Fund Manager:
Just in terms of the origin story of this business — from what I've understood, this business has been in operation for the last 20 years. For the first 15 to 18 years, it was a sub-100 crore business operating in a very small market, right?

Suddenly, in the last two to three years, there's been a sharp pickup in activity. What explains this sudden spurt of growth, and what are the new areas of growth that these guys are getting into? Do you have any thoughts around it?

Manhar Yadav:
Yeah, so I have an intuitive answer to this — not backed by data because, of course, I haven't had access to their financials for the last 20 years.

From what I understand, they were formally incorporated in 2014 — that's when they became a private limited company. So, for the first 14 or so years of operations, it was a proprietorship.

Now, my understanding here is that being in manufacturing and in the flexographic industry, the initial years were mostly about building with their own capital and trying to scale in a competitive space. So, it took them time to reach a place where they could have a strong enough balance sheet.

If you see, post-2014 is where growth actually started.

Fund Manager:
Alright.

Manhar Yadav:
They started doing these M&A transactions in 2017 and 2018.

My intuitive understanding is that it was a proprietary setup initially — he started with ₹30,000 as his capital back in 2000 and kept reinvesting profits. Typically, the flexographic business generates around a 20–25% ROE, which limits growth organically. Considering all external variables like competition and fragmentation in a small industry, it naturally took time to reach 2014 at a decent scale.

Once they achieved that balance sheet strength, they began M&A activities in 2017–18. By 2020–22, they reached a stage where they thought — "Let's raise external capital and enter a new industry."

That's essentially the journey as I understand it. It's been a slow-moving, self-funded growth path — very family-run, like a proprietorship until 2014. I know how proprietorships function, so that's the mindset I relate it with.

Fund Manager:
So…

Manhar Yadav:
A lot changed once they became a private limited company post-2014. Operations, structure, everything evolved. I'd say the real transformation began after 2014–15, if I had to summarize it that way.

Fund Manager:
And what's the promoter's background like?

Manhar Yadav:
The promoter is an IIM alumnus with a management background — that's his formal qualification. Apart from that, he's been in this business since 2000, so it's been almost 25 years now.

He's around 45 years old, meaning he started this at the age of roughly 20–25. So it's been an entrepreneurial journey since then — from a very young age.

His educational qualification is in management — he completed an IIM-level management course, and that's his formal background.

Fund Manager:
Okay. And is he the only promoter? Did the other members like Pulkit and Sanjay Devi come on board recently, or have they been associated with the business earlier?

Manhar Yadav:
Yeah, recently — I think Pulkit got associated with them about three and a half years ago, and Sanjay, I'm not entirely sure, but most likely he also joined around the same period.

From what I understand, this whole action of building a team and bringing in more people to increase bandwidth has just started recently. I'd say this organizational building effort began around 2020–2021. So, that's when the management team was really formed — that's what I meant.

Fund Manager:
I see, understood.

Okay, I'll come to the business — let's go around the different business segments. I'll get to the flexographic segment in some time, but first, let's talk about the aluminium (alu) segment.

In terms of understanding the market size and how they've taken market share within this business — could you just talk through that?

Manhar Yadav:
Yeah.

Fund Manager:
So, what I understand is that this is about a ₹2,500–3,000 crore market.

Manhar Yadav:
Correct.

Fund Manager:
And a large percentage of the market is owned by an Svam, right?

Manhar Yadav:
Alright.

Fund Manager:
And as a strategy, what they tried to do when they entered this market — two to three years back — was to start undercutting pricing from competitors in order to gain market share. Right?

Manhar Yadav:
So, I'll just mention one qualitative aspect of the business because I've analyzed both of their business segments.

I met another flexographic competitor in Bombay — a very small-scale player with a ₹10–15 crore topline — who has been in this business since 2000. What he said is that this company has been gaining market share in flexography because of undercutting.

Fund Manager:
Okay.

Manhar Yadav:
That's their strategy in any market they enter — and you can clearly see the same pattern in both aluminium and PVDC segments.

So, this is one qualitative aspect that reflects how the entrepreneur thinks — his strategy to enter new markets is largely price-led and aggressive.

Now, coming to the aluminium market — the dynamics here are such that it's a **low entry barrier** business, which means many players try to enter, but it's also a **high mortality** industry.

I have data to back that. The reason is — it's a lucrative space because of its high ROE profile. The current Svam, who holds roughly a quarter of the market share, has been doing about 32–50% ROE since 2020. That's quite impressive.

So, instead of deploying capital elsewhere, even good investors see this as a highly valuable business.

Fund Manager:
Good.

Manhar Yadav:
What makes this market attractive — and why the mortality is high — is that businesses here fight what I call a *forefront war*.

One of the toughest challenges is managing your **rejection rate** — the number of products that go to waste during manufacturing.

If a company can't control rejection effectively, margins collapse quickly. When you're a new entrant, you also have to offer lower prices because existing suppliers don't switch easily.

And in the initial stages, when entering this market, you typically start by serving **localized, small CDMO-type pharma players**, because companies like **Aurobindo** or **Sun Pharma** take at least 12–18 months to audit your plant before they start placing decent volume orders.

They only come on board after thorough due diligence.

Manhar Yadav:
Trials will take smaller volumes. So initially, I have to go with very price-sensitive pharma companies — and even with those price-sensitive clients, I still have to **undercut** them because I need to win business from them.

In the beginning, my **working capital** position is going to be quite bad since these companies are not great paymasters. Then, I have a major problem with **rejection** — the waste generated during production.

So, these three things together — **low prices, weak working capital, and high rejection,** — make it very difficult to survive for the first two to three years. Scaling in this market is tough, and most players end up shutting shop.

That’s essentially how the dynamics of this aluminium (alu) market work.

Now, in terms of the business’s strategy — my intuitive understanding (again, not backed by hard data) is that he has taken some market share from organized players and some from the unorganized segment, reaching around **6% market share**.

So, yeah — that’s the answer to part one.

Fund Manager:
Okay, so you mentioned three pillars, right? What are they — rejection, price cutting, and the third one is WC?

Fund Manager:
WC, yeah. Okay, let’s go through this.

So, if I talk about price reductions — I’m assuming since this is a high-ROCE business, everyone would be operating more or less at similar price points, right? Because what’s the main cost component here?

Manhar Yadav:
So, I’ll tell you one thing — **ROCE is a function of utilization** in this industry.

Fund Manager:
Okay.

Manhar Yadav:
From what I’ve understood, the Svam has been able to maintain around **70–80% capacity utilization**. Not many players have been able to achieve this.

Even if you look at the business right now, they’re operating at a **net profit margin of around 6%**, while another company is at about **9%**.

So, this kind of ROCE and ROE is not something that everyone in the industry enjoys currently.

I think there are one or two exceptions, but I don’t have any concrete data to back that — it’s more of an intuitive understanding. I believe not many players are able to deliver such high ROEs.

Fund Manager:
Right — so ROEs are a function of capacity utilization. The higher the capacity utilization, the higher the ROE.

Okay, and what would be the major cost component for producing these foils?

Manhar Yadav:
Basically, I would think of this as a **semi-commodity** business because the gross margins are just around **20%** — meaning the value addition is quite limited.

So, if I make ₹100 crore in sales, my base cost is very high.

The biggest cost component is the **composition of aluminium foil**, which includes **three materials** — the largest being **aluminium** itself. Then there's **OPA** and **PVC**.

PVC is manufactured only by **Reliance** in India, while **OPA** is imported. Aluminium was earlier imported, but now **Hindalco** is the sole domestic manufacturer for their specific thickness category.

So yes, aluminium is the biggest cost — and overall, this is a **20% gross margin** business.

Fund Manager:
So, with 20% gross margin — how much does he make at the EBITDA level?

And secondly, I remember aluminium prices have been increasing in the recent past. So, does he have a **pass-through** contract with his customers?

Manhar Yadav:
Yes, yes — generally, pricing in this industry is revised on a **monthly basis**. So every month, prices are adjusted according to aluminium price movements.

Fund Manager:
Okay.

Manhar Yadav:
And it's very difficult for me to judge this as well.

In the **H2 of FY25**, the business has reported a **net profit margin of about 6–6.5%**. I've always been in a bit of a dilemma about whether they've had **inventory gains** or not because around **October and January**, they've had a huge amount of inventory on their books.

So, whether those inventories have led to gains or whether they'll realize them in **H1** is a big question.

What's clear is that they do have a **pass-through mechanism**, and they also maintain **high inventory levels** — so both these factors need to be watched closely.

Fund Manager:
Okay.

So, the first question — if they have a **20% gross margin**, what kind of **EBITDA margins** are they making?

Because on an unadjusted basis, I think you were also looking at something similar, right? You could address this going forward.

Manhar Yadav:
No, so if you see, one of the player making **20% gross margin** and **9% net margin** —

Fund Manager:
Okay.

Manhar Yadav:
Right? Which is actually quite high conversion. The reason the **net margin** can be as high as 9% is because of the **high asset turnover** in this business.

Svam is operating with an **asset turnover of almost 15x**, which means the depreciation component isn't very large. And if you're **debt-free** on top of that, there's not much interest expense either — so the difference between EBITDA and PBT is quite small.

Fund Manager:
That's—

Manhar Yadav:
Oh, sorry — that's just **PBT**.

To be exact, I'd say **13–14% EBITDA margin** is the maximum you can do in this industry.

Fund Manager:
13 to 14 percent maximum — okay.

Manhar Yadav:
Yeah, not more than that. That's how the structure typically flows —

- **Gross Margin:** ~20%
- Less: Employee cost, overheads, manufacturing expenses
- **EBITDA:** ~13–14%
- Less: Depreciation (small) and interest (minimal, if debt-free)
- **PBT → PAT**

So that's essentially how the margin profile flows through the P&L.

Fund Manager:
Understood. That makes sense.

And you said they have a **monthly pass-through** arrangement with their customers — but what percentage of their product cost constitutes the final pricing for the customers?

For example, in aluminium foil, when a **CDMO** business sources from them, what percentage of the CDMO's **total raw material cost** would this packaging form?

Manhar Yadav:
So you're asking from the **pharma company's** point of view — since **aluminium packaging** is just one component of their total cost, right?

Fund Manager:
Yes, exactly.

So, if their sales value is ₹10, would the aluminium packaging component be ₹1? Or 50 paise?

Manhar Yadav:
It's difficult for me to answer precisely, but I'll share one data point.

I actually spoke to someone at **Akums**, which is one of the CDMO players. I spoke to their **procurement manager**, and Akums, in total, procures around **₹30 crore** worth of alu alu packaging.

Manhar Yadav:
He was the **North Side Manager** at Akums — I'll exactly check his profile.

So, overall, the entire procurement he was handling was worth around **₹500 crore**, out of which the **aluminium (alu)** packaging component was quite small.

From what I understood, alu is a **very minor constituent** of their total production cost. I don't have an exact number right now, but this gives a basic idea of what you're asking — and my understanding is that it's **not a large cost component**.

Fund Manager:
Understood. Okay, so it's not a large component — a smaller part of the final product cost.

Manhar Yadav:
Maybe we can take **5%**, but I don't think it should be more than that.

Fund Manager:
Makes sense, okay.

In your view, this industry grows at what — **7–8% every year**, given the volume growth in the pharma industry?

Analyst:
Yeah, **Manhar**, on the previous point — sorry, you were saying something?

Manhar Yadav:
Yeah, and you know, there aren't a lot of reports available on this. It's a very difficult and tricky question, even for me.

The reason being — the **Svam**, which is the largest player, had sales of about **₹200 crore in 2020**, and by **2024**, their sales increased to **₹600 crore**.

So, from **FY20 to FY24**, they've grown at a **CAGR of 30–35%**, in what is supposed to be a relatively mature market.

Now, there are people who say the **overall market** is growing at **10–12%**, but this company has grown at 30% despite another player, **Wahren**, coming in and taking an additional **5% market share**.

So this makes it quite tricky to assess. I haven't been able to find an exact answer.

To summarize, while most people say the market grows around **10–12%**, the data points I'm seeing make it difficult to pinpoint the actual figure.

Fund Manager:
Okay.

Analyst:
On the previous point where you mentioned we're not very sure how much of the aluminium and film content goes into one strip — but if it's not a very meaningful contribution to the overall cost, right, then undercutting the competitors shouldn't matter much.

So if it's not meaningful, why are **pharma companies** even switching suppliers?

And by how much have we undercut the competitors to gain this market share?

Analyst:
Sales.

Manhar Yadav:
What I understood — to analyze this, I had to think from the **procurement manager's perspective** inside a pharma company.

If you're handling **₹500 crore** of procurement and only **₹30 crore** of that is aluminium packaging (which is less than **5%**), then why even care about that cost?

What I learned is that **CDMO players** are **extremely cost-conscious** because their margins are already thin — they don't have strong R&D; they're primarily doing contract manufacturing.

So even if the alu packaging cost is small, they're focused on squeezing costs everywhere.

For example, if you're saving **5% on that 5% component**, that still adds up to around **0.25%** on the overall cost — which matters when your margins are tight.

Their mentality is basically: *"If I can save something, even marginally, I will."*

Analyst:
Oh—

Manhar Yadav:
Yeah — and if they're getting the **same quality** from another supplier at a lower price, and that supplier is **qualified and approved**, then they'll switch.

— these CDMOs are under **huge cost and margin pressures**, so any savings, however small, become meaningful.
Say, like in **QSRs**, they try to save every penny — it's mostly **open-book costing**.

So, that's the mentality they have — very similar to how QSRs think. That's the mindset.

Analyst:
I get that — so the packaging capacity will also try to save costs in the same way.

Manhar Yadav:
Yeah, exactly. That's more of a **qualitative point**, but that's how I feel about it.

Analyst:
I don't know which big pharma company would want to risk an expensive medicine just to save a little on packaging, right?

The reason they need specialized packaging is because if the medicine goes bad — due to sensitivity to moisture or other factors — the consequences can be serious. That's why packaging is extremely important.

Manhar Yadav:
See, the other big angle here is that their product has a **more export-oriented appeal**. Their pharma packaging is going out to, I would say, **some first-world countries** as well.

Now, for a company like **Aurobindo Pharma**, they won't really care about price — they won't go for 2%, 3%, or 5% savings because for them, the **technical quality** of the product is far more important.

If you check their IPO videos or read about their **first 10 clients** mentioned in the IPO documents, you'll notice that most of those pharma companies are **very small, local, or unbranded** — almost like *mom-and-pop* type drug manufacturers.

Analyst:
Yeah.

Manhar Yadav:
Exactly. These are **regionalized contract drug manufacturers**, mostly small-scale, and they tend to be extremely cost-sensitive.

That's why their **working capital cycles** are terrible initially — for example, they had **150 days of receivables**, etc.

So, this explains the nature of their early market — these smaller companies don't care too much about technical quality; they care more about cost.

It takes **a long time** to onboard **blue-chip pharma companies**.

Your point is completely valid — but in India, the pharma industry is so large and fragmented, with way too many players, that for the **smaller unbranded ones**, saving costs still makes sense.

Analyst:
Right — it makes sense for the smaller ones.

Manhar Yadav:
Yeah, exactly.

Analyst:
But in the latest presentation, **Manhar**, they've mentioned they're *very close to getting Sun Pharma* onboard.

Do you know how long it took these guys to get them, and what their order timelines look like?

Manhar Yadav:

Analyst:
Oh—

Manhar Yadav:
But they do have some other good names — like **Cadila**, and a few others.

What they **don't have**, though, is **Dr. Reddy's**.

So, my basic understanding is that even though they have a few **strong clients** already (as shown in their presentation), gaining wallet share form **large-scale pharma majors** still takes a significant amount of time and effort.

Analyst:
Mmm.

Manhar Yadav:
In a **domestic context**, it's going to take time.

See, there are two parts to this:

1. **Getting a good pharma company onboard** — that itself takes around **8 months**.

2. **Getting meaningful volumes** from them — that's an entirely different challenge.

For the first one year, they usually don't give large volumes. For example, they have **Aristo** as a customer, but they do very little business with them.

So, what we call "**wallet share**" — the share of business you get from a client — is a very important metric here.

In my view, it takes about **two years** for a client to get fully comfortable and start giving you steady, meaningful business.

That's the entire **gestation period**, as I would frame it.

Fund Manager:
Got it. But tell me something — who are the other players serving this market?

The Indian pharma market is quite large, right?

It's hard to understand how such a small portion — this specific aluminium packaging space — can be a **₹3,000 crore** market where only two players occupy 50–60% of the share.

Doesn't **quality control** come into play here?

Are these pharma companies doing their **own foil packaging**? And aren't there **bigger players** like Paper Products or others looking to enter this space?

Manhar Yadav:
Pharma packaging is a different ball game altogether.

Fund Manager:
Wasn't there also a company called **Bilcare** that used to be big in this segment in its heydays?

Manhar Yadav:
Yes, they still operate. **Bilcare** and **ACG** are both **big players**.

After them, I think this company would probably come next.

Fund Manager:
Correct.

Manhar Yadav:
Yes, but here's what we have to understand — **ACG** is indeed a large player, but **aluminium foil packaging** is **not a major focus area** for them.

They're heavily into **capsules** and other packaging solutions — that's a much bigger market, especially in the U.S.

So their focus and product line are quite different.

I spoke to several people, and what I learned is that they sell their products at a **10–15% premium** compared to the rest of the market.

They basically target the **creamy layer** of the industry — the large, export-oriented pharma companies like **Aurobindo**, for whom the **technical precision** and **product quality** are extremely important.

So, **ACG** and **Bilcare** are big, but their DNA and business models are built around serving **premium clients** at **higher price points**.

Manhar Yadav:
Now, to answer **Analyst's** earlier point — quality rankings don't matter much in this segment because there are **too many smaller players**.

For instance, in **Hyderabad** alone, I know at least **three aluminium packaging companies** — each with a capacity of **1,000 metric tons per year**.

Analyst:
Which means?

Manhar Yadav:
It means that while there are several organized players, the industry is still **fragmented**.

There are **many smaller companies** supplying regionally, each doing their own bit of business.

The **Svams**, like ACG or Bilcare, don't want to **stoop too low** on pricing or handle **smaller-volume clients**, because their model is focused on high-value, premium business.

That's where the **newer entrants** are finding an opportunity — by organizing the **lower end of the market**, serving **smaller pharma companies** that need reliable suppliers at lower prices.

That's essentially how I think about the **market dynamics** — the big players are staying premium, and the newer ones are **capturing fragmented demand** at the bottom.

Manhar Yadav:

Yes — smaller, low-volume players exist with limited capacity, and they're the ones filling in the gaps.

So, the **smaller pharma companies** continue sourcing from these players, while the **larger ones don't want to operate at that level** because the margins are lower and the ticket sizes are small.

That's the key reason why the market remains so **fragmented**.

Fund Manager:
Got it.

How do you see the **industry evolving** then — in terms of **consolidation**?

Because even if consolidation happens, how would it work when everyone is already earning **high ROCEs**?

If the overall market grows to, say, ₹10,000 crore — from whom will the business acquire market share? Is it from the smaller guys, or even from other established players?

Manhar Yadav:
That's actually the biggest **challenge in understanding this industry**.

Because what happens is — the smaller aluminium manufacturers cater to smaller, regional pharma clients, and I don't think any company that's looking to scale up aggressively would want to **target those small-volume customers**.

From the way I see it, around **60% of the market is organized**, and that ratio has remained relatively constant over the years.

So, **further organizing the market** looks quite difficult.

The only ways to grow in this industry are:

1. **Gaining market share** from the existing organized players.

2. **Expanding into exports.**

Now, what I've learned from my research is that the **Svam** is currently a **single supplier** to several large pharma companies in India — meaning they hold **exclusive vendor relationships**.

What's now changing is that these pharma clients are beginning to **add second suppliers** (dual vendor setups).

So, even the clients are happy because there's finally **competition** — previously, only ACG served the premium end of the market, while the Svam was the **sole supplier** to mid-to-large pharma firms.

Now, this business is **taking share from that middle segment**.

There are also other players like **I Tell You** (— they have decent capacity, but from what I hear, they're seen as **poorly managed**, and they're **losing market share** as well.

So, the **first way to grow** in this industry is by taking market share from existing players — both organized and semi-organized.

For instance, another company called **Fine Chem** had a **12,000 metric ton capacity**, but they've **shut down**.

The **second way to scale** is through **exports**.

That's my understanding — you can't achieve significant scale by just being a **domestic player** anymore.

The domestic market is **mature** and somewhat saturated.

Fund Manager:
Okay.

Fund Manager:
Right. I'm just wondering whether this industry makes more sense to grow through **M&A** — by acquiring one of the existing players instead of setting up new capacity.

Manhar Yadav:
So, here's the thing — in this business, **M&A doesn't make much sense** because it's essentially a **machine game**.

You can simply **buy new machinery** instead of acquiring an entire company.

What's important is adding **machines at the right point in your production cycle**.

That's exactly what they've been doing.

For example, they **acquired PVDC lines** from **Radha Madhav**, a listed company that was also in this space earlier.

Another big name in aluminium foil packaging was **Ess Dee Aluminium** — a listed company that was once the **largest player** around 2010..

Fund Manager:
Right. And what led to their **downfall**?

Manhar Yadav:
So—

Fund Manager:
What mistakes did they make?

Manhar Yadav:
So that's exactly what I'm saying — in this industry, you're fighting **three or four battles simultaneously**.

The biggest one is **working capital management**.

Working capital requirements are very high, and the easiest way to handle that is by taking on **debt**. But the moment you do that — if your **capacity utilization** drops for any reason, your **balance sheet blows up**, because this is essentially a **commodity business** operating at only **20% gross margins**.

Margins are so thin that any increase in working capital pressure or drop in utilization can hurt severely.

So, even a **1–2% dip in utilization** can lead to a **disproportionate rise in debt** and squeeze your profitability.

That's the main reason why so many of these companies have **shut down** over time.

They're constantly fighting on multiple fronts — utilization, working capital, pricing, and quality — and failing at even one can collapse the whole structure.

Fund Manager:
In your opinion then — when you're evaluating this as an investment, since it's an **inherently fragile business**, how do you handicap this risk?

Do you think the **promoter** can manage it well, or do you believe the **balance sheet** will show stress eventually?

Manhar Yadav:
No — so, actually, the biggest **advantage** they've had so far, and the reason they've been able to **gain market share**, is **management discipline**.

They've been extremely careful with **working capital and collections**.

Also, their **flexography business** has been a **major pillar** supporting them — it's a **cash-rich, high-margin** segment that's helped **cushion the working capital cycle** of the aluminium business.

Two years ago, the flexography vertical even had a **negative working capital cycle**, which generated strong cash flows.

So, financially, they've been able to fund the aluminium side comfortably.

On the **quality** side too, they've made smart moves — for instance, they **hired a manufacturing head** who had over **15 years of experience** in a leading packaging company.

He had been **trained by Japanese and German experts**, and I met him personally — he had **deep technical knowledge** and extensive hands-on experience in the business.

So, on both **quality** and **process**, they seem to be in safe hands.

Fund Manager:
Right, right.

Manhar Yadav:
So yeah — that's why I said, **working capital management** and **quality control** are the two critical pillars for survival here.

If either of those falters, it can quickly destabilize the business.

Fund Manager:
So do you think there are three main things here? Yeah.

And when you say it's a **working-capital-heavy business**, why exactly should it be?

Manhar Yadav:
Yeah, it needs to be **carefully managed**.

The **third thing** the promoter is really good at — besides quality and operations — is **sales**, which directly drives **capacity utilization**.

And another thing that has helped them a lot is the **team they've built**.

They brought in a very capable individual — not just an operations person, but someone strong in **marketing and business development** as well.

He had already built relationships with **clients in Bangladesh, Indonesia, and several Indian pharma companies**.

So, when they onboarded him, he leveraged those relationships and opened **new inroads** for the company — both in domestic and export markets.

Essentially, he was someone who already had credibility — people knew him, they trusted his quality standards, and that helped the company start **direct conversations** with potential clients.

So once they got this guy on board, it gave them a huge push in **client acquisition** and **relationship-building**.

Now, if you look at the promoter himself — he's a **strong sales-oriented leader**, and with the **flexography business** providing internal working capital support, it created a solid foundation for growth.

So overall, yes — now it's really just about improving **margins**.

If they can gradually increase their margin profile, they can firmly position themselves as the **second major player** in the industry after the Svam.

Another important point is **how Svam have survived for so many years** — they've always maintained a **deleveraged balance sheet**.

Despite the cyclicality and volatility, they've stayed **largely debt-free**, which has helped them navigate difficult phases.

So, one of the **key risk parameters** to watch in this industry is **leverage** — that's the single biggest destroyer here.

Most of the companies that went bust in this space — **did so because of excessive debt**.

That's my clear understanding.

Fund Manager:
Right.

Because your customers are pharma clients — so based on this, let's assume a **30–60 day payment cycle** from CDMOs.

I would assume inventory buildup must be the reason why the **working capital cycle** is so long — maybe the production process from raw material to finished foil takes time?

Is that why the inventory cycle is so high?

Manhar Yadav:
Exactly — it's quite **slow**.

The **receivable days** for the Svam are around **70–80 days**.

Fund Manager:
Okay.

Manhar Yadav:
But for Wahren, last year, it was around **130 days** — so that's one part of the working capital cycle.

Fund Manager:
Is that normal? Do you think it'll come down?

Manhar Yadav:
So, receivables — or **working capital days** — are actually a **function of export mix** in this industry.

In exports, most payments happen through **100% LC (Letter of Credit)**, which makes cash conversion **very efficient**.

For example, the Svam, out of its **₹600 crore aluminium business in FY24**, did around **₹100 crore of exports** — roughly **15–20%** of total sales.

This company is targeting around **25% exports by FY27**, which gives me confidence that their **receivable days** can come down from **130 to about 70–80 days**.

That would be a **significant improvement**.

Fund Manager:
Yeah, yeah.

Manhar Yadav:
As for **inventory**, I don't recall the exact number off the top of my head, but from what I understand, it's currently **inflated**.

They've **built up inventory** because of both **capacity expansion** and **market uncertainty** — so that's temporarily elevated.

I expect that number to **normalize over this financial year**.

So overall, on the **working capital side**, I expect **meaningful improvement over the next two years**.

The entire **cash conversion cycle** should shorten significantly as exports ramp up and inventory levels stabilize.

Manhar Yadav:
I'll have to check what the **working capital cycle** of the Svam is — but from what I remember, it's quite **tight**.

Compared to other industries, it's neither too high nor too low — just very **efficiently managed**.

That's simply the **nature of the industry**.

Fund Manager:
Right.

Analyst:
On these exports — which countries are they targeting?

Manhar Yadav:
Oh, the **Svam** — I actually have that data, I can check it later, but I don't remember off the top of my head.

One important thing about exports in **pharma packaging** is that it's **extremely difficult** to break into **first-world markets**.

The reason is — their **quality parameters** are **extremely stringent**.

For instance, they require **six months of stability testing**, and in countries like the U.S., even minor formulation or packaging changes demand **new stability trials**.

Because of that, the **sales cycle** for those markets is **much longer** — almost **three years** from the time you begin discussions to actually starting commercial supplies.

So, entering a **first-world market** is almost **impossible** in the short term.

You can't compete there on price — you need **strong technical capability**, multiple **product validations**, and **client approvals**, which take a long time.

So, yes, exports are possible — but the **client acquisition cycle** in those regions is extremely long and complex.

Analyst:
Makes sense — so Svam isn't really selling to those markets yet?

Manhar Yadav:
I'm not sure if they're doing business with **first-world countries** right now — that's not on top of my mind.

Analyst:
Okay, okay.

Manhar Yadav:
Yeah, I'm not fully sure about the **client mix**.

Analyst:
I just assumed it's more stringent in developed markets — I wanted to know if **India or emerging markets** are easier to target, which seems to be the case.

Manhar Yadav:
Yes, you're right.

From what I know, Wahren **initial export strategy** is focused on the **APAC** and **African markets**, including **Egypt**.

They're also active in **Bangladesh** and **Indonesia**, supplying to **domestic manufacturers** in those countries.

Actually — and I can't verify this 100%, but from what I understand — both **Bangladesh** and **Indonesia** don't have many **domestic aluminium foil manufacturers**.

So their **target markets** are basically **Africa, Egypt**, and **India's neighboring countries** — largely **third-world or developing markets**.

These are **easier markets to enter**, and they also offer **5–10% higher realizations** compared to domestic prices.

Plus, the **working capital cycle** in those regions is better — payments are quicker, and it's not as difficult to operate compared to exports to developed countries.

Analyst:
Got it. **Manhar**, what's the **average realization per kg** for aluminium foil? I think for the Svam it's about **₹380 per kg**, right?

Manhar Yadav:
Yes — it's tricky to estimate exactly, but let's do the math.

They did **₹600 crore** in aluminium foil sales in **FY24**, and their total capacity is **16,000 metric tons**.

Assuming around **75–80% utilization**, the realization would roughly align with that ₹380 range. I

don't have the exact number though — I was actually supposed to meet the **director of Svam** to clarify this, but I had some health issues, so I couldn't.

Analyst:
Okay, I just wanted to understand **how much cheaper** our company's pricing is compared to the Svam.

Manhar Yadav:
Yes, that I know.

Analyst:
Right — because one of the key theses was that they've **undercut the market leader** to gain entry, so I just wanted to get clarity on how much that undercut really is.

Manhar Yadav:
Yeah — so it's not just about **undercutting**.

There are multiple factors. Undercutting is only **one part of the story**.

This business is also highly **relationship-driven** and depends on **service quality**.

Many of the existing suppliers don't provide great service or flexibility.

So, when a **second player** enters the market — offering **comparable quality**, **faster response times**, and **better customer service** — the pharma manufacturers are usually **very open to switching** or at least onboarding them as a second vendor.

That's another big reason why this company has been able to **gain entry** so effectively.

For example, they've captured accounts that earlier sourced **₹30 crore** from the Svam — now they're doing **₹22 crore** with them, meaning this company has gained that business share.

The pharma client is also happy because now they have a **second vendor** who's proactive, responsive, and offering **slightly lower prices**.

So, it's not just price — it's also about **agility and reliability**.

Analyst:
Understood.

Manhar Yadav:
Yeah. So, my understanding of the **overall strategy** — and this is also something the **management** has emphasized — is a **multi-pronged approach**: pricing, service quality, and client diversification.

Fund Manager:
Got it. Unless **Analyst** has anything else, I just want to quickly ask about **PVDC**.

Analyst:
No, go ahead.

Fund Manager:
Can you talk a little about **PVDC**? Because that's a relatively **new machine** they've bought, right?

Manhar Yadav:
Yes, and it actually makes a lot of sense — I also cross-verified it while speaking to a few people in the industry.

So, **PVDC** (Polyvinylidene Chloride coating) gives a significant advantage in **pharma packaging**, because it allows you to **cross-sell**.

Clients prefer having a **single vendor** who can supply multiple products — for example, both **aluminium foil** and **PVDC-coated PVC**.

This **multi-product approach** gives you a major **strategic edge** in the pharma packaging space.

Currently, the **Svam** only supplies **a single product** — aluminium foil. So, for

them, there's no opportunity to cross-sell or bundle products.

But Wahren, by adding PVDC, is moving toward a **"basket of products"** model, which helps **deepen client relationships** and makes switching less likely.

That's a big differentiator.

Now, coming to **what PVDC actually is** — I think it's potentially a **game-changer** for them, but the real value will depend on **execution by the promoter**.

The acquisition of this **PVDC line** was quite smart.

They bought it from **Radha Madhav Corporation**, a listed company. You can even check on their website — they were selling this machine, which is a **fully automated German PVDC line** with a capacity of **1,000 metric tons per annum**.

Normally, such a machine would cost **₹25–30 crore**, but they acquired it for just **₹2.5–2.8 crore** — that's almost a **90% discount**.

That gives them a huge **capital cost advantage** while still achieving **similar or better margins**, since there's no price discounting required in PVDC.

They've mentioned it will take another **₹2–3 crore** to fully integrate and operationalize the line — installation, calibration, and support systems.

From what I understand, **PVDC** itself is a **decently sized market** — roughly **4,000–5,000 metric tons per month** in India.

The **average selling price** ranges between **₹250–₹330 per kg**, depending on the **GSM** (thickness) and **layering configuration** used.

Technically, PVDC is a **combination of PVC and PVDC coating** — PVDC is a **liquid polymer** that's layered on PVC film to improve **moisture and oxygen barrier properties**.

The **thickness of the coating** directly affects the **realization and pricing** in this segment.

Manhar Yadav:
So, that **thickness** is measured in **GSM (grams per square meter)**, and the GSM range for PVDC-coated films typically goes from **40 to 120 GSM**.

Accordingly, the **realization** per kg ranges from **₹250 to ₹330**, depending on the GSM and the layering structure.

So that's how it works — and I think this is a **major strategic advantage** for them because the **gross margins in PVDC** are **higher**, around **22–23%**, compared to the base aluminium business.

Overall, **PVDC** is a **better-margin product** and offers more technical differentiation.

There aren't many large players in this segment, so they have a **real opportunity to organize the market** here.

One player I know of is **Amartara**, who's of decent size and probably the **only notable competitor** in PVDC.

This product line also poses a **big threat to the Svam**, because it gives this company a new lever of growth.

When you already have a **base of 300 pharma clients**, all you need to do is **cross-sell** the new product — it's the same customer base, same procurement process.

So, the **sales cycle** becomes much shorter, and the **scalability** is easier.

That's how I'd summarize PVDC — a **strategic, high-margin, scalable** addition to their portfolio.

Fund Manager:
And you said — how big is this market?

Manhar Yadav:
So, see — most of the information I'm getting on **market size** is from **industry interactions**, primarily with **manufacturing heads**.

Everyone gives slightly different numbers, because this is an **unorganized and under-researched** segment.

It's hard to find verified, published data —

Fund Manager:
Right.

Manhar Yadav:
From what I could verify — after talking to about **five or six players** and checking their production volumes — on the **conservative side**, the Indian **PVDC market** should be around **3,000 metric tons per month**, and on the **higher side**, maybe **4,000 metric tons**.

So, I'd place it somewhere in that range.

Fund Manager:
Okay.

Manhar Yadav:
And within that, there's a wide **range of applications** — especially in **pharma blister packaging**, which forms the bulk of it.

Fund Manager:
If that's the case — and the company has bought a **1,000 metric ton per month** PVDC line — that means they're theoretically taking up **one-third of the entire market**, right?

Manhar Yadav:
Yes, but that's just the **installed plant capacity**.

I'm not sure how much they'll actually **utilize** initially.

Fund Manager:
Correct.

Fund Manager:
And the **procurement officers** — are they the same people handling both **aluminium foil** and **PVDC** sourcing?

Manhar Yadav:
I'm not entirely sure, but I'm **assuming yes** — it should be the same procurement team because both come under the **packaging materials** category.

Fund Manager:
Makes sense.

Manhar Yadav:
Yeah — since it's a **similar packaging function**, it's logical that the same teams handle both.

Fund Manager:
Okay. And the **raw materials** here are **PVDC** and **PVC**, right? Which one is better or more critical?

Manhar Yadav:
Yes — exactly.

From what I understand, **PVDC** has **very few suppliers globally**, and in India, **PVC** is mainly supplied by **Reliance**, who's the **only large domestic producer**.

Now, whether PVDC is a **true derivative** chemically, I can't comment — that would be too technical — but in terms of sourcing, it's a **very limited supplier ecosystem**.

There are only **one or two reliable sources** for these key inputs.

Fund Manager:
That's— okay.

Manhar Yadav:
So, another thing I understood about this industry is that your **TAM (Total Addressable Market)** is largely a **function of the number of products** you introduce.

If you're able to **scale up your existing capacities** efficiently — say, over the next two years — and generate stronger ROEs, you build both the **financial and operational muscle** to keep introducing newer, higher-value products.

That's essentially how this business can continue expanding its **addressable market**.

So, in my view, the company isn't constrained by demand — it's constrained by **how fast it can add and commercialize new products**.

Fund Manager:
I think we're coming up on time — that's most of the questions I had.

Analyst, anything else from your side?

Analyst:
Oh no, we just skipped discussing the **main core business**, which actually gives them their **cash flows**. But other than that, I think we've covered everything else.

Manhar Yadav:
Yes, we can touch on that briefly.

Fund Manager:
Yeah, for me too — I think that's the main area we didn't get into.

Analyst:
Right, the **flexographic plates** — we didn't cover that at all.

Manhar Yadav:
Yes, **flexography** is actually a **high-quality, high-value** segment for them.

When I look at these small manufacturing companies from an investment lens, I always try to first **evaluate the promoter** — that tells you how the business sustains over time.

In flexography, the promoter isn't necessarily a **technology innovator**, but he's extremely strong in **execution, pricing strategy, and service quality**.

He wins business by combining **competitive pricing** with **superior service and delivery reliability** — and I heard the exact same feedback from customers in the **aluminium segment** too.

Another key thing I learned about him — he always aims to be among the **largest players** in whichever niche he operates in.

So these are the **four or five qualities** I've observed in him as an entrepreneur that I really appreciate —

- focus on market leadership,
- agility,
- financial discipline,
- strong sales instinct, and
- hands-on operational control.

These are **intangible qualities** I always look for in promoters of small manufacturing businesses when evaluating them for investment.

So understanding his mindset through the **flexography business** gives you very valuable insights into how he thinks about scaling and risk-taking — which also helps you understand his **strategy in the aluminium and PVDC businesses**.

Fund Manager:
Okay, okay. That's actually very helpful — it gives me a clear picture of the **flexography business** and how it connects to their overall growth approach.

Maybe we can revisit that segment in more detail another day.

I'm just heading into another call in about five minutes, but this discussion has given me a **very good understanding** of the business and the **key growth triggers** for the next couple of years.

If I have any more questions, I'll reach out to you — but this was really helpful.

Analyst:
Yes, you've really done a **lot of detailed work, Manhar** — seriously, a lot.