that we should look forward into FY '24. How are the numbers shaping up across the paint segment, sir?

J. Lakshmana Rao: In the paint sector, we are still not looking at anything beyond 8%, 9% growth for the financial year '23, '24 from 5.6% because our last couple of years' experience shows that -- which at least in our case, our growth is restricted between 10% for the paint industry.

But going forward, one positive for Mold-Tek is that with these 3 plants of ABG, which will go into production one by end of this calendar year, like I said, December, January, and that is too by March, I think, January. So let's say, Jan to March '24, could start adding numbers to Mold-Tek.

So though this year might be a little flattish like 7%, 8%, next year could be more than 10%, and our absolute numbers is my estimation. That is why the next year is going to be -- I mean, though '23-'24 will be a good year, a better year could be '24-'25, in my opinion. Because by then, Pharma will be well established. Our products will be received, and we'll be able to entrench into the Pharma client deals using our product range, which we are starting in August. And that will evolve into a decent size of contributions from '24-'25.

And probably ABG's plants will mature and will start picking up reasonable volumes. So that is why in the period of next 3 years, which is up to '26, '27, I'm confident we will be clocking a volume of between 15% to 20%. And also, one of the moves which we are doing now is getting into Western and Northern markets for Food and FMCG products, which we are completely zero as of today, our sales in the rest is okay, but currently our sales in North are hardly anything. So our entry into Panipat for Food and FMCG and in Daman, which will certainly complete before the next season, that is February '24, will lead us to sustain our 30%-plus growth in Food and FMCG portfolio. So that itself today stands around 26% of our volume. So 30% of it is almost close to 8%.

So 8% of the overall company growth will come from that. And if we get even 8% to 10% in paint, that will lead to another 4% to 5% growth. And assuming lubes will continue to grow at least at 10% to 12%, assuming some ships and QR code entries, that will be adding another 4% or 5%.

So we have 15% as a very comfortable level of growth and 20% on the higher side because any one of these Pharma's and other contributions, new products like these Horlicks and Kissan, which got delayed last 6, 7 months may start from May, June. So they may add another 2%, 3%. So we are comfortable in stating our targets between 15% and 20%.

Sundar S: Just on that FMCG part. Is that both the government facility as with the Panipat, do we have any order book right now, sir? Or should order book once the...

J. Lakshmana Rao: In West, we have been asked by a couple of clients to come closer to them and on the promise of better volumes. I can't name them as of now. But so Daman-II that way, it is having a couple of commitments on our side also that we'll be starting our supplies in the next financial year...

So Daman-II will be part of the current business, let's assume that is expected from them. And once we are there in West, there will be better access and better ability to serve the clients. But I'm more bagging on Panipat unit for Northern market entry. Majority of the big players there who are buying from us, they are suffering or feeling the pinch of high cost of transportation and long-time of transportation, which is sometimes 7 to 9 days. So they will be very much pleased to ship to us or -- through our IML containers. So I am banking new business to flow in from North starting from next year season in the Food and FMCG.

Sundar S: Just one last one. With the ABG coming in, has Asian Paints opened up for IML containers?

J. Lakshmana Rao: I don't want to comment on that. It's -- they have their own strategies. But whenever they want to enter, we are ready with them. We have facilities created for Asian Paints. So once they take a decision, we'll be ready to support them.

Moderator: The next question is from the line of Piyush Khandelwal from Bank of India Mutual Fund. Please go ahead.

Piyush Khandelwal: Just wanted to ask on this working capital that we have seen a reduction by '24, I mean, across the line item, both debtor days and inventory days from 128 days of working capital in FY '22 to around 88, 89 days.

So I mean, some side of it would be again the raw material correction, but what could be the sustainable range that, let's say, we can look at for next 2 to 3 years? And is there some sustainable reduction that we can see because of maybe product mixing that we are seeing, Pharma, I mean, OTC that we are seeing or maybe the Foods and FMCG contribution peeling?

J. Lakshmana Rao: See, one of the reasons why we improve our collections are decrease our inventories is basically our ability to have clients who pay faster.

In the field of Food and FMCG, the payments are faster, even we'll collect some advances in case of some of the smaller clients. So that is why you might notice that there is a reduction in the number of days.

Piyush Khandelwal: What could be the sustainable...

J. Lakshmana Rao: The inventories were valued at a higher valuation last year because at the time of closure of March '22, the raw material was at its peak. Today, raw materials are at 110, 108 compared to 125, 130 last year. So that's also contributed.

For details, you can send a mail, and I can ask my finance department to provide a number of days how it reflects. There has been a reduction, but partly is also due to undervaluation of the inventories.

Piyush Khandelwal: That, I understand, sir. So can we expect, let's say, I mean, the working capital days to be, I mean, less than 90 days on a sustainable basis, 90, 95 days going forward?

J. Lakshmana Rao: Going forward, it will be better and better because as more Pharma products are there where 45 to 60 days is the general norm. And Food and FMCG, we collect in advance and at the most, we allow 30 to 45 days credit. So as these factors contribute more and more, we will have the inventory days and the receivable days coming down.

Piyush Khandelwal: Understood, sir. Understood. Sir, my next question was short-term borrowing. I mean I've noticed that our long-term borrowing has decreased whereas short-term barring has increased. On the same end our working capital is reduced. So is there any some adjustment that has happened on the balance sheet?

J. Lakshmana Rao: No, there's no adjustment. Short-term borrowings mean we're basically working every borrowing, which will increase as we draw more and more funds on the drawing limit. We have more than INR120 crores limit, but we are using only INR21 crores under working capital.

Short-term debt keeps coming down because we repay the amount. And this is being a forex loan, which is tied up at a very low dollar rate, if we say in between we use the advantage. So we are keeping the long-term debt for maybe next 1 year or 1.5 years, it gets wiped off. So we'll not have any long-term debt on our books within next 1, 1.5 years. Is it 1.5 years, 2 years?

Piyush Khandelwal: My question was our working capital has reduced, I mean, but...

J. Lakshmana Rao: Working capital increased from 7.32 to 21.9 million, the short-term debt.

Piyush Khandelwal: No. Sir, my question was since the working capital days is reduced, but our short-term borrowing on the same has increased. So that is the reason why I was asking this question.

J. Lakshmana Rao: Okay. Okay. I understand. See, basically, all these monies are fungible as you know better than me. So when we have limits either in the long term or short term, whenever funds are required, we'll be drawing them. And what banks look at is the backup of the current assets for giving us the limits. So that is how the funds utilization comes in.

The effectiveness of our collections or reduction in inventories is a different ball game altogether. On the inventories and receivables of INR250 crores, we are eligible close to INR180 crores funding. But currently, we are drawing only INR21.9 crores which is a long scope for us to further borrow from the banks without taking the route of long-term debt.

But if long-term debt comes cheaper, we will certainly go for it. For example, we have now some interest-free loans to come from Mysore government for the plant, which we set up 3 years ago, that might be released in the next couple of weeks. It carries 0 interest rate for the next 10 years. How many years? 8 or 10 years? 10 years. So we'll be using those funds for our long-term needs. So this fungibility is what you are seeing there. I hope you understand.

Piyush Khandelwal: Got it, sir. And sir, just one last question. I don't know because I joined the call late. In case you have outlined the capex plan for next 2, 3 years and how are you going to fund that?

J. Lakshmana Rao: I think for next year, the plan is INR140 crores again, INR130 crores to INR140 crores. We completed INR130 crores against INR125 crores projected in the financial year '22, '23. And again, there are 5 projects, including during the Phase II of Sultanpur, Hyderabad is going on. So with that, the total again looks like a budget of around INR130 crores to INR140 crores investment.

Piyush Khandelwal: FY '25 same number?

J. Lakshmana Rao: FY '25, it might taper a bit down because the growth in FY '25 will be more for brownfield expansions with all these units where the clients have indicated their numbers. And if their plans go as per their estimates and our estimates, there will be more of brownfield investments in '24, '25, that may not be as high as again INR140 crores; probably it may taper down to INR80 crores to INR100 crores.

It again depends upon our growth in Pharma division, which, if it happens as our plans, probably we may have to set up entirely a separate plant unit for Pharma based upon the size of the Pharma and that opportunity. And if we entrench well by '24, '25. And the year, '25, '26 could be again investment in Pharma. So let's see '25, '26 when we reach '24.

Moderator: The next question is from the line of Akshay from CRAMC. Please go ahead.

Akshay: No, sir, actually, my question has been answered. Sorry, sir.

Moderator: The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Sir, can you share the volumes for thin wall for the year? And in the context of 30% growth for Food and FMCG, how much growth do you expect thin wall to have in the next 2, 3 years?

J. Lakshmana Rao: Yes. I think the total tonnage of thin walls in the year '23 is around 6,750; 6,763, to be precise. That is contributing to 32.6% compared to the previous year, which is 5,100. So we are anticipating to maintain a 30-plus percent growth in the coming...

Pulkit Singhal: Sorry. Sir, this volume, you mentioned is for the entire Food and FMCG, right?

J. Lakshmana Rao: Yes.

Pulkit Singhal: I'm asking about thin wall within that; we are thin wall...

J. Lakshmana Rao: Thin wall is 4,180 compare it to 3,080, which is a 35.5% growth.

Pulkit Singhal: Right. And within Food and FMCG of 30% growth, will this be growing faster or slower than Q-pack?

J. Lakshmana Rao: Sorry?

Pulkit Singhal: So will thin wall be growing faster than 30% that you guided for Food and FMCG or will it be at a similar rate?

J. Lakshmana Rao: Yes, yes. We are aiming at 30%, 35% growth again on the 4,178 to probably 5,500 plus is our target for next year in Food and FMCG.

Pulkit Singhal: Right. The reason I'm asking this is because, I mean, you think you have guided for an EBITDA per kg of INR42 or INR43. Is that just for next year or for FY '25, FY '26?

J. Lakshmana Rao: See, this year, probably INR41, INR42 is possible. Next year, INR42, INR43 will be possible in my estimate.

Pulkit Singhal: Which is what I'm just trying to understand because thin wall is much higher EBITDA per kg, as you had mentioned earlier. And if the contribution of that is growing at 30%, 35% annually, your overall EBITDA for kg should be going up much faster than what you're guiding. Is there -- are there some change in economics for some of the other segments like paints and lubes, which has come down which is why the overall company EBITDA per kg is not going up as fast?

J. Lakshmana Rao: No, we need to be conservative in our estimates and increasing cost of various consumables and others. So keeping that in mind, I want to guide anywhere between INR41, INR42 for this financial year because there is no pressure as such for a reduction in the pricing, but obviously, to expand volumes, you need to be competitive, and that's what we are doing.

And in fact, wherever it's possible, we are also asking for improvement in the conversion cost, citing the genuine reasons like increased labour and power cost. So there are some companies we are obliging and some companies we are in discussions with. So if those things fall in line, we can be closer to INR42. But if there are circumstances which hold the clients to hold on to the pricing, we might be in the same bracket of INR40, INR41. But looking forward, with the improvement in Food and FMCG, we are targeting around INR41, INR42 for this year.

Pulkit Singhal: Right. So this seems to gain a new client you're having to provide slightly better economics so that you are able to gain business. Is my understanding correct?

J. Lakshmana Rao: Typically, the -- what I understand your question is which set of clients would be more inclined to pay. Is that what you're saying?

Pulkit Singhal: I'm just saying as you grow in various segments over the next 2, 3 years, are you finding that you have to give better economics to them to be able to grow? Or are you able to retain your current economics?

J. Lakshmana Rao: No. In Food and FMCG, we are able to maintain our current economics without breaking down our margins or reducing our margins. In paint and lube, it's more or less matured now, not much of difference is possible either way. And with the new projects coming in, we typically safeguard our interest because of low volumes.

But coming into Food and FMCG is the area where we are comfortable maintaining our margins because of our ability to deliver, give the quality, consistency, and volume. So -- that is the main forte as of now. But going forward, Pharma will be adding, aiding our abilities and strengths much better than Food and FMCG. Food and FMCG has been there for the last 7, 8 years. And Pharma is coming into our basket of products only from second half of this financial year. So going forward, Pharma will also support Food and FMCG in sustaining or improving our margins. That will only happen more from next financial year.

Pulkit Singhal: Understood. Understood. Just very quickly, I mean, if you could mention what is the EBITDA per kg in Pharma and blended for Food and FMCG broadly that you expect over next 2, 3 years?

J. Lakshmana Rao: See, Food and FMCG, I continue to expect it at least in the region of INR80 plus per kg. And coming to Pharma products, it can be as high as INR150 plus, even if we take some products as an entry level, we can easily look at INR120. But as we go into these regulated Pharma containers and products, some of the niche products, which I can't give details now, then INR150 is also easily possible.

Pulkit Singhal: Okay. So INR120 to INR150 is your range. Okay. Got it.

Moderator: The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.

Jenish Karia: So first question is, if you can help us with the volume and value number in IML and non-IML?

J. Lakshmana Rao: Yes. IML, its overall year is closed at in terms of tonnage, 64%, up from 62% last year. And in terms of sales value, it is close to 68% from 65.3%.

Jenish Karia: Okay. And sir, with regards to paint segment, the volume that we will deliver for the quarter was more or less flattish, and we had a decline in revenue. So is there a mix deterioration within the segment? Or it has just to do with pass on of raw material prices coming up?

J. Lakshmana Rao: There is no -- I mean, raw material prices were stable during this quarter, not much of a variation. That's not to be blamed. In terms of paint volumes, we also find that due to some delay in the season take up and probably things will move more favourably from April onwards.

Jenish Karia: Okay. But during the quarter, is there any mix deterioration because value wise we registered a decline despite volume being flat?

J. Lakshmana Rao: Yes. This may be due to some of the input costs were not compensated. That's what I mentioned that we are talking with clients, all our mainly deals, both in lubricants and paints to compensate for some of the increased costs. So that could be one of the reasons why the decline in the turnover number compared to the volumes.

Moderator: The next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Sir, first question on the paint segment. Now we understand that due to entry of Daikin in the paint industry, the existing paint companies are likely to face margin pressure. And possibly, they could also look to pass on some of it to packaging suppliers like you. So what's your strategy to deal with the same?

J. Lakshmana Rao: What is the question?

Jaiveer Shekhawat: Sir, my question is that as the paint and customers itself face margin pressure, they will also look to pass it on to packaging suppliers like you. So what's your strategy to deal with those margin pressures?

J. Lakshmana Rao: One thing is we are all in discussions with our clients, conveying to them the cost size and the compensation that is required. A couple of them have already given release from April. I can't name them, but a couple of them are in the process of considering or billing discretion of increase in labour and power costs. So there are 2, 3 items which we periodically look at, that is the labour cost and power cost. Because this being a matured line of segment for us, not many other confirmations are generally negotiated.

On these 2 counts itself, a couple of major clients have accrued our request and effective from April 1 for, we are getting that, and I hope other clients also will agree for it. And if that happens, probably we will not have this pressure at least for the next couple of years.

Jaiveer Shekhawat: Understood. And so, additionally, we've seen that Asian Paints is going ahead with greenfield expansion, one in Madhya Pradesh and also probably in East as well. So are we in talks with them to set up capacity there?

J. Lakshmana Rao: So from them, there is no official information to us. And of course, as, and when they give us an opportunity, we are ready to go with them. So like there are other suppliers, we also stand a good chance and I'm sure they will also give us an opportunity whenever they expand.

Jaiveer Shekhawat: Understood. Sir, last question. Can you just break down your F&F revenues into thin wall products, your sales through Cadbury as well as your Q-packs? What will be the proportion of each of these?

J. Lakshmana Rao: You can take the number; for the Food and FMCG, volume is 4,180 tons in this year, as against 2,580 tons in Q-packs. That is our [inaudible 0:52:16].

Jaiveer Shekhawat: And the rest, how much will be distributed amongst Cadbury and how much from Q-packs for edible oil?

J. Lakshmana Rao: No. Food and FMCG is 4,180 tons and that includes Cadbury's, HUL ice creams, all thin wall products and Q-Pack is 2,580 that is edible oils, cashews, some other, several products, including Agro products.

Moderator: The next question is from the line of Suruchi Parmar from NX Wealth Management. Please go ahead. As there is no response from the current participant, we'll move on to the next. That is in the line of Mitul Shah from Reliance Securities.

Mitul Shah: Sir, my first question is on new customers, which you mentioned in our presentation about this Pidilite, Aayu International, Libero, etcetera. So how much revenue contribution will come from these new customers during FY '23? And if you can give a similar number for '22 and Q4 also.

J. Lakshmana Rao: In this year, notable names are ExxonMobil has come back to us. They were our client earlier. And other clients is Pidilite, notable names. So there are other companies like Moglix and other companies.

Currently, this year, hopefully, these new companies, I'm talking about these top 5 or 6 companies would have contributed INR7 crores, INR8 crores in this current financial year. Maybe ExxonMobil, I don't have intact number, it could be more. But remaining other 5, 6 clients would have contributed maybe around INR6 crores to INR7 crores. That will at least double to INR14 crores to INR20 crores in the next financial year.

ExxonMobil alone has ability to give us more than INR10 crores top line in the next financial year if they start moving more and more to other stores. So one of the reasons why they come back is also IML. And now the -- another point which I wanted to tell you all listeners here, is that Mold-Tek is working hand in glove with many of our clients on the sustainability aspect of plastic management and steps have been taken to utilize RCP, that is a reprocessed plastic material granule.

Nowadays, the availability of reprocessed high-quality granules is available. Many companies have set up units in different corners of the country, producing plastic granules from recycled plastic. And they are able to meet some of our criteria. And we are working with all the top paint and lube companies, even Food and FMCG companies wherever possible to use these granules that will partially give them a cost benefit, but more than that gives them the sustainability aspect, which government is also trying to pass on to them for the past couple of years. So Mold-Tek has taken the initiative in this direction.

And in fact, we are experimenting with most of our clients with their products to have this RCP material used as much as possible to make them eligible passing the criteria set by the environmental authorities.

Mitul Shah: Sir. And this paint business, we highlighted 8%, 9% kind of growth. So wherein we are factoring this Pidilite related revenues also implemental from new clients?

J. Lakshmana Rao: Yes. Pidilite just started 3 months ago, and I think the monthly their turnover is close to around INR25 lakhs, 30 lakhs, but that can grow up to INR50 to INR60 lakhs per month. But they are also promising more and more brands to be shifted to IML. If that happens, the numbers can go better than what we are expecting.

Mitul Shah: Okay. Sir, and this RCP you highlighted. So what would be approximate proportion wherein maximum we can make in terms of virgin workspace with RCP?

J. Lakshmana Rao: See, earlier if you ask me 3 years ago, the kind of RCP available in the market was so bad. Even 5% addition would reflect on the performance of the product, even the aesthetics of the product.

Today, thanks to various investments made by different entrepreneurs, there are processes which are giving very clear and clean material and also well classified material, polymer classified as a polypropylene classified as well as PET. So we are in a position to mix comfortably at 10% to 15%.

But going forward, with better technologies coming in this field, I don't see a problem to even reach 20% to 25% in the next couple of years, which is the government set deadline, I think by '26, '27 or '25, '26. Most of these brand owners not us, but the brand owners have to adhere to the 20% or 25% of the plastic reuse.

So those numbers we are online, and we already started working on our molds to adopt those kind of material mix. And we have mastered the processing techniques, which won't affect our productivity -- production efficiency and at the same time, won't hamper or damage the molds. So those techniques of the trade in the last 1, 2 years, Mold-Tek has taken initiative. Actually, we have been fulfilling this form -- this, what I call, specification much earlier than our competitors to most of our clients.

Mitul Shah: This polypropylene reprocessed; I can understand. But you said that PET also. So is it possible now in PET also we can use this reprocess because being...?

J. Lakshmana Rao: We cannot used, but PET -- reprocess to PET is now currently available at much better form than even polypropylene because their PET bottles are easy to collect. And they will not have contamination because most of them are used for water and other liquids. So cleaning those bottles before grinding and before mixing is much more meticulous and it can be done in much better way.

So PET bottle scrap and recycling is becoming -- it was once considered -- PET was once considered a non-reprocessable material. But the new technologies have come up in the last 5 years, especially the last 2, 3 years. And these PET models are recycled and the granules that are generated can be easily mixed with the virgin material without impacting the transparency and performance. But of course, we are not consumers of PET.

Mitul Shah: Yes. Because in case of you also highlighted for Food brand also, it can be used. So are we using anything reprocessed for Food brand also?

J. Lakshmana Rao: Yes. Some processes are claiming that their products are -- can be mixed for Food packaging also, and we are experimenting with a couple of them...

Mitul Shah: Sir, last question on this Pharma business, which we are going to start in second half. Sir, in that case, generally, the higher level of accuracy is required in terms of micron, these molds would be in-house, or it will be -- will be procuring within country? Or we will be depending on the countries like China, Korea?

J. Lakshmana Rao: No, we will be depending on outside countries for the time being because 2 things; we have several projects on hand this year, especially the pails with 3 products we have to execute. We have thin wall projects coming up at Panipat. And without having real expertise in the Pharma products as of today, we don't want to, I mean, experiment with the project, and delay the project. So we are depending on some of the molds for the first phase of Pharma to come from abroad. And we consider manufacturing the molds for our pails and Food segment.

Mitul Shah: Because even material for mold making is also not available that...

J. Lakshmana Rao: We make sure that the materials and hardness and mold testing is thoroughly done. And today, thanks to our last 10 years of experience in China and Korea and Taiwan, we have established reliable partners for mold supplies. And they know today what we need, and we insist on their design to be approved by us and all the design drawings to be shared with us because whenever any maintenance comes up, we should have those drawings to change the parts which are damaged during course of time. So that way, we have now established strong relations with a couple of 3 or 4 mold makers.

Mitul Shah: And plastic raw material for Pharma is also initially imported? Or will that be a combination of...

J. Lakshmana Rao: No, no, no. 90% of that material is available in India. Few materials, which are specific to certain obligations, need to be imported. And their pricing is also in line with Indian prices.

Moderator: The next question is from the line of Krishna Doshi from Ashika Stock Broking. Please go ahead.

Krishna Doshi: Am I audible?

J. Lakshmana Rao: Hello?

Moderator: Ma'am, we are not able to hear you clearly. The line for the current participant has dropped off, and that was our last question. I now hand the conference over to the management for the closing comments.

J. Lakshmana Rao: Thank you, everybody, for your interest in our company's performance, and I wish you all the people very good evening and all the best. Thank you very much to Nirmal Bang for holding this conference. Thank you.

Moderator: Ladies and gentlemen, on behalf of Nirmal Bang Equities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines.