

BOROSIL GLASS WORKS LIMITED

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BSE Limited

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Scrip Code: 502219

Sub: Transcript of Institutional Investors and Analysts Conference Call

Dear Sirs,

We enclose transcript of conference call with Institutional Investors and Analysts which was held on February 16, 2017.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Borosil Glass Works Limited



Gita Yadav
Company Secretary

Encl: as above

Conference Call Transcript

Borosil Glass

Q3FY17 Results

February 16, 2017 | 03 p.m. IST

Corporate Participants

Mr. Shreevar Kheruka

Managing Director & Chief Executive Officer

Mr. Swadhin Padia

Chief Financial Officer

Questions and Answers

Moderator: Good afternoon ladies and gentlemen and welcome to the Borosil Glass Q3 FY2017 Earnings Conference call hosted by Edelweiss Securities 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Rohan Gupta from Edelweiss Securities. Thank you and over to you Mr. Gupta!

Rohan Gupta: Thanks Mallika. Good afternoon ladies and gentlemen. On behalf of Edelweiss Financial Securities, I welcome all the participants logged in for the conference of Borosil Glass Works. From the management, we have Mr. Shreevar Kheruka, Managing Director and CEO of the company and also Mr. Swadhin Padia, who is the CFO of the company. Good afternoon gentlemen. Sir thanks a lot for giving us the opportunity for hosting this conference call. I first request to give us a brief about the Q3 FY2017 results and also if any interesting trend which you have observed during the quarter and then we can follow it up with Q&A session Sir. Please go ahead Sir. Thank you!

Shreevar Kheruka: So thanks for that Rohan. Greetings and welcome to the company's second quarterly conference call. Some of you may have attended the last call, so glad to reconnect with you and whoever is attending the first time thanks for your interest in our company. Just as a preface, the entire deck or the presentation has already been made available on the BSE website. I will be referencing that and people can download it and go through it as I talk my way through our third quarter. So coming directly to the results, we have had a good quarter even though it was the landmark quarter for corporate India with demonetization. In spite of that, our consumer division posted a turnover growth of 9% for the quarter and our lab division posted a turnover growth of about 17% for the quarter. So we were able to manage the impact of demonetization well, not being as badly impacted as many companies. For the nine months December, 2016, our consumer division has posted a very strong growth of 26%, this is standalone number, not including the acquisition of Hopewell and the lab division has posted a standalone growth of 16%. Both of these are very positive and solid numbers. The consumer division did only grow 9% in Q3 and that is like I said because of demonetization, otherwise it was growing almost at a rate of 40% up till the first half. On a side note, I would say that I think most of the impact of demonetization is more or less behind us and as I look forward, we will see growth returning in a similar fashion as it was before. What I would like to now discuss is the company's profitability. In terms of EBITDA margin has grown from Rs. 16.62 Crores from the first nine months of previous year to Rs.26.55 Crores for the nine months of this year, which is the growth of 60%. That has been on the back of margin expansion in many

product categories. On top of that, I would also like to add the side note mention that the company Vylene Glass Works Limited that is going to be merged subject to regulatory approvals, has an EBITDA for the nine months of Rs. 8.9 Crores. This EBITDA will be consolidated once the merger is completed. So the EBITDA growth has been quite substantial even much more than the growth of the revenues of the organization.

Year to date our revenue has touched about Rs.270 Crores, the organic growth is about 21% and if I include inorganic then the growth has been 71%. Margins have been impacted in the acquired entity, which is Hopewell. The main reason for that has been of course is incurring large advertising expenses to start off our branding campaign and compared to the ad spend of Rs.2 Crores last entire year in FY2016, we have done about Rs.10 Crores of advertising and sales promotion in nine months in FY17. That is an additional about Rs.8 Crores in 3 quarters. In addition to that there is about Rs.5 Crores of write-offs we have taken for, which pertains to stocks and other debtors claim write-offs from a period prior to our acquisition. As far as Klasspack is concerned, the company has posted an EBITDA from the time we acquired the company till now of about Rs.192 lakhs. During this quarter there was a one off gain of about Rs.90 Crores from non-core assets sale. The BMC acquired land from us. This was surplus land, which the company had on its books and this has been a part of our strategy to try and reduce the number of non-core assets in the books and generate cash, which can then be used for the business.

As far as the cash surplus of the company goes, we have around Rs.200 Crores of cash on December 31, 2016. The strategy for growth is further being worked out and all the cash is not likely to be used in the very short term. We are looking at investing all future surplus in debt mutual funds, to enable us to have the money available when we need it for M&A or capex. Over the next 12 months we will be spending about Rs.55 Crores for expansion at Hopewell and another Rs.20 Crores for putting up a new warehouse in Jaipur for consumer division. So about Rs.75 Crores of capex is expected as an outflow in the next 12 months. One point I would like to mention here is that the two divisions of the company provide a good hedge because the scientific products division in this Q3 has been a good hedge with growth of 16%, which would not have been possible only with the consumer products owing to demonetization. So the company's overall profitability has also grown substantially even in spite of demonetization. Coming to the integration of the two companies, Larah is now available in a large percentage of the Borosil retail network, the trade is fairly happy with it, the trader is happy to stock our products and we are getting a lot of repeat orders. The investments in advertising and sales promotion have helped the brand and we are working on some of the issues we had identified in the manufacturing process, which will help us to improve the quality as well as enhance the capacity and like I said that the investment of Rs.55 Crores for the capex will allow us to upgrade the plant to world standards.

The warehouse expansion, which I mentioned previously is going to help the optimization of logistics and will also help us from the GST perspective and will

help us reduce the amount of stocks we need to keep in different locations. As far as the scientific products division is concerned, some of the initiatives have been on the international business, which has grown quite well and we are seeing good traction. Similarly in LabQuest, we see a growth in the demand for instruments and this is I think going to be a growth driver for the future.

Coming to more information on advertising and sales promotion we help the homemaker perform beautifully, and our strategy is to sell more products to the same customer. We don't want to be an occasional use brand, but a daily use brand for the entire kitchen, the entire process of preparation, cook, serve and store and we want to upgrade our customers from unorganized or steel or plastic to glass, which has many health benefits as well as many usage benefits where you can use the same product across multiple parts of the kitchen including reheating, serving, storing and from a health point of view it is all better.

The medium-term growth outlook for the consumer products division seems to be around 18% to 20% in my view. Of course demonetization did take a chunk of this in the last quarter, but I do expect like I said before the growth to return. As far as the growth of the scientific products division, we have done 16% in the first nine months, but I do expect again that 16% may not be the sustainable growth rate, it maybe somewhere in the 12% to 15% range in the short-term and in the medium-term maybe 10% to 12%. The board has proposed a scheme of amalgamation in the last quarter, which was already disclosed. That process is continuing and this will help reduce related party transactions, which is good for all. We are still awaiting regulatory approval; it takes six to nine months in the court to get it done. Coming to one of our subsidiaries Gujarat Borosil which will become a 58% subsidiary after the scheme of amalgamation is effective. Gujarat Borosil has also posted a very good result in the first nine months of the year with an EBITDA margin of 23% on revenue of Rs.135 Crores. We see big momentum for Solar in India and the Union Budget has reduced customs duty on Solar glass, but has increased CVD, which is countervailing duty, as a result of which Gujarat Borosil benefits because we can get input tax credits. Earlier we had an inverted tax structure we could not get credit of the input taxes. Now Gujarat Borosil is able to do that, so that will improve the profitability of the company by about Rs.3.5 Crores per year. In conclusion I want to say the company has entered a new growth phase over the last year or two. Organically, also the company has posted a strong growth, the two new acquired entities have also been integrated and of course the margins for both these entities should improve substantially as we are doing a lot of the work to upgrade the plant and also focusing our efforts on the production efficiencies as well as sales channel. Those will kick in and I expect that over the next 12 to 18 months both the acquired entities will also start contributing substantially to the bottom line of the company, So that was a brief overview of the performance for the Q3 as well as nine months so far and I would be happy to take questions that you may have.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin

the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir can you give some sense on the adjusted EBITDA number of Hopewell for nine months after whatever you think was one-off in the nine months.

Shreevar Kheruka: So in the presentation we have shared that the Hopewell EBITDA in nine months is about Rs.56 lakhs and I think if I look at real one off expenses, Rs.5 Crores pertains to one offs from prior to acquisition you can add that back. Rs.10 Crores is pertaining to advertisement and sales promotion, now advertisement and sales promotion will not be zero of course going forward, but I do not think it will be at this level going forward the advertising and sales promotion will be for the entire consumer division, right now, this year we did it mainly for the Larah brand, so if I look at just Larah probably 50% to 60% of that will be repeat advertising expenses. , The rest will be spent for growing Borosil, the storage range or the other ranges. So I think we can add about Rs.10 Crores or Rs.11 Crores to the EBITDA of Hopewell, which is add back of one-off expenses. Plus if I look at other operational efficiency gains, which are expected to come in with new machinery in the second half of FY18 that will further improve the EBITDA margins.

Pritesh Chheda: As of now for nine months you think that Rs.5 Crores from the write-off and Rs.5 Crores from advertisement if it could have got not spent or not done then that should be the adjusted EBITDA number for Hopewell?

Shreevar Kheruka: Yes, I think for these nine months, I think roughly that is what we can look at as EBITDA.

Pritesh Chheda: Second question is the 15% to 20% growth rate, which you said for consumer, does that statement or comment mean a similar growth for Larah range of consumer ware and Borosil range of consumer ware.

Shreevar Kheruka: Yes I was talking including both.

Pritesh Chheda: Third I just wanted to check on the margin expansion in lab ware, what has driven this margin expansion and are they sustainable?

Shreevar Kheruka: Yes, margin expansions across the range are sustainable. What has driven it is basically operating efficiencies as the turnover grows our cost below gross profit do not increase in the same ratio, so that has allowed us the benefit of margin expansion.

Pritesh Chheda: Lastly I just want to check on the capex side, did not understand the Rs.75 Crores capex achieved where it will be spent and what benefits it will accrue?

Shreevar Kheruka: So out of Rs.75, Rs.55 Crores would be spent in upgrading the plant and machinery at Hopewell for the Larah brand and this will help us improve or enhance the capacity by roughly 50% and also improve operating efficiencies of the plant. The other Rs.20 Crores is going to be spent to make a very modern warehouse, which will be catering to the entire consumer division and it would be a central warehouse in Jaipur from where we can ship our

products to the entire country and we can maybe look at releasing some of the other warehousing capacity that we have. This will help us for GST and will also help us to reduce our inventories going forward. We can ship full truck loads. Right now a lot of cargo goes in less than truck loads. Shipping in full truck loads will help us to reduce freight cost.

Pritesh Chheda: Thank you very much Sir.

Moderator: Thank you. Next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: Good afternoon. Wanted to know our ROCE is low and when can we expect to improve it and how much can it be in FY2018 and 2019 and any dividend increase payout we can expect from this land deal has been closed because of the sale of the Andheri plot?

Shreevar Kheruka: As far as for the ROCE is concerned, in order to calculate operating ROCE we have to remove the non-core asset that the company has, if I remove the non-core assets then the company has ROCE of about 18% at the moment. Of course once we look at the margin expansion, which is happening or which will happen in the acquired entities, this ROCE will increase and we are targeting of 20% as ROCE going forward. Coming to your question regarding cash and dividend the organization currently does not have a formal dividend policy. That is something we are informally discussing at the board level and we maybe able to give more clarity to our investors going down the line. We have done two buybacks in the past when we felt that the cash was in excess of what we needed and at the moment we will be scouting also for acquisition opportunities., so right now like I mentioned we have Rs.200 Crores of surplus cash, some Rs.75 odd Crores will be used for capex that leaves about Rs. 125 crores. We would be comfortable keeping that on the books for the present moment and scout for opportunities. If we are not able to find opportunities then at the appropriate time, we will return cash to shareholders as we have done a couple of times in the last five years.

G Vivek: How is the opportunity size in the kitchen and the consumer division, do we have too many offerings in the kitchen divisions and so that a lot of cluttering is there because the competition there is very severe and how were we doing it to tackle it and this acquisition generally not easy to do, have you been able to digest that Hopewell acquisition and other things really?

Shreevar Kheruka: The size of opportunity in the consumer market in the kitchen is very large, we have outlined it in slide number eight, which will give you the details of the different categories in the kitchen and where the opportunities lie. As far as what we are focusing on, we are focusing of course the microwavables as our core, we have the serving range of products, which is the acquired company Hopewell, under the brand Larah and we have storage, in which we are trying to replace plastic and steel and finally, we have the range of appliances that we have introduced. So of these four categories, appliances is definitely very competitive and that is the smallest revenue generator for us, but in the other three categories we feel we have a very strong market position

already and certainly we will be growing that position very aggressively going forward. We feel we should be able to generate substantial margins from these three categories. Competition of course will be there for everyone, we cannot avoid it, so that is the part of life.

G Vivek: How have been acquisition, has it been fully digested or still a lot of problem and other things we are facing?

Shreevar Kheruka: I would say, if you look at Hopewell, last year it did a turnover Rs.48 Crores for the whole year. In first nine months this year we have already done Rs.66 Crores. So I hope to think that it has been digested from a sales perspective. From a manufacturing efficiency perspective we can certainly improve ourselves further and that is the reason, we are spending the capex. As far as Klasspack is concerned I would say that, that has a much longer cycle with the customer, we need to spend many months before we get our product approved, a lot of regulatory approvals are required from the customer's perspective, so that process has started and I expect that we will be onboarding many new and top quality Pharma customers in the next few months and I hope that will also lead to revenue as well as margin growth there.

G Vivek: Last question is about the Gujarat Borosil since when we can expect the numbers to be included in our numbers and is Gujarat Borosil in a very sweet spot in terms of solar opportunity size and solar energy efficiency?

Shreevar Kheruka: The numbers are already included last year, if you look at our balance sheet for last year; Gujarat Borosil was already included in the balance sheet of Borosil. The company is in a very good spot I would say. It is the only solar glass manufacturer in India. The solar market is growing very rapidly, so we are running virtually at full capacity and we need to look at a capex over there for capacity addition. That is something that has been worked out separately and I think the company will do very well going forward.

G Vivek: No China competition over there?

Shreevar Kheruka: Over there, there is competition from China absolutely, but we have been able to beat them, meaning they of course have a share of the market, but I would say that we are still able to sell our entire capacity despite that competition.

Moderator: Thank you. Next question is from the line of Jayveer Parekh from Sunidhi Securities. Please go ahead.

Jayveer Parekh: Hi Shreevar, congratulation on a strong set of number despite demonetization. Just a couple of questions, going back to the EBITDA from operations for Hopewell and Klasspack can you explain the Rs 5 Crores towards the write-off will be reflected next year, so out of the Rs.10 Crores advertising expenses, Rs.5 Crores will be reflected next year, but the rest of the Rs.5 Crores will be deducted from Borosil Glass is that correct way of thinking about it?

Shreevar Kheruka: Yes that is right because I do not plan to reduce the ad

and sales promotion at a company level. The ad and sales promotion budget will be the same going forward, it is just that it will not all be for Lurah, it could be for other ranges of products that we have. So overall yes the ad spend will be the same, but from Hopewell's perspective it will be less. Obviously as revenues go up, the percentage of ad spend will be a smaller percentage of the overall revenues.

Jayveer Parekh: Right, so you expect the ad spend to be fixed, more like a fixed expenses at Borosil?

Shreevar Kheruka: That is right exactly.

Jayveer Parekh: Okay and can you explain the Rs.1.5 Crores one-time expenses at Klasspack?

Shreevar Kheruka: This is an acquisition-related expense at Klasspack, I cannot get into too much detail about it, but this is an acquisition-related expense, which is not a recurring one at all.

Jayveer Parekh: Okay, understood and can you give us an update on the divestment of a non-core real estate assets, the few flats you mentioned in your conference call last quarter?

Shreevar Kheruka: Yes, so we did one already this quarter, which was Rs.90 Crores odd which came in, the others are planned as soon as possible. Look the real estate market has been hit by demonetization, so the interest that we expected to be very frank has not been as strong. We have already given mandates out, so I do expect, I hope it would have been done in this quarter, but it will hopefully be done in the next three to six months, though movements in the real estate market is not in my control.

Jayveer Parekh: Understood and the last one was can you just explain the sharp decrease in other income is that related to your mutual fund investments and your investments in shares?

Shreevar Kheruka: You know last year we did the buyback somewhere in January or February of Rs.174 Crores and obviously because the treasury size has reduced as a result of that, other income has also reduced.

Jayveer Parekh: Okay. That explains. Thank you.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Is there any restatement in numbers done at the PBT level for the scientific ware and consumer ware versus last year, the way it was reported last year and the way it gets reported?

Shreevar Kheruka: Yes, what I am told is that the common expenses, which were large part, now we have started debiting it to the respective division and allocating it basically in a scientific manner as we can possibly do, so maybe that is what you are referring to.

Pritesh Chheda: Looks like yes, 39 minus 13, 26 yes.

Shreevar Kheruka: Yes, I think that is what it is.

Pritesh Chheda: So now basically then what is EBITDA reported for your Borosil Glass, two divisions in your PBT is...

Shreevar Kheruka: Rs. 26.55 Crores.

Pritesh Chheda: Is the EBITDA reference number, which you have taken it forward?

Shreevar Kheruka: Yes correct.

Pritesh Chheda: Can you just share the depreciation number and the interest number for Hopewell if you have it?

Shreevar Kheruka: Depreciation and interest for Hopewell just give me a moment, there are a lot of numbers here, and I need to go through. We will come back to it let me make a note of it, I will come back to that.

Pritesh Chheda: Last is I want to check what would be assessment for EBITDA margin for Hopewell two years from now since you are growing at a good pace, so what should be assessment since you have assessment on the top line growth at 20%, what should be your assessment on your EBITDA margin two years from now, I think you will reach Rs.420 Crores in size at that time.?

Shreevar Kheruka: You are talking about Hopewell specifically?

Pritesh Chheda: Specifically Hopewell.

Shreevar Kheruka: If you benchmark La Opala I think they do about 33% 34% EBITDA margins, they have some benefits that accrue to them as a result of the excise benefit that they get, which may go away I think once GST comes or maybe the 10 years benefit which is given by the Government will expire in any case. I see no reason why we cannot benchmark those margins as our target margins going forward. I am just caveating that by saying that there are other competitors also coming in to this space, so definitely the competitive intensity will increase, but 20% is something that we should look at targeting.

Pritesh Chheda: Margin?

Shreevar Kheruka: EBITDA margins.

Pritesh Chheda: At that size and scale of business about Rs.120 Crores?

Shreevar Kheruka: I cannot comment on, whether it will be Rs. 120, I am seeing one year or two years down the line, but certainly that is our target, say in 2018-19 we should look at that number.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. Next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir, just one clarification I had over here you said that, if you exclude the one-offs in Hopewell business is it Rs.5 Crores that and the Rs.5 Crores be ad spend numbers, the EBITDA should be Rs.10 Crores that is the number you are trying to looking at right?

Shreevar Kheruka: About 10.5 crores yes.

Prashant Kutty: Rs.10.5 Crores right, but just want to ask you where you also said that next year your ad spend might not be as aggressive as it were this year, is that the statement which you made?

Shreevar Kheruka: No, let me just clarify, what I said is on the company level, the ad spend will be the same as it was this year, in terms of absolute amount; however, this year most of our ad spend was for Larah meaning it was debited to Hopewell. Going forward our ad spend will be the same meaning the ad spend instead of being debited to Hopewell, maybe debited to Borosil Glass because it will be for one of Borosil's core ranges of products, so we are not reducing ad spend, we are keeping it exactly the same, that was my point.

Prashant Kutty: But I reckon you had also told that because of Hopewell is obviously going to be kind of expanding right now, you probably would need to spend a little more probably in the range of about Rs.10, Rs.15 Crores that is the number I guess which you probably were...?

Shreevar Kheruka: So we are still working that out, I cannot get into specifics on where, I think if you consider the consolidated consumer business our ad spend which is this year will be around Rs.25 Crores. We will be maintaining that same amount going forward but the mix may change. Whether it is Hopewell or whether it is core range or any other range that is something that we will decide depending on market situation at that point of time.

Prashant Kutty: Is it Rs.25 Crores for FY2017?

Shreevar Kheruka: That is right.

Prashant Kutty: And secondly Sir you just spoke about this warehousing part of it as well that also should be a little bit of kicker in terms of your cost savings. What is the kind of cost saving that you are expecting to come up from this particular warehousing facility been put up?

Shreevar Kheruka: Warehousing and freight together account for about 7% to 8% of sales. I think that we should be able to reduce it by at least 3% to 4% by going with this central warehousing structure. I just want to answer one question previously asked that depreciation for Hopewell is Rs.7.7 Crores and the interest is about Rs.4.6 Crores.

Prashant Kutty: Third point over here is that this is something which you are expecting in FY2019 right?

Shreevar Kheruka: That is right.

Prashant Kutty: In terms of distribution side, could you tell us as to where are we exactly as far as Hopewell is concerned and what is the target that we are having incrementally over the next couple of years?

Shreevar Kheruka: In terms growth I think 15% to 20% is what I have shared in terms of the growth so that we expect in terms of revenue growth. As far as distribution is concerned, we have been so far selling most of our products or lot of products in north of the country, we are very strong in south. I think we are weaker in the western region of India which is something that we need to probably supplement and some pockets of the south also we are not very

strong. So I think these are areas where we can look at improving our distribution presence. We have been quite strong in modern trade and that should continue going forward, but surely the number of stores that we have or the number of outlets that we will be selling our products should increase by at least 5% to 10% a year going forward.

Prashant Kutty: 5% to 10% a year of the distribution expansion you are looking at?

Shreevar Kheruka: Yes.

Prashant Kutty: What is the number currently?

Shreevar Kheruka: I think we are altogether present in anywhere between 8,000 and 10,000 outlets.

Prashant Kutty: Lastly Sir, anything sizably looking for the consumer appliances business or...?

Shreevar Kheruka: As I mentioned I think in the last conference call or may be before was that our consumer appliances business is something that we are working on in terms of understanding various needs of our customers. We have been positioning ourselves as a high-end appliance say competing with Murphy Richards or Philips and our idea is to really understand the business better and may be in the future we will come up with something which is different from what the market has. So this is I would say work in progress is a medium-term project, it is not a short-term project. We are not investing anything in terms of capital for any equipment or machinery or significant working capital investment at the moment. But we are also looking at doing some research and development on this particular segment and see if we can come up with something which is different from what the market has, which will help us to grow the market as well as expand our margins here.

Prashant Kutty: So no specific huge amount of allocation being going towards that for the next couple of years?

Shreevar Kheruka: At the moment not. There are somethings, which are work in progress, but I cannot talk about that.

Prashant Kutty: Not a problem. Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Yashesh Bhatt from LKP Securities. Please go ahead.

Yashesh Bhatt: With regard to your Hopewell business, you said in your earnings presentation that Opal ware constitutes around Rs.300 Crores of market size in terms of estimates, so if I look at La Opala's sales in FY2016 the number is somewhere around the ballpark of Rs.200 Crores if I am not mistaken, does that mean that La Opala is that big a competitor in Opal ware?

Shreevar Kheruka: La Opala is certainly the number one player in India in that space and they have been the market leaders for a while and they are larger than us because I think in the first nine months I am not sure exactly what the numbers are but I think somewhere Rs.180 Crores, Rs.190 Crores they have

done altogether out of which probably Opal would be 150, 160 and we have done 66, so they are more than twice our size.

Yashesh Bhatt: Alright and who are the other main competitors in Opal ware?

Shreevar Kheruka: Right now in India, there are only two Indian companies who are there. There is a third company called Cello which will be entering which I have been told for a while now but I have not seen them yet. Most other competitors basically imports from Middle East, there are some imports from Iran, some from China. Those are imported products that come in.

Yashesh Bhatt: Which are the major segments of consumer ware that would be focused on? Would it be Opal ware tumblers and melamine where do you kind of have reasonable opportunity to capture market share quickly?

Shreevar Kheruka: We have been a microwavables company; obviously we are strong there so that is one area. Second area is Opal ware, third area is storage, because we have introduced many new storage options in glass, now typically storage is plastic or steel, but we are trying to see how glass can play a larger role in storage and I think that is a very exciting opportunity for us going forward and tumblers of course we are present and we have been growing the market as well. So these are the four main areas. Appliances is a very large market but very fragmented and also extremely competitive like I said that is a separate part of the strategy which I would not like to discuss too much about at this stage, suffice to say that we are trying to do something different over there and as and when that happens we will talk more about it, but right now I would say in the next year or two I would focus on the microwavable, Opal, storage and tumblers.

Yashesh Bhatt: Alright. That is it from my side. Thank you.

Moderator: Thank you. Next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia: Thank you for the opportunity. The first question was on the write-off that you have taken at Hopewell of Rs.5 Crores, could you help us what is at pertaining to...I mean you have mentioned prior to the acquisition, but what is it relating to, is it inventory or what is it relating to?

Shreevar Kheruka: Inventory as well as claims of trade customers both would be part of that. So the distributors claims – and inventory write-offs, which we had to do, we wanted to clean up the balance sheet.

Dhruv Bhatia: Second thing on Rs.10 Crores spent on advertisement and promotion, could you break it up between advertisements and promotions?

Shreevar Kheruka: It is almost entirely advertisement.

Dhruv Bhatia: Last one, if you could just help us with the number of shares, which is there in Vylene and Fennel just to get the sense of the type of value at current levels, say the swap ratio is already mentioned.

Shreevar Kheruka: After the merger there will be 8% to 9% dilution altogether.

Dhruv Bhatia: But could you break it down into number of shares that Vylene has and Fennel has the total...?

Shreevar Kheruka: I can come back to you. I do not have the information on the top of my head here. One way is if you look at it Borosil has currently roughly 23.10 lacs shares and that goes to 25.23 lacs shares, so Rs.2.13 lacs will be issued to the shareholders of Vylene as well as Fennel and with this swap ratio you can probably figure it out.

Dhruv Bhatia: Thank you.

Moderator: Thank you. Next question is from the line of Manish Jain from SageOne Investment. Please go ahead.

Manish Jain: Hi. I just wanted to know what is really the breakup between in the SIP business between educational and non-educational.

Shreevar Kheruka: Educational is a very small percentage, only 5%, 7%.

Manish Jain: And second is when I look at our Klasspack vis-à-vis our competition like Schott Kaisha, what really would be Klasspack strength vis-à-vis Schott?

Shreevar Kheruka: Klasspack has been in the business for a while if I look at Schott Kaisha it's 10 times the Klasspack size roughly, so I think the question was what can be Borosil's strength versus Schott Kaisha. All Pharma companies would like to have two suppliers for their raw material and that is where Borosil - Klasspack come into the game, because everybody wants to at least hedge risk on the raw material purchases., So Schott has been the only game in town, not the only but basically only large game in town. Borosil has a lot of credibility as far as glassware is concerned and especially with the Pharma customers with the quality and service that we offer. We have a lot of credibility, so the idea is that we would like to be a second supplier to Pharma. We will be a new entrant into the area and most companies have told us that they are happy to give us some percentage of the volume that they buy.

Manish Jain: My second question was primarily from export perspective for SIP business. What really which segments and which customers in terms of geographies would you are targeting in the initial phase and we are competitors there?

Management: We are looking at Middle East, Africa and South East Asia. These three geographies are the core target areas. Why we are looking in these geography that because these geographies have no domestic or local players who make laboratory glassware. All their products are imported from the US or Europe. So from a price perspective we straightway have a benefit to them. Second is there are many Indian companies, which have ventured into these geographies and most of the time they send their scientists or lab technicians from India to these geographies, so it is a very easy or it is easier let us say to sell for us because they already know the brand, so that is the reason we are focusing on these geographies. These geographies tend to be underserved and that is where we come in as we have setup strong distributors here and we keep

stock with them, so that they can deliver products quickly to their customers. It is still a nascent business, it is still small compared to the overall business, but it is growing rapidly and we are getting lots and lots of positive feedback from these areas, so I do expect that this business will continue growing and the margin is also quite healthy. We are not selling at discounts, it is more or less similar margins to our domestic market.

Manish Jain: Thanks. I will join back the queue.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: I wanted to know about the threat from China for Opal ware in terms of anti-dumping is it being extended every year and what are the opportunity size on that Rs.300 Crores is very limited and any chance of it being increased by Opal ware as well as for other segment and any plans of listing on NSE?

Shreevar Kheruka: As far as the first question you asked about the China threat and anti-dumping. Anti-dumping does not get extended every year. The way it works is that after they have five-year period, normally what they do is they extended for one year initially which they have done now and pending investigations, so the investigation should be through. Once if and when they find, and yes there is still a case to be made; they will be extended for another four more years, because the one year out of five would have already elapsed. So I expect them to take a decision, the authority should take a decision sometime in the second half of this year and if they agree to our plea that there is dumping happening from China and other countries then it will now straightaway be extended till 2021. Coming to your other question on the size of opportunity, absolutely, the opportunity size is much larger in Rs.300 Crores, because what we mentioned here Opal ware, now you see as a end customer when you go to the market, you are not thinking you want to buy opal or melamine or steel, you are thinking you need to buy a dinner set, so the real opportunity is the dinner set market opportunity or the tea and coffee service market opportunity which is in thousands of Crores. So the key point is to convince the customer and that is the job of the industry meaning La Opala and us at this moment and any other competitors that might come in to say that opal is the right choice for your dining needs and automatically we are competing with other segments like melamine or steel or any other bone china. I do think that because of inherent strengths of opal that it is light, that it is tough, it is beautiful, because you can put designs on it, it is chip resistant, it is vegetarian, these are all very strong features of opal which the competitive categories of bone china or melamine or steel do not have. So, therefore the market of opal will grow quite rapidly and it will take away share in my view from the other market that I have just mentioned.

G Vivek: That puja diya and the lunch boxes because oncologists are saying that if you use microwave with plastic so much, it is very, very big risk for health in terms of cancer and other things and last was about the NSE listing plan if any?

Shreevar Kheruka: NSE listing look at the moment we have been discussing this, I do not have any answer for you right now, but that is under discussion of what is the right way to do it. I will come back to you; we will share it with everybody at the right time. As far as the cancer issue is concerned that is why I have been mentioning the storage is the big opportunity. The lunch box like you rightly mentioned heating in a microwave with most plastics is quite carcinogenic not all but most plastic, so therefore glass we feel is a right medium to heat in a microwave and glass with the type of new products we have which you can have airtight storage, so the lid can be plastic, because the lid does not come in contact with the food and the base is glass. You have very, very solid product, which can be, stacked which can be used for storage as well. You can use it serving and you can then eat out of it as well, with heating by putting it in the microwave. So these are all big benefits the glass provides which other categories do not and that is a area of focus and like I mentioned earlier that the ad money that we are spending which we may be reducing the ad spend from opal that maybe spent in this category going forward.

G Vivek: Akhand Diya's response and any other innovation being planned?

Shreevar Kheruka: Akhand Diya has done well. It is now an old -product. It has been there for the last three, four years it continues to do well. I thought we have a lot on our plates. We need to increase sales of our current range, so at the moment there is no new category, but for the products within categories, we keep adding and subtracting to the portfolio. That will continue happening.

G Vivek: Thank you.

Moderator: Thank you. The next question is from the line of T P Srikant from Spark Capital. Please go ahead.

T P Srikant: Hello Sir. I just wanted to know that you had mentioned that you are in the process of divesting non-core assets. So how far you are in that process and what are the other non-core assets that you have identified?

Shreevar Kheruka: There is some real estate in the company which is another say Rs.75 Crores to Rs.80 Crores which is non-core which is something that we have identified and we hope to sell it at the right time. These are the main non-core assets in the books and let us hope we can liquidate them as soon as possible.

T P Srikant: Thank you very much.

Moderator: Thank you. The next question is from the line of Jasbir Singh from Trade Capital. Please go ahead.

Jasbir Singh: Thanks for the opportunity. You are mentioning in the last quarter, there was Rs.75 Crores of the real estates it includes two or three flats in the Mumbai?

Shreevar Kheruka: Yes.

Jasbir Singh: Company bought sometime back.

Shreevar Kheruka: Yes.

Jasbir Singh: And second question is regarding the operating margins, so when we expect to achieve the margins of near to the La Opala in the future, because now if you talk about the revenues we are close to the La Opala including in the consumer wares. So now I think we should have our focus on the EBITDA margin, when we think we will improve our EBITDA margins in the next one-year or two year or three year?

Shreevar Kheruka: Already this year our absolute EBITDA is up by 60% compared to the same period last year as I mentioned as a company but definitely there is room for growth and the two new projects which we have which is the capex of Hopewell as well as the new warehouse. I expect that these projects will start delivering improved margins in the year 2018-2019. So 12 months from now I think margin should substantially get better.

Jasbir Singh: Thank you. This is it from my side.

Moderator: Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Rohan Gupta for his closing comments.

Rohan Gupta: Hi Shreevar Sir just before we close the call, a couple of questions- from my side, can you please highlight the GST implication in our business?

Shreevar Kheruka: GST is actually going to be also one of the reasons our margins are going to expand because a large percentage of input for our consumer business comes from imports and at the moment, there is countervailing duty which we pay but do not get Cenvat credit for. Going forward under GST regime, we will get a Cenvat credit for that, so that should improve our margin somewhat. Also we have lots of competition, which is not always tax compliant. So being a fully tax-compliant company we have to pay all the taxes whereas many of our competitors especially the smaller scale competitors do not and therefore pricing power is impacted. Once GST comes and of course even with demonetization, we have seen that people are moving more towards brands and less towards unorganized competition, so that will give us some amount of pricing power we hope. So both these are going to have tremendous positive impacts on the business and even though warehousing and freight, the GST is forcing us to take decisions to consolidate our warehousing operations across India. That will improve our operating efficiency too. I think it will be a very, very substantial positive for the company.

Rohan Gupta: What is the CVD you mentioned, what is amount?

Shreevar Kheruka: It is 12.5% of the imports.

Rohan Gupta: Right now, you are not able to take any Cenvat credit on that.

Shreevar Kheruka: For the consumer division that is right.

Rohan Gupta: It is only on imports, how much of our total raw material is imported Sir?

Shreevar Kheruka: Of the consumer division about a third.

Rohan Gupta: One-third of consumer division is imported.

Shreevar Kheruka: One-third of the total consumer division which this year is about Rs.215 Crores.

Rohan Gupta: So roughly almost Rs.70 Crores, Rs.80 Crores on that we can claim the benefit of 12.5%.

Shreevar Kheruka: Rs.70 Crores is the revenue, so the cost price is obviously lower.

Rohan Gupta: Okay and second is despite the demonetization impact in the current quarter, we have been able to grow in a Hopewell business, so it is only because of that distribution strength or which you say that increase the revenues or how we have been able to grow in Hopewell?

Shreevar Kheruka: As far as Hopewell is concerned, we spent a lot of money on advertising and sales promotion and I think that has caused many customers to come and ask for a product, so that has been one of the main contributors or major contributors let us say and the second is the distribution has really supported us. Our trade and this was the thesis, why we did the investment is because we were quite confident that our trade has very good relationships with Borosil and that is because of the policies we follow and the relationships we have. So I think they really supported us through this whole exercise and I think these two are the main reasons why we have been able to grow our consumer division this year in nine months if you look at 26% roughly growth of just the core and of course Hopewell growing much, much higher. By end of year we will virtually double last year's turnover. So this is because of these two things the trade supporting us and the advertising and sales promotion that we have done.

Rohan Gupta: In a like-to-like product comparison what will premium La Opala are selling to the customer?

Shreevar Kheruka: Of course it is different for product-to-product, but I think La Opala sells at a price of about 10% to 15% higher than us.

Rohan Gupta: 10% to 15% and what kind of dealer margin we are giving in this category?

Shreevar Kheruka: Dealer margins, I would not like to discuss because they vary also and again something that is confidential.

Rohan Gupta: Are we compensating for higher margins versus La Opala to the dealer?

Shreevar Kheruka: We keep running schemes, so again hard to answer that question directly

Rohan Gupta: At the end of the day dealer is making more money by selling your product or it is similar?

Shreevar Kheruka: When we started off yes, but now less so, when we started we had to do all that.

Rohan Gupta: Now it is almost similar.

Shreevar Kheruka: Now it is very similar that is right.

Rohan Gupta: Apart from La Opala, it is an established brand, so what is the driving factor in case of dealer now that why they should be pushing your product?

Shreevar Kheruka: Because we are trying to pull customers to them with an ad campaign.

Rohan Gupta: Now it is a pull factor rather than push factor?

Shreevar Kheruka: I would not say 100% pull, but certainly we are going towards the pull factor and dealers also just like I mentioned Pharma company wants to have two suppliers, dealer also wants to have two suppliers, in case something goes wrong with one of them.

Rohan Gupta: In that case there is many not only that only La Opala, but there are many other products also present.

Shreevar Kheruka: That is true, but we are focusing more on the pull factor.

Rohan Gupta: So this year you have spent almost Rs.10 Crores and that was primarily leading to promoting Larah as a brand?

Shreevar Kheruka: Rs.10 Crores has been spent in Hopewell mind you; we spend another Rs.10 odd Crores so far in Borosil.

Rohan Gupta: When I say that Rs 10 Crores in Hopewell is only about single brand Larah right?

Shreevar Kheruka: Yes that is only Larah.

Rohan Gupta: Out of this Larah, how much revenue is coming from modern trade and how much from mom-and-pop store?

Shreevar Kheruka: Modern trade contributes about 30% of revenues.

Rohan Gupta: And balance is this entire mom-and-pop model

Shreevar Kheruka: Balance roughly would be mom-and-pop model

Rohan Gupta: Is there margin difference between modern trade and mom-and-pop stores?

Shreevar Kheruka: It is similar, modern trade tends to be slightly higher, because they have worse payment terms.

Rohan Gupta: Adjusting for interest then...

Shreevar Kheruka: More or less similar.

Rohan Gupta: Great Sir. Interesting conversation with all the clients and everybody who participated and I also want to thank you for giving us opportunity for hosting this conference call. This will contribute to do well going forward also. Thank you very much and I also thank all the participants logged in for the conference call. Thanks.

Shreevar Kheruka: Thanks all. Bye, bye.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect the lines.

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