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Dear Sir / Madam,

Scrip Code: 543212 Symbol: BOROLTD Series: EQ ISIN: INE02PY01013

Sub: Transcript of Institutional Investors and Analysts Conference Call

We enclose transcript of conference call with Institutional Investors and Analysts which was held on Friday, November 20, 2020.

You are requested to take the same on your records.

Thanking you.

Yours faithfully,
For Borosil Limited

Manoj Dere
Company Secretary & Compliance Officer
Membership No. FCS 7652

Encl: as above

"Borosil Limited
Q2 FY2021 Earnings Conference Call"

November 20, 2020

ANALYST: **MR. PRAVEEN SAHAY - EDELWEISS BROKING LIMITED**

MANAGEMENT: **MR. SHREEVAR KHERUKA - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - BOROSIL LIMITED**
MR. RAJESH KUMAR CHAUDHARY - WHOLE TIME DIRECTOR - BOROSIL LIMITED
MR. ANAND SULTANIA - CHIEF FINANCIAL OFFICER - BOROSIL LIMITED
MR. SWADHIN PADIA - GENERAL MANAGER, ACCOUNTS - BOROSIL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Borosil Limited Q2 FY2021 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Sahay of Edelweiss Broking Limited. Thank you and over to you Sir!

Praveen Sahay: Thank you. Hello everyone and thank you for joining to the earnings call of Borosil Limited. On behalf of Edelweiss Broking, I would like to welcome the management team of Borosil to discuss the results and the outlook for the year ahead. We have with us Mr. Shreevar Kheruka, Managing Director & CEO of the company, Mr. Rajesh Kumar Chaudhary, Whole Time Director, Mr. Anand Sultania, Chief Financial Officer and Mr. Swadhin Padia, General Manager, Accounts. I would now request Mr. Kheruka for his opening remarks post which we can open the floor for Q&A. Over to you Sir!

Shreevar Kheruka: Thank you Praveen and Edelweiss for hosting this call. Good afternoon everyone and welcome to Borosil's Q2 FY2021 Investor Call. Borosil Limited's board approved the company's financial results for Q2 FY2021 and the First Half of FY2021 on November 13, 2020. Our results and an updated presentation have been sent to the stock exchanges and have also been uploaded on the company's website.

After almost the entire first quarter the financial year was lost due to COVID-related lockdowns in India we saw a gradual return of business during the second quarter. Net sales during Q2 FY2021 were Rs.139.4 Crores which compares with Rs.174.4 Crores during the same quarter of FY2020 this represented a decline of about 20%. The lower sales resulted in a fall of EBITDA in Q2 to Rs.21.7 Crores compared to Rs.31.5 Crores during the same period in the previous year. The EBITDA margin was 15.5% as compared to 18% during the same quarter of the previous year. The company registered a profit after tax of Rs.9.4 Crores as compared to Rs.16.9 Crores in Q2 FY2020.

Coming specifically to the divisions, Borosil's consumer products division achieved a net sales of Rs.95.1 Crores down from Rs.128.2 Crores in Q2 FY2020 which represented a decline of about 26%. All sales channels remained impacted except for e-commerce. Modern trade or large format stores witnessed a gradual reopening; however, footfalls have not yet recovered to pre-COVID levels. Similarly, with corporate clients tightening their budgets, as you might expect, B2B sales have experienced a large drop. The e-commerce channels on the other hand fared better. The lockdown has resulted in many first-time online shoppers and it is expected that many of them will continue to meet their purchasing requirement online.

Borosil's consumer product range is discretionary in nature. The COVID lockdown and its economic shock resulted in consumers cutting back on their purchases. As you would have noticed from results of some companies especially in FMCG businesses, they are beginning to see green shoots. It is normal to expect nondiscretionary consumption to pick up first. The Diwali period has been very, very encouraging. We should therefore see normalization of sales over the next couple of quarters. The furnace at our factory in Jaipur was rebooted in Q4 FY2020. We had kept its re-start on hold due to the lockdown and subdued demand for the products. We restarted this furnace and we lighted it up on 1st September and the production recommenced on September 13th, 2020.

The disruption in Q1 FY2021 and the headwind during Q2 FY2021 notwithstanding, Borosil remains very positive on the medium-term opportunity for its consumer business and it therefore continues to invest in its brands with advertising and sales promotion of about 6% of consumer products revenue during the first half of the year. Print advertising has seen good response. Given the current scenario, however a larger part of the advertising spend is online. The company has executed campaigns on Facebook, Instagram and other online platforms. Several of the company products score high ratings and I would say one of the best on Amazon.

One of the company's strength is to maintain a steady pipeline of new product introductions. Products thoughtfully designed to meet emerging consumer needs will be an important lever of growth for our company. Therefore, even during a very trying period of H1 FY2021, the company launched new products including a range of glass bottles for liquid storage, made of borosilicate glass which is tougher than ordinary glass and unlike plastic does not leach chemicals. Another product was our stainless-steel pressure cooker which is build for safety and durability. Our bowls can be used in the microwave oven, fridge, freezer and dishwasher. The early response to all these new launches is quite encouraging. The point is to say that even during the lockdown, we continued to invest in product development, and we continue to keep a robust pipeline.

The company has also started a process of being less dependent on imported supply chain. As I have mentioned before, there is a need for the entire ecosystem to evolve to source products at scale in a cost-efficient manner in our country. It may take about 18 months before a meaningful proportion of the current imports are substituted by domestic sourcing.

Borosil caters to the storage, cooking and serving needs of the modern Indian kitchen - an ally of the progressive home-maker. While we started with the legacy of glassware products our consumer centric choice making has led us to offer non-glassware products. In fact, by H1 FY2021, our net sales of non-glassware products comprise slightly more than 50% of our portfolio.

The scientific division achieved net sales of Rs.45.3 Crores during Q2 FY2021 as against 46.2 Crores a decline of about 4% over the same quarter in the previous year.

Budgets for government funded scientific labs and educational institutes, remained constrained, leading to a decline in the lab glassware business. However, the impact with the pharmaceutical companies was not as severe. Besides lab glassware, Borosil began catering to the instrumentation needs of pharma labs and food testing labs over the last couple of years. LabQuest by Borosil is gradually establishing itself in the consideration set of these customers to substitute imported sources. During the quarter, LabQuest launched a new model for nitrogen estimation which has been received well. Our 100% subsidiary, Borosil Technologies which develops these products has a strong pipeline of new products that are expected to be introduced during the second half of this financial year.

Coming to Klasspack, demand for the pharmaceutical packaging products under Klasspack saw a firm uptick with the unit achieving a very healthy growth. It continues to steadily add to its roster of customers. The company has initiated work on COVID related demand for vials. There is a process to be followed before one can actually start servicing orders starting from sample development, machine trial, sample evaluation and closing. Apart from vaccine there is also potential to supply vials for drugs such as Remdesivir, Dexamethasone and Nafamostat. It is too early to make an assessment for the full production here. However in the foreseeable future it has a potential of adding a substantial percentage to Klasspack. We already have been receiving orders for drugs such as Remdesivir, Dexamethasone and Nafamostat from various pharma companies.

ASP to sales showed some decline partly due to a short-term change in revenue mix between consumer products and scientific products. Employee cost of sales has increased in percentage terms due to the decline in sales. EBITDA margin thus contracted from 17.8% to 15.2%. The company expects that the EBITDA can be restored and even grow once revenue traction picks up in the ensuing quarters.

The company's close monitoring of inventories and receivables have led to a very healthy cash position and actual cash generation from operations to the tune of almost Rs 70 Crores during the first half of the financial year. The consolidated debt has reduced from Rs.50 Crores to Rs.10.7 Crores during the first half of this year. The net period end cash with the company is about Rs.130 Crores.

Much of the company's endeavor this year would be to limit the decline in sales. I had mentioned in the last call that if we are able to achieve a flat year, it would be an outstanding performance. With a decline of about 35% in H1, it may seem unrealistic to hope for a flat year. It would require a substantial growth in the second half. Yet as I mentioned before, we do observe some momentum gathering in October and November and the team is focused on restricting the decline to the minimum. Maybe if things turnout really well and the V shape recovery we see continues to the month of March, we could come close to having a flattish year. The recent spike in Covid cases in Delhi generally shows that we need to deal with the unpredictability of the virus, and we are still taking things a quarter or even a month at a time.

Borosil's mid-term outlook and strategy however have not changed materially. In consumer products we see a long runway of growth in categories such as storage, serving-ware, including opal and domestic appliances. Consumer products will be the growth driver for Borosil.

In Scientific Products, instrumentation under LabQuest and pharma packaging under Klasspack will serve as growth pillars while the exports business of lab glassware is built upon steadily. Our straddling the Consumer and Scientific products is a strength and makes us resilient.

In times of crises such as we are experiencing in this year, the company's vision serves as the guiding light. My team and I remain sharply focused on our consumers and customer-centricity determines all our actions – be it design of products, pricing, go-to-market strategy or D2C service levels.

This will not only ensure Borosil stays relevant but will strengthen the brand and position it well to leverage opportunities as the business environment improves.

So, thank you. With that I conclude my opening remarks and I am happy to take questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Praveen Sahay from Edelweiss Broking Limited. Please go ahead.

Praveen Sahay: Sir in the scientific ware business you mentioned in the presentation about the lab glassware export market. Can you give us some indication or numbers or indicative estimates - how much you are doing right now and what is our target for the next couple of years?

Shreevar Kheruka: The lab glassware in India is about 5% of the overall lab glassware market in the world. To give you some quick - estimate, the lab glassware market in the whole world is about Rs 3000 to 4000 Crores - somewhere in that range. We are just a very small player in that space with about Rs 15 Crores in revenue last year. It is a very difficult market to crack into. Just as we believe that we have a moat around our business in India, our international competitors have a moat around their businesses in various parts of the world. That being said, we see traction in many geographies. But this is slow and steady traction. I think we can double this business maybe in two to three years. That I would say, would be a good achievement for us. So, it is still a very small percentage of the sales. It is one of those, I would say, very steady businesses that continues growing for the future and which have good margins. It is not going to drive substantial percentage of revenue growth on the total base of Borosil's revenue. It is a very small percentage, but we do believe that it will continue to do well. Also, once the LabQuest instrumentation gets stabilized in India, that could add a lot of revenue to our exports of scientific products. However, that is maybe, three years away.

Praveen Sahay: I have some more question; I will come in the queue. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Sir I have two questions first is regarding your margin you had mentioned in your consumer product business there is scope to improve margin largely driven by improved logistic cost and other controllable cost. Can you talk more about what are we doing there and what should we expect in the next two to three years?

Shreevar Kheruka: Our customer product margins are largely driven by economies of scale and we have been showing a good growth in the last few years. However, this year has been severely impacted by COVID. So, I think the number one driver for margin improvement in consumer products will be going back to earlier growth rates which may be about say 15% to 20%. We have indicated this as the medium to long-term CAGR. Specifically to your question, yes, in Jaipur we have improved our logistics substantially. This went on-stream just before lockdown so we could not really get the benefit in this particular first half of the year. In spite of the logistics cost coming down, it does not really show in the numbers because the sales numbers themselves are very low compared to the same period last year. I would say that the specific initiative of logistics cost will start reflecting probably from Q3 onwards in terms of improvement in margins. For Larah, that may be 1% to 2% improvement in margin. But the main improvement in margin will certainly come from sales bouncing back after COVID phase and absorbing higher advertising expenses and employee expenses.

Kunal Sheth: Sir my second question is pertaining to your capital employed. You have also mentioned that you are looking at optimizing the capital employed and one of the drivers is better estimation of channel inventory. Can you talk us through how are we leveraging technology largely to achieve this or basically overall how are we using technology as a tool to drive returns?

Shreevar Kheruka: Yes, absolutely. So, I think intelligent data is the first step in the journey. We need to have input on actual sales. We obviously have data of sales from company to distributors. From distributors to retailer, there is a big gap in our knowledge bank. So, the first thing we have done is implemented a new software at our distributors end, which allows us to track the sales to retailers on a real time basis. That allows us to eventually get access to the sales data which allows us to understand what is moving on a real time basis. That then helps us to forecast better. So, I would say that is the first step in the journey to improving our inventory turns. Having organized this data, the second step is obviously to analyze it. We have already invested in a business intelligent software which will help us. Then of course as a channel mix changes, with online sales growing, the feedback is much faster. Feedback is happening from all those market places as well as from our own website. So, I think all of this will help. We generated cash flow during the first half of this year because of our improved inventory turns. So, some of these things have already come into play although I think it is better to talk of achieving better numbers until another year goes by and we can see a sustained improvement here. To specifically answer your question, I think getting access to data is the first step and then analyzing that data is the second step. We have started making moves and we have gotten some traction in both these steps. At some point we will come back with targets on how we are going to rotate our inventory or different types of inventory.

Kunal Sheth: And Sir lastly if you can give us some sense of what our channel mix is right now.

Shreevar Kheruka: So, from this year I am going to stop sharing that information because I think it is quite critical from a competitive point of view. Till last year I was sharing that, but this year I am going to stop sharing the information on channel mix.

Kunal Sheth: Sure, got it. Thank you so much for your detailed answer and best of luck.

Moderator: Thank you. The next question is from the line of Hitesh Kumar from Aksa Capital. Please go ahead.

Hitesh Kumar: My first question is on Borosil Technologies I believe we had about Rs 2 Crores of business in that entity last year. Could you share what is the current product profile there and also how the product profile will shape up over the next two, three years and what is the kind of scale that we can look forward to in this particular vertical.

Shreevar Kheruka: So Borosil Technologies have been developed exclusively for the scientific products division. We basically have instruments which are used in scientific analysis in labs. It could be a pharma lab, it could be an R&D lab, food testing lab, soil testing and so on. The products range from simple shakers and stirrers which have use for sample preparation to nitrogen estimation, which is actually used for sample analysis. The price for the products could be from let us say Rs.10000 to the most expensive ones being maybe Rs.5 lakh, Rs.6 lakh in that range. The market as I shared, is benchtop instruments for labs, which are lower in cost. There are some instruments priced up to Crores of rupees. We are not going into that segment. We are going in the smaller instruments segment and yes again, it is a long-term lever. We will not achieve a Rs 100 Crores revenue overnight. The scientific community in general tends to be very conservative. Most of these institutes are government funded and they are looking for accuracy in their test results and not necessarily the lowest cost of equipment. The same goes for pharma companies, which are looking primarily for accuracy and quality and cost of the equipment is not really the biggest challenge for them. So, for us to break into this is going to take years of effort. But the rewards of that effort are substantial because again it becomes like an annuity business for us. So, we are prepared to spend the time and the effort that is required. Again, I do not expect that we are going to grow this business to Rs 100 Crores in the next two three years. It is going to take time. Maybe in six years instead of three years which may be for the consumer business. The margin profile, the return on capital employed are much, much higher and the sustainability of the business in terms of future cash flows is also substantial. So, I do expect very good numbers, but it is hard to predict when the business will have some scale. We are doing the right things in terms of investing on people and at some point, that will pay dividend. I do not know exactly when.

Hitesh Kumar: So, this is essentially your LabQuest vertical right?

Shreevar Kheruka: Yes, that is right.

Hitesh Kumar: And predominantly this is an import substitution that you are trying to play where you have the rest of margin should be much better here?

Shreevar Kheruka: Yes, exactly. That is what I was saying. There are two points. The first is import substitution. The other point is that the customers are looking more for quality and accuracy and they are not shopping for commodities here. So, margins are much better.

Hitesh Kumar: And second one is on your consumer division. You did highlight the new products that you have launched. How has been the traction on the new product launches that you had in the last one year and if you can give some sense on what are the other categories that you are looking to enter in the consumer segment?

Shreevar Kheruka: What I mentioned was that new products which are basically non-glassware products which has been launched more or less in the last five, six years are now more than 50% of the revenues in consumer. That gives you some sense about how successful these products have been. We launched pressure cookers this year which is again in cooking. So, anything and everything we do will be in the general area of kitchen and serving that is storage, preparation, cooking, re-heating and serving; in these broad areas. There are other categories which we have not yet ventured into. I cannot give any timelines as to when we will venture into these categories. These are categories like gas stoves which is a large market or chimneys and hobs. . We have not entered into these at the moment. When we might get into them is hard to say. It also depends on competition and many other factors but what I can say is that we are going to stick to our categories as we already have quite a lot of categories to focus on. We need to consolidate for some time, to grow in these categories, become a larger player because those markets are much larger than the glass market. We will take that as it comes, so I cannot really give a timeline or comment on which is the next category and when it is going to happen.

Hitesh Kumar: Thanks that is it from my end.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities & Finance Limited. Please go ahead.

Binoy Jariwala: Could you give your thoughts on how was this Diwali season how did it pan out?

Shreevar Kheruka: Yes, Diwali was quite good; it was better than expected. It surprised everybody; I think there are a bunch of articles about that. In home appliances we got stocked out. I think that gives us a lot of hope that we can indeed bounce back in a V shape. Obliviously I cannot share numbers as we are still in the Diwali quarter, but Diwali has been better than expected.

Binoy Jariwala: Now related to this I understand the pressure that all the businesses are in FY2021 but going forward to FY2022 and looking at FY2020 as a base what kind of growth can we see in the consumer division as well as the scientific ware divisions - any broad range that you can indicate?

Shreevar Kheruka: It is really very, very challenging to comment. I can barely look beyond November at this stage. Today somebody said there is a lockdown in Ahmedabad - it is a night curfew not a lockdown. I am not sure how this pandemic will evolve. Of course, now that there are two vaccines out which are proven but have not been administered yet, there is a lot of hope that things should improve. At least confidence will sustain in the market. We have seen this confidence during Diwali. It is really too early to talk about specific growth numbers for FY2022. As I stated in the beginning of my remarks nothing has changed as far as on the downside for either the consumer business or the scientific business is concerned. If anything, from a longer-term point of view, the pandemic may turn things in favour of both the businesses and I will tell you exactly why. Number one, people are cooking more at home. I am sure all of you have WhatsApp groups of families and friends and everybody is sharing recipes of what they made. People are baking bread at home, they are cooking different meals. I do not think that changing or rather even when the restaurant open fully and people are not scared of the pandemic, I do see that this theme is going to persist. People are going to upgrade their lifestyles at home. That is great for our consumer business. Coming to the scientific business, I think the world has forgotten to do research and development in a major way. This pandemic coming and destroying probably trillions of dollars of value from the global economy will drive thinking towards higher spends in R&D. Prevent that trillion of dollar loss by maybe spending $5 billion every year on R&D for various diseases. That will definitely be good for our lab glass business. R&D and QC is also directly connected with our LabQuest business and to our Klasspack or pharma packaging business. So, I think that the long-term growth prospects have been enhanced by COVID both on our consumer and scientific side. It is impossible to predict the numbers, but as far as we are concerned, I am sticking to 15% to 20% growth in consumer and 8% to 10% CAGR in scientific products. And hopefully we have an upside on both, once we have a clear idea of the future.

Binoy Jariwala: And just to clarify you said the Jaipur warehouse that went operational in Q4 of FY2020...

Shreevar Kheruka: Yes, that is around February.

Binoy Jariwala: So, you have not seen any logistic savings because of lockdown, and you expect to see from Q3 of FY2021 onwards is that right?

Shreevar Kheruka: From this quarter Q3. I mean we have seen savings but they are not perceptible because the overall margins have come out so much because of the lockdown related problems. Once sales normalizes then the savings of the logistics should come through and be visible.

Binoy Jariwala: And the kind of savings that you are looking at is about 100 to 200 bps of sales?

Shreevar Kheruka: Yes, that is right and that will happen.

Binoy Jariwala: My last question is on Klasspack now this pandemic has brought a huge opportunity for Klasspack so basically your thoughts on first what is the capacity that we have and what kind of pricing that we see for a while and what is the competitive scenario like etc., etc., just your broad thoughts on it.

Shreevar Kheruka: We have about 300 million vials as annual capacity and about 500 million ampoules as annual capacity and at the present moment Klasspack would be operating close to 55%, 60% capacity utilization. But on the vial side specially, I think we expect that our capacity will get sold out very shortly. In fact, the discussions are on for large volumes. However, until we get the orders and we get confirmed business it is improper stop trying. So, I do believe that in Klasspack the hard work that we have done over the last three, four years is bringing in some dividends. We have got many customers who have come on board and we are offering many good products. I think the Klasspack journey has just begun. We would probably do some more additions to our vials capacity. In fact, we have already ordered some equipment for that. Unfortunately, it just takes some time, it takes about 6 to 12 months to increase capacity. Klasspack EBITDA margin has improved substantially as compared to the year before. It is likely to improve further and the revenues are also likely to grow more aggressively. So, we are quite bullish on that business.

Binoy Jariwala: What could be the pricing for these vials?

Shreevar Kheruka: Pricing I cannot disclose and the pricing varies substantially because the vials, is not a generalized product. There are so many different sizes, there are different types in terms of neck for example. So, how many machine changes do we have to do. There are many, many variants, so it is hard to give a specific number to it. It also depends on the volumes of business.

Binoy Jariwala: And there is business that comes from pandemic the margins on this business would be any indicative range that you could give or give the direction.

Shreevar Kheruka: I think broadly in line with what we have 15% or 20%. The EBITDA margin is not higher or lower.

Binoy Jariwala: Also, if you could share if which are the companies that you are working with for the COVID vaccine?

Shreevar Kheruka: I am sorry I cannot share that. There are NDAs in place so I cannot share that. But if you know who is developing the COVID vaccine in India you probably know the company who is working with us too.

Binoy Jariwala: Last question is, despite these troubling times you managed the balance sheet and cash flow very well. I also see in the cash flow we have got some cash inflow of about 35 Crores from receivable and other receivables and kind of about 15 odd Crores is from trade receivables what could be the remaining amount?

Shreevar Kheruka: I think as per the scheme of amalgamation there was some receivables from Borosil Renewables.

Anand Sultania: That is broadly to the tune of 12, 13 Crores.

Binoy Jariwala: Understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Sangeetha Purushottam from Cogito Advisors. Please go ahead.

Sangeetha P: I had a few questions on the Larah range in terms of your margins in this particular product category, how would you compare yourself with the market leader and if there is scope for you to actually come to margins which are similar to this that is one question. The second question is that when I look at your business basically the scientific product business would continue to have steady growth and steady margins so all your margin improvement really needs to comes from the consumer product division right and you did mentioned that apart from through operating leverage as the volumes grow and logistic cost savings, are there any other production related cost savings that you could manage and what would be the trajectory of margin improvement here and where would it cap out.

Shreevar Kheruka: There are many questions, so let me try and address most of them. So as far as Larah compares to market leader, which I guess you are talking about LaOpala, let us take last year because this year is not really comparable at all because our plant was shut for most of this half of the year. So, I am not talking about this year's numbers but to summarize the answer I think we are about 10% to 12% lower than their EBITDA margins somewhere in that range. About 7% odd is to do with advertisement and sales promotion and that is something that we choose to do more than them. We probably have to do more than them because they are more established in this market. As far as Borosil is concerned, there has been a focus on long-term brand building. So, we anticipate that while we can make it zero, and we would probably not impact the sales for any one quarter, it will impact us going forward. I would not go away from that particular cost so that 7% will not change. I have mentioned that we have a couple of percentage points issue with our supply chain which we have sorted so that should no longer be there going forward. Then our electricity cost and our packaging cost are higher. The electricity costs are unfortunately governed by local state electricity boards which we cannot really change. So, the higher electricity cost remains in the margin profile which we cannot change. The packaging cost we are working on to further reduce our packaging cost and I hope we can achieve that over the next 6 to 12 months. So, I would say the two main costs which we are not going to be competitive with them is mainly advertising and sales promotion which is 7% and electricity which maybe a couple of percent.

Sangeetha P: So, advertising and sales promotion is something which as a percentage can come down as scale increases?

Shreevar Kheruka: That is right.

Sangeetha P: And so, on the manufacturing side you are saying that the basic difference really is in the electricity cost which is really linked to cost of electricity itself?

Shreevar Kheruka: Yes, per kilowatt cost. Our plant I think is amongst the most efficient in the world. Our plant is running at a very good capacity utilization as well. On operating cost, I would say world's best now.

Sangeetha P: So, when you started this plant there were production related issues right and efficiency related issues those have all got sorted out now?

Shreevar Kheruka: Yes, in fact it got sorted out about a year ago. We invested to upgrade the technology at the plant for our production and we have invested a fair bit of Capex there. Now those issues are behind us.

Sangeetha P: And how long will it take you to reach optimum margins when would they peak out your margin improvement will continue for what two years or a little longer than that?

Shreevar Kheruka: Yes, I was expecting a lot of it will happen this year, because I was expecting the capacity utilization to be almost 100% this year. Obviously COVID was a dampener to that part. I do hope that if the recovery is V shaped as people are talking about and which we are beginning to observe and if consumer confidence sustains, maybe the margin improvement journey has only shifted by a year. So, if next year's numbers are similar to what we expected FY21 to be pre-Covid, then I think we should be able to have a very, very sustainable margin as far as Larah is concerned. For consumer products under the Borosil brand, I think that may take two years to play out because even there the advertising and sales promotion is a large chunk. We think the operating leverage will kick in. There we do have other levers besides operating leverage in advertising. As we scale, we can negotiate better with some of our suppliers. That has not played out fully yet. It could play out over the next two to three years.

Sangeetha P: And if I may ask one more question you see when I look at the glassware categories and the LaOpala kind of category basically what we are looking at is the market size which is not very large. If I add up the numbers you have given in the presentation it comes to about 2000 odd Crores. The bigger market really is the domestic appliances where you just sort of testing the waters right now. Now in domestic appliances what are you going to rely on to succeed, what is your right to win here?

Shreevar Kheruka: Well that is a good question. I think we discuss that every day and I cannot come to an answer yet. We definitely have high quality products in the sense that we benchmark our products to market leaders such as maybe Phillips or Morphy Richards. Those brands which are regarded by customers to have top quality products. All our products have high quality inputs in terms of the material, the motors the electronics that we use. The second thing is, I think we are extremely customer centric as a company. If anybody has a challenge or an issue, our customer service would be amongst the best even in the short period of time that we have been in the category. I am happy to say that is differentiator for us. Many customers want to deal with a company that responds, and we are one of them. Third, in terms of product innovation, I would say we do a lot of customer feedback study to see what we can do to innovate. These may not be huge innovations which lead to totally different products but within a particular product it does help us make a product slightly more user friendly. It lasts a bit longer; it does what customer wants the product to do. So, these are the things that we are working on to help us achieve some brand equity among our consumers. Eventually the right to win will come when we have scale in these markets. We also have Borosil Technologies, our 100% subsidiary in Pune, which is right at the moment focused on scientific products. However, the basic stuff that goes into a scientific product, such as some hose, electronics, some motors, display technologies are all components that make up the kitchen appliance products too. With our scientific products team at Borosil Technologies doing these well, maybe we can leverage that for our consumer business. Then that becomes a serious right to win. But that is still maybe three to five years out. That's really what we are looking at and let us see how it goes. I would say we are beyond testing the waters now. I think we have established ourselves fairly decently in the appliances market and you can do some third-party checks in terms of what is our quality and even go online on Amazon and see overall reviews from our clients. We are fairly satisfied with where we are and I am happy to say that we are much better off today in terms of appliances then I ever thought we would be three years ago.

Sangeetha P: And in appliances are you EBITDA positive?

Shreevar Kheruka: Yes of course.

Sangeetha P: You are EBITDA positive?

Shreevar Kheruka: Yes.

Sangeetha P: Currently what percentage of the sales of the consumer product division comes from appliances?

Shreevar Kheruka: As I mentioned earlier what I can share in glass and non-glass. At the moment, glass is just a shade under 50% and non-glass is a shade above 50% and non-glass includes mainly appliances and steel bottles.

Sangeetha P: So, the bottles are smaller right the appliances would be the bigger part?

Shreevar Kheruka: Yes, that is right.

Sangeetha P: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Manav Vijay from One Off Financial Consultants. Please go ahead.

Manav Vijay: Sir my first question is in this quarter you have not disclosed the sales breakup between the two divisions in terms of say let us say in scientific product between lab ware and Klasspack and in consumer between the consumer and the Larah which we use to do with the till last quarter, so are you disclosing those numbers or not?

Shreevar Kheruka: So, going forward we are doing a review of what we wish to disclose and what we do not wish to disclose. I think Q3 should be more of a let us say "normal quarter for us" and at that stage I will update the presentation and share with you. But yes, we will be disclosing more numbers than what we are disclosing today.

Manav Vijay: My second question is in both the divisions scientific as well as in your consumer the capital employed has come down by approximately, scientific is concerned by around 10% on a YoY basis and consumer by approximately 15%. So, now this capital employed decline is more structural in nature or this is because you have lower sales so because of that the capital employed has come down?

Shreevar Kheruka: So, actually I would say that the answer is both. We have been trying to optimize inventory and our receivables have also been coming down. It is a bit structural in the sense that in March end, typically capital employed is at a peak especially for scientific because you have high sales in March and then you get paid out in the first quarter of the next financial year. However, we have also managed inventory to ensure that we do not have overstocked goods especially in the pandemic time. So, both have contributed to this particular decrease in capital employed.

Manav Vijay: Sir my next question is if you look at the P&L so this quarter other expenses were around 37 Crores versus 62 Crores last year. So, it is roughly 25 Crores I believe we might have cut cost - to some extent just like any other company during these bad times. Of this 25 Crores reduction how much of the cost cut is permanent in nature that would not come back with your sales coming back and how much will come back as you get the higher sales?

Shreevar Kheruka: Yes, that is literally a million-dollar question. That is something that we are also evaluating frankly and some of the cost will definitely come back. We are evaluating what were the good costs and what are the bad costs. We will definitely endeavor to not reintroduce the bad costs. That is actively work in progress with my CFO Rajesh who is also on this call. I do not have a number which I can share with you, but I can tell you that our endeavor would be to try and make sure that those bad costs are not reintroduced in the business. COVID has taught us a lot and I think you are pointing to one of the critical learning's from COVID.

Rajesh C: Just to add on this we are basically in the WIP state and we are discussing with all the stakeholders like my internal teams and most probably by the next quarter end we will have a fair assessment of what are the bad costs which we are not going to incur.

Manav Vijay: Sir my next question is on slide #9 of your PPT you showed that there is a difference between EBITDA and EBITDA before onetime cost. Now as far as H1 of this year is concerned there is a 3.5 Crores difference what is this onetime cost?

Rajesh C: Those are one-time ESOP expenses employee stock option scheme expenses.

Manav Vijay: So, it would not be happening in H2 or in FY2022 at all?

Rajesh C: No.

Manav Vijay: Sir now in this year H1 our depreciation has also come down whereas I would say as far as our gross assets are concerned they have actually moved up because now your furnace is operational as also the case with your warehousing. So, technically speaking the depreciation should have moved up whereas it has come down from 19 Crores in H1 last year to 16 Crores. Can you explain why that has happened?

Rajesh C: This is mainly on account of Jaipur furnace. This quarter we have lighted up the furnace in September. So, during the first five months the furnace was not in operation. That is why we have not charged any depreciation on the furnace.

Manav Vijay: So, from Q3 onwards we will be back around 10, 11 Crores kind of a quarterly run rate which we were earlier at?

Rajesh C: Yes.

Manav Vijay: So, what will be the tax rate for this year and for next year?

Rajesh C: 29%.

Anand Sultania: The cash payout maybe MAT.

Rajesh C: Yes, we have some MAT credit so we will be in the MAT.

Manav Vijay: Sir I have just one question as far as your balance sheet is concerned. You have around 70 to 75 Crores of investments in various funds, some with the real estate and some non-real estate. Is there anything that you can disclose basically anything to figure out are you sitting on a profit or a loss on those investments and also if you can quantify as to of this total investment how much is coming up for redemption in FY2021 and let us say for next four months and FY2022.

Anand Sultania: As Shreevar has already mentioned, the net cash period end is approximately Rs 130 Crores. Out of that more than 60% of the money is lying in liquids. Basically, these can be redeemed immediately. The balance money as we have discussed earlier is lying in some sort of a committed alternates and real estate funds. We don't have losses in any of the funds. All are above the cost. So, there is no loss to the principal to answer your first question. Secondly as you know, these funds typically have commitments over a long duration. We expect within the next 1-2 years to redeem all the money from this real estate funds and the other funds.

Manav Vijay: That means for FY2022 we should have roughly 50, 60 Crores coming back to us?

Anand Sultania: Yes, that is right.

Manav Vijay: Sir my last question is, that since the first half of FY21 since got badly impacted due to the pandemic and since scientific products is a fairly stable business one cannot expect large increases from it, the onus of making up sales in H2FY21 falls on the consumer division. In consumer if you look at Larah, other glassware and appliances, which part is best placed to pull up the numbers?

Shreevar Kheruka: I think appliances is definitely moving faster because people are again cooking at home. So people want to have more appliances in the kitchen and that is certainly going to be an area of growth. Now that people have started moving into the market and you see retail opening up, Larah also has got good traction. So, Larah will probably not be able to achieve last year's numbers but I think the growth in the second half can be good because last year second half was average. So, compared to last year second half I would say there is a good scope for Larah. These two could be leading the charge. Like I said that is an internal best effort. It may end up that we cannot achieve last year's numbers and there will be some gap but we are going to try. If we do it, I think that will be a big victory for us because the first quarter was basically almost zero revenues as far as the consumer business is concerned. So yes, it is hard to predict.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Group. Please go ahead.

Ashwini Agarwal: Good performance in a difficult environment. One question in response to one of the earlier questions you said that you try and benchmark your products to Philips and Morphy Richards which is obviously a good starting point, but the way I was thinking about it is that if I think about Borosil as a brand it has a relatively premium image in the Indian context and that is what you always try to do, offer a great quality product at a reasonable price, but at a premium to what is there in the market place I mean in that context where Phillips and Morphy Richards are kind of mass brands or slightly mass premium brands would it make sense for Borosil to take a slightly better positioning a stronger positioning? I mean I had like Braun out of Europe as a brand as an image. Is that a possibility or is that too niche?

Shreevar Kheruka: Yes, I think that is right. We would look at it as too niche. We have evaluated various players in the markets for appliances and without getting into too many names the thing is that as far as the market is concerned, a mass premium position in India is actually in our view the best place to play which is exactly what you thought. Anything above that, becomes really too niche and does not augur well in terms of scale. For appliances you absolutely need a certain scale in order to drive profitability in the business. That is the reason to choose this particular position. Once you have this scale, you can always launch some premium products in different brand or Borosil Plus kind of brand but just being a very niche player would not allow you access or entry into many retail outlets. The mass of

India is still aspirational, but up to a certain level. In a totally different category, if you look at someone like an Apple, their structure in India has been more limited compared to players such as One Plus or Xiaomi. Again in the same mass premium range or the phones in the Rs.10000 to Rs.15000 price bucket are doing the best. So again, we cannot exactly compare smart phones to appliances, but I am just trying to give an analogy overall.

Ashwini Agarwal: Alright thank you so much.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Share. Please go ahead.

Rohit Ohri: Sir I have two questions and probably two parts to that. Sir first I wanted to understand that you have mentioned in the opening remarks that there might be slight uptick in margin of around 1% to 2% for the Opalware Larah products that we have, my question was how do we go about with the discounting policies that if I go for the 27, 33 or 36 Opalware dinner sets we tend to give around a range of 15% to 35% discount on the MRP. What is the strategy or the policy that the company follows for this?

Shreevar Kheruka: There are many ways to approach this question. One is for the standard product which we design and develop and place in trade. We typically tend to have a very straight forward discount policy for these which we do at the beginning of the year. Maybe during the festival season time there could be some extra turnover discount which we give to our distributors or retailers. There will be some malls which avail extra discounts. So, those are standard. Then there are cases where people want promotions. What you are referring to 15% or 35% to MRP discounts, could be a specific promo for a large format retailer or for a marketplace like Amazon or Flipkart who are choosing a specific design or maybe couple of designs. This would be with a large volume order which is exclusive to them. In that case, the discounts maybe slightly higher. So, it depends on what the channel is and it also depends on whether the product is specific for that channel or for that specific customer. Typically, you will find that products which are available across the board will have more restricted discount because the volumes are lower but when you come to a specific player buying large volumes of a single SKU then the discount should be a bit high.

Rohit Ohri: Since you mentioned on the channels and dealer distribution and with this new normal that we have and we have tilted more towards the e-commerce segment in the new world are you looking at streamlining the dealer distribution numbers that you currently have?

Shreevar Kheruka: No, in fact not at all. Trade has started bouncing back and I think trade is not going anywhere. Look, I agree and you definitely find that customers are buying online but it does not mean that customers are going to stop shopping and going to the markets to buy stuff. So, we are not going to streamline trade at all and trade will continue to grow. We continue adding roughly a 1000 outlets per year which is what we are doing roughly for the past couple of years and that is not changing.

Rohit Ohri: My second question is again related to Opalware products, you mentioned that the furnace which was under maintenance or shutdown has been fired up again so what is the current capacity utilization that you are having for Opalware?

Shreevar Kheruka: Well I will share that when the Q3 numbers are through. With Diwali we are running at our full capacity. The key question is what happens post Diwali. It is a bit too early to tell but so far it seems okay.

Rohit Ohri: So are you looking at any sort of Capex in terms of...

Shreevar Kheruka: No. Given that you are not able to look beyond a couple of months right now and there is still a lot of uncertainty in the world, I think it would be unwise to look at that.

Rohit Ohri: Okay thank you, thanks a lot.

Moderator: Thank you. The next question is from the line of Hitesh Kumar from Aksa capital. Please go ahead.

Hitesh Kumar: Shreevar could you share how our reach is and basically are all our products available across all the retail network that we currently have?

Shreevar Kheruka: No, not even close. We have about 17000 retailers now. I would say not too many of them would stock all our products. The new products which we have launched which is appliances is relatively new now, the appliances and hydra would be available in at least 40% to 45% of these outlets. These are very broad estimates, but we are slowly catching up. The reason why I think online is easy or people are tending to it is because in any store even if we are carrying our kitchenware meaning our glass baking products for many years, they probably do not have all our SKUs. We may have more than 100 SKUs in kitchenware. Whereas online you can see all the products in one setting. I do not think we will ever achieve a situation that all our products are available in any store. You will have all the ranges but within the range itself you will not have all the products. Our focus right now is to get more ranges in more stores. I think the team has done a pretty good job of that and actually we were seeing a growth in numbers as far as the non-glass products are concerned. I think it is about 40% where you have multiple ranges in new product stores.

Hitesh Kumar: But we would be having a fairly a good reach across India even for the non-glass products?

Shreevar Kheruka: No, we are strong in non-glass in the North and maybe the East. West has started picking up but in the South, we are nowhere as far as the non-glass products are concerned.

Hitesh Kumar: These segments I think it has been two years since we would have launched the hydration flask and also appliances, I mean just trying to understand what is stopping us from having a full pan India reach for these products?

Shreevar Kheruka: If you look at our competitors like a Prestige is very strong in the South. they have been around for so many years but they have relatively low sales in rest of India. Whereas other players like Hawkins they have not really penetrated much in the South. So, it is regional. That is just how the market operates. The relationships, the distribution it takes lot of time to build in each region. It is different online where there are more service barriers. We are seeing a very good sales for online even in the South. But for trade it is not there yet.

Hitesh Kumar: Sure, got it thanks sir.

Moderator: Thank you. Due to time constraint I now hand the conference over to the management for closing comments.

Shreevar Kheruka: Thanks everybody for participating in this call. I would just like to summarize. I think that the second quarter has bounced back to some extent after a very, very poor Q1. Q3 so far looks quite encouraging, Diwali has been very well accepted and I hope that continues going forward. It is too hard to look beyond a time horizon of even a couple of months so I do not want to say that things have turned the corner, but we do hope that probably the remaining half of November and December will tell us how 2021 looks. We are hopeful in anticipation that the momentum will continue picking up. I want to thank everybody for the support of the company and look forward to sharing our results of Q3. Thank you.

Moderator: Thank you. On behalf of Edelweiss Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.