

Borosil Limited

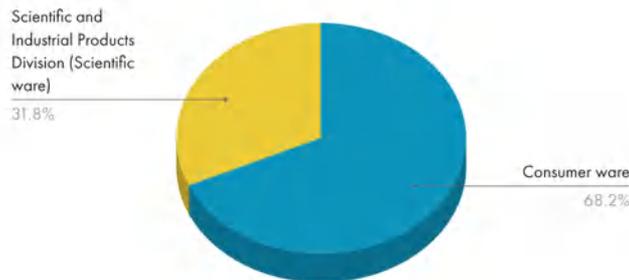
About the Company

Borosil Limited is a leading and most preferred supplier of laboratory glassware, microwaveable kitchenware and opal ware in India. It sells and markets microwavable and flameproof kitchenware and glass tumblers through more than 15,000 retail outlets, and has 3 manufacturing facilities. The company conducts its operations in two business segments—namely, scientific & industrial products and consumer products. It is the market leader for consumer and laboratory glassware in India and is famous for its high quality products. The company has a PAN India distribution network, they sell their products through 18000 plus retailers which contributes 50% revenue of the consumer segment of the company. The company also derives 10–12% of its revenue through Online platforms. Established in 2010, Hopewell Tableware Private Limited

Date: - 19-7-2020

Market Cap	3897cr
Promoter Holding	70.4%
Pledge	0.00
Roce	18.3%
Roe	12.5%
P/E	42.5

('HTPL' or 'the company') was promoted by Mr. Swapan Guha (a technocrat and Padma Shri awardee) along with Mr. Premsingh Shekhawat (founder and chairman of the Bajore Group of companies) and others. The company initially started with manufacturing melamine in FY2012. Later it entered into the Opalware segment and set up its opal glass manufacturing facility due to greater opportunities in the business. Melamine production was suspended and only opal glass manufactured from FY2014. In January 2016, the earlier promoters exited the company and the entire stake was acquired by Borosil Glass Works Limited (BGWL). The name of the company was changed to 'Borosil Limited' in November 2018. BL's manufacturing unit is located in Rajasthan and is equipped with a furnace capacity of 50 metric tonnes per day (enhanced from 35-40 metric tonnes), two spinning lines and a pressing line.



Consumer & Tableware Portfolio

The Indian kitchen is dominated by plastic and steel. Currently glassware has low penetration in kitchen storage space.



The company expanded its Product basket from its Microwavable glass to include Opalware sets (sold under the brand **Larah** (No2 Player)), Kitchen Appliances, non-plastic kitchen storage products, Insulated bottles, glass tumblers (includes Borosilicate glass and Soda lime glass), storage containers, stainless steel cookware, glass lunch boxes and jars, stainless steel flasks and many more covering the entire value chain of a Home maker. In Microwavable glassware segment, company has been a **market leader with over 60% share**. The company has quality products in Opalware segment. The company has taken several process to reduce the breakages in the production process. More than 100 SKU's in Kitchen Ware Products.



Consumerware business is high capital intensive with threat of substitutes from other products in table ware market, long receivable cycle, high inventory requirements (With over 1,500 types of products sold under the Borosil brand, the company has to maintain high levels of inventory at its warehouses to promptly service its customer requirements). The customer concentration risk is low as the top 10 customers constitute of 27% of the revenue for the segment. Although borosilicate glass is superior for making consumer ware because of its favourable properties, it faces stiff competition from other substitutes like plastic, ceramic, bone China, thermo plastic, soda-ash glass ware, etc. The company makes Hydra range of bottles and Carry Fresh lunch boxes. Kitchen appliances are seeing a constant demand for the very fact that they not only reduce the chores of cutting, chopping, steaming and toasting but also help to churn out a healthier and tastier meal. Opal intrinsically has several properties that make it an ideal choice for everyday usage the consumer. Opal is made of toughened glass that is chip and break resistant while being lightweight making it amenable for daily use. The products are bone-ash free, making them vegetarian friendly. It is easy to clean, dishwasher proof, can be used in microwave for reheating and retains a whiteness that does not stain or fade. It also lends itself to elegant designs and can be used for serving every day meals at home. Borosil has de-risked its CPD from the erstwhile microwavable and vision glass business. The dependence on these has reduced to about 23% of revenue. Sales through Large Format stores comprise about 20% of the total consumer products sales. About 20% of the company's sales come through Business-to-business (including corporate gifting) and sales through the Canteen Stores Department ("CSD"). The management is focusing for LARAH to become a daily usage product and reduce the brand's dependence on gifting (the company reduced Larah's perception for gifting as COVID prescribed social distancing norms). Borosil is working on the opportunity to convert plastic to glass in Opalware (*Opal glass is an opaque heat resistant material. Over the years, the perception of investing in crockery has changed in India. Crockery is no longer seen just as a utilitarian but as a lifestyle product*) and storage. Modern Retail chains contribute to 20% sales, E Comm has 8-10%, CSD and B2B does 20% for CPD.

The ratings, however, continue to remain constrained by BL's modest financial profile as reflected by continued losses at net level, stretched capital structure, and muted coverage indicators. The ratings also factor in the working capital-intensive nature of operations on account of high inventory requirements and long receivables; and exposure to substitution risk from other types of tableware, **although the risk is partly mitigated by superior quality and cost competitiveness of opalware**. ICRA also notes that BL has sizeable repayments and capital expenditure lined up in the

(Source: - Dec 18 Credit Rating)

Growth Drivers:

The market for opalware products is majorly driven by the booming hotel industry. Opalware dinnerware and crockery are extensively required in premium hotels. In recent times, hotels falling in the 3 and 4 star category have also been adopting opalware products owing to their aesthetic quality and appealing form. (Source: Opalware Dinnerware and Crockery Market Analysis 2024 (Source: - [transparencymarketresearch.com](https://www.transparencymarketresearch.com)))

- Increase in health consciousness: There is a preference for opalware on account of its properties. Post pandemic customers are more health-conscious and prefer carrying their beverages and food while on the go. With reopening of offices, colleges and schools, the Borosil tiffin box and Hydra flasks bottles have an opportunity to grow.

- Shift from Plastic: The Indian kitchen storage is still dominated by plastic and steel containers. Glass storage products currently have very low penetration. Glass storage has a good opportunity with growing awareness about the health hazards of storing foods in most types of plastics.

- Shift in customer's preference towards dishwasher safe and microwave safe products:

The current market penetration of microwave products is 5%. India Microwave Oven Market size was valued at US\$ 365.76 bn in 2020 and the total revenue is expected to grow at 8.96% through 2021 to 2027, reaching nearly US\$ 666.91 bn.

- Increasing Income, growing living standards, increasing urbanization and nuclear families concept.

The Opalware market is growing at 14%-15%. Larah has grown at a faster CAGR over the last few years. With new capacity coming on stream and the ability to offer a wider range of product designs, the Company expects Larah to clock a medium-term growth rate of about 25%. The company setup a warehouse in Jaipur to increase the margins of their Larah Brand which has enough capacity to cater to the expansion capacity of Larah brand.

New product launches (Non Glass-Ware Products)

Therefore, even during a very trying period of H1 FY2021, the company launched new products including a range of glass bottles for liquid storage, made of borosilicate glass which is tougher than ordinary glass and unlike plastic does not leach chemicals. Another product was our stainless-steel pressure cooker which is build for safety and durability. Our bowls can be used in the microwave oven, fridge, freezer and dishwasher. The early

(Source: - Nev 20 Concall)

Shreevar Kheruka:

That is a good question. In general, I think the market - well these are internal estimates - the market could be slightly larger than Rs.500 Crores already. In general yes, we expect the growth to be 20% plus over the next few years and if it grows for example at 25% it will double in three years. We should have capacity to deal with that expansion of the market. We also have seen a lot of substitution of melamine and steel into Opal. That is why we believe that the market has a big room for growth. So, in my view there may be lower utilization of capacity in the first year or two but let us say over three to four years I think we will have fully utilized the capacity.

(Source: - Aug 21 Concall)

In consumer products, the company has diversified from a narrow range of microwavable dishes and vision glasses to Opal serving ware, non-glass serving, kitchen storage, on-the-go carrying and kitchen appliances.

Non Glassware Products (The non-glassware market segment (appliances and Hydra flasks and bottles) is growing at about 9% each year) contribute about 50% of CPD Business today. Other categories like chimney's, gas stoves and hobs. The management plans to tap these segments at some point in time in future. Consumer business has three main reportable segments namely Glassware, Non Glassware and Opalware.

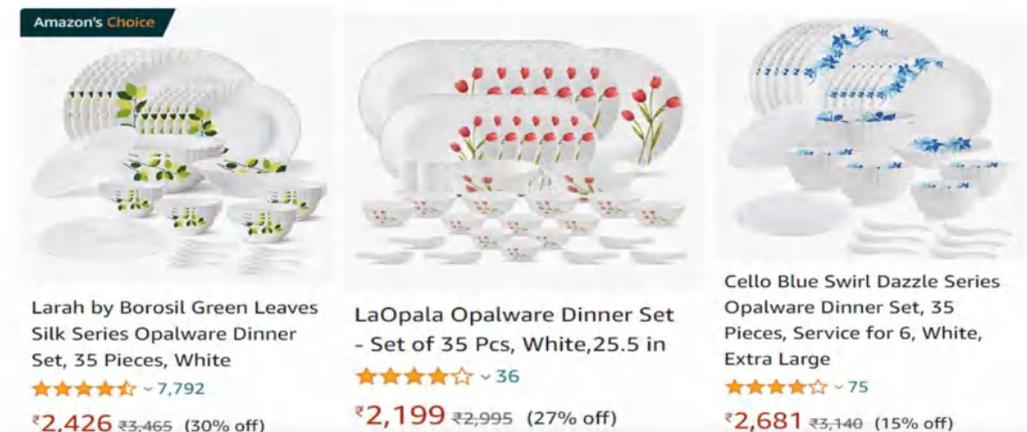
Glassware comprises our microwaveable range, the vision glass range, and the more recent introductions of storage, lunch boxes, glass bottles. Non-glassware includes pressure cooker, OTG, Bottle, Lunch Boxes and Opalware (Currently operating at 100% capacity) of course is serving range under the brand Larah (a major source for Larah is gifting market).

Management projects 850 to 1000 crore revenue for the consumer business by 2025.

Shreevar Kheruka:

Again in the past we have said 15% to 20% CAGR for consumer business I see some scope that we could go probably slightly more than that so if we come closer Rs.1000 Crores by 2025 that will be an exceptional performance but you can assume Rs.850 Crores to Rs.1000

(Source: - Aug 21 Concall)



Non GlassWare Segment:- A high ROCE Business Model

Shreevar Kheruka:

EBITDA margin does not make sense to discuss on non-glassware because that is something that there are **hardly any fixed assets for depreciation** so the EBIT margin is

Hydration Flasks / Bottles the segment of Non Glassware products which is getting major traction by the customers.

Shreevar Kheruka:

Hydration flasks are above pre-COVID levels but lunch boxes are definitely much below pre-COVID levels. That is the main negative category for us across our range whether in glass or non-glassware.

(Source: - Aug 21 Concall)

Scientific Product

Borosil has a extensive glassware items which are required for the general lab usage which are sold under the brand **Labquest**. The company has four life science manufacturing facilities whose products are sold and distributed in more than 52 countries. It has more than **2000 SKU's**. In this segment the company does laboratory glassware instruments, disposable plastics, liquid handling systems, explosion proof lighting glassware, glass ampoules and tabular glass vials. The company has healthy network of 300 distributors and 18000 retailers (8-9 thousand retail outlets for non-glassware products. The management plans to add 1500-2000 outlets to the non glassware segment every year going forward). Every year the highest sales for the scientific products division are recorded in March. The company has highly advanced processes for carrying error free volumetric glassware calibration conforming to ISO/ASTM standards. Products like shaker, stirrer, a centrifuge, vortex mixer. It used in food industry, for soil testing, food testing, water testing, in pollution testing etc. So, it is used anywhere there is a lab and used differently across industry. It would be used to make vaccine, it used to do QC testing in pharma companies. There is a huge scope of usage, basically any lab in the country will need instruments.

Laboratory glassware :- Laboratory glassware refers to a variety of glass-made equipment used for scientific experiment and other work in science, especially in Chemical Laboratory, Bio pharmaceutical Laboratory and Food Testing Laboratory. Laboratory glassware includes beakers, bottles, burettes, flasks, funnels, measuring cylinders, petri dishes, pipette and pipette tips, slides, stirring rods, test tubes, tubing, vials, etc. With good corrosion resistance property, glassware is widely applied in laboratory of many fields. Company enjoys a **65% market share** in 235 cr. market growing at mid-single digits. Borosil has CatLog list of over 2000 SKU's. Glassware, Instruments, Liquid handling systems, Volumetric flasks, Burettes, Pipettes. The company has wide customer base across industries and institutes where labs exists and this is approximately 8000 customers plus. The lab glass segment benefits mainly from government spending. More the government spending on research and development more the equipment required for the same.

Growth Drivers:

- The industry is expected to witness robust growth from 2022 to 2028 on account of the significant advancements in the pharmaceutical sector and the rapidly rising healthcare expenditure worldwide. The growing emphasis of students on bringing innovative solutions in biomedical science has made way for the thriving need for laboratory glassware instruments. Increasing research in genomics and the ongoing development of lightweight laboratory products to offer high thermal resistance along with the expanding government support will enhance the industry outlook.
- Greater frequency of chronic diseases, improved healthcare infrastructure, and higher insurance penetration.
- Increased investments in R&D and the expansion of the diagnostic centers in India are all driving up the need for laboratory products.
- Capex in chemical sector
- PLI scheme driving investment in pharma



Budgets for government funded scientific labs and educational institutes, remained constrained, leading to a decline in the lab glassware business.

(Source: - Nov 20 Concall)

The lab glassware in India is about 5% of the overall lab glassware market in the world. To give you some quick - estimate, the lab glassware market in the whole world is about Rs 3000 to 4000 Crores - somewhere in that range. We are just a very small player in that space with about Rs 15 Crores in revenue last year. Also, once the LabQuest instrumentation gets stabilized in India, that could add a lot of revenue to our exports of scientific products. We can double this business maybe in two to three years (Management Guidance in Nov 20 Concall).

(Source: - Nov 20 Concall)

Klasspack (Nashik):- Company makes primary packaging material for pharma sector like glass vials and ampoules. Borosil wants to be a credible alternate supplier in the 1100 cr Market. The company acquired a majority stake of 79.53% in Klasspack Pvt ltd to foray into the Primary drug packaging space which is estimated to be a 500cr market at the time of acquisition with only one dominant supplier. Klasspack ought to be second credible supplier. Although the opportunity size is low, but looking at the rising population and rising needs of pharma products the pharma packaging industry has much room to grow. The market size has doubled since Borosil acquired Klasspack. Pharma packaging products are sold to more than 50 countries. Klasspack makes glass vials, glass ampoules. Applications for these products are in injectable formulations, ophthalmic, dental products, sample carrier for analytical instruments. New product opportunities are Pre-Filled syringes, cartridges and siliconized vials. It just takes some time, it takes about 6 to 12 months to increase capacity. Average Capacity Utilization 50-60% which is tentatively 100 crore of revenue. Market size if about 700-800 crore market and that is growing (vials and ampoules) (Concall May 2021 Market size report). Klasspack uses 51 expansion Borosilicate glass for its products.

The machinery used to make a glass vial is dedicated to glass vials. Similarly, a machine for another product cannot be used to manufacture vials.

(Source: Feb21 Concall)

Manav Vijay: My second question is Sir now let us say whatever capacity that you have under Klasspack all the capacity is fungible between ampoules and vials or is its specific capacity?

Shreevar Kheruka: No, it is specific capacity; the product is totally different and may have totally different machines one machine cannot make the other.

(Source: Aug20 Concall)

The company has registered products under the US DMF governed by the FDA and Canadian DMF. The company is in the process of applying for the European DMF (DMF ~ Drug Master File). Given the long lead times required to pass the stringent quality specifications to become an approved supplier, there is a significant barrier to entry for future players. In global market size of 3000-4000 crore of pharma packaging Klasspack is a small player with only 15 crore of sales per quarter. The expansion done till Aug 21 was about 10% of their capacity. Another 50%, 60% capacity expansion would be undertaken.

Klasspack's capacity utilization reached to 70% Max utilization what they can do is 80%, this business does not go to 100% capacity utilization. (Source: -Nov 21 Concall).

LabQuest and Klasspack contribute for more than 30% of Scientific Division revenue for the company. Whereas Lab glassware has sticky customers the growth in this division is expected to be driven by LabQuest and Klasspack.

The company manufactures everything in house without outsourcing anything. They had a capacity of 300 million vials and 500 million ampoules a year. Worldwide Vial manufacturers Schott, Corning, SGD, NIPRO have bigger capacities than Borosil. What the management envisaged for expanding their business at Klasspack in Fy 20. They had 50% capacity utilization that's is why the management said we can double revenues without further capex.

(Source:- Aug 20 Credit Rating)

LabQuest :- Company supplies benchtop instruments (Magnetic Stirrer, Block Digester, Multi – Tube Vortexer) to research institutions in this segment. India imports more than 70% laboratory equipment used in the country. Indian organizations end up investing exorbitant amounts to set up a world class laboratory. laboratory glassware business of the company experienced a slowdown owing to subdued funding to Government Laboratories. Lab glassware, which comprises about 80% of the division's revenues, has its sales skewed towards the January-March quarter of each year. BTL collaborated with one of India's leading poultry companies to improvise on the vaccine delivery mechanism by developing vaccine thawing unit (COVID-19). The management is aiming to become import substitute (products such as Vortex Mixers, Centrifuges, water baths and nitrogen estimation equipment) with the new developed products implemented under Labquest range. The market size for the products manufactured by the company is 150 Crores. Overall the lab instrumentation market size is bigger and is larger than 1000 crores.



Lab instruments (Business operated by subsidiary: Borosil Technologies Ltd., Pune) is not something which is very, very fast growing. It is a slow growth business because generally the end customers are conservative. They do not want to change what they use because they are always looking to make sure that their testing is perfect and if they are used to using a certain instrument they want to continue using the same instrument. So, in order to convince them to change you need to really prove yourself. They will always be hesitant, they will try something in a small way, then in a big way and only then in a large way. So it takes years to breakthrough. Selling more products to the same customer is something we are trying to do. As manpower cost increases the automation will increase which will require more lab instruments.

(Source: Feb21 Concall)

Borosil Technologies (i.e LABQUEST) have been developed exclusively for the scientific products division. We basically have instruments which are used in scientific analysis in labs. It could be a pharma lab, it could be an R&D lab, food testing lab, soil testing and so on. The products range from simple shakers and stirrers which have use for sample preparation to nitrogen estimation, which is actually used for sample analysis. The price for the products could be from let us say Rs.10000 to the most expensive ones being maybe Rs.5 lakh, Rs.6 lakh in that range. The market as I shared, is benchtop instruments for labs, which are lower in cost. There are some instruments priced up to Crores of rupees. We are not going into that segment. We are going in the smaller instruments segment and yes again, it is a long-term lever. We will not achieve a Rs 100 Crores revenue overnight. The scientific community in general tends to be very conservative. Most of these institutes are government funded and they are looking for accuracy in their test results and not necessarily the lowest cost of equipment. I do not expect that we are going to grow this business to Rs 100 Crores in the next two three years. It is going to take time. Maybe in six years instead of three years which may be for the consumer business. Two aspects are playing out here. No 1 is import substitute No 2 is the quality and accuracy of the test done vs the price at which the products are offered.

(Source: - Nov 20 Concall)



High entry barriers in the borosilicate glassware industry - The borosilicate glassware industry has high entry barriers, especially in the laboratory and scientific ware segment, because of the requirement of high technical knowhow, skilled labour, high capital, capacity constraints and regulatory requirements that enable BGWL to maintain its stronghold in the industry.

(Source:- Oct 19 Credit Ratings)

Why Pandemic arose tailwinds for Consumer and Scientific Business

Consumer Business: - Number one, people are cooking more at home. They are sharing recipes of what they made with family and friends via social media. People are baking bread at home, they are cooking different meals. People are going to upgrade their lifestyles at home even after life returns to normal

Scientific business: - The world has forgotten to do research and development in a major way. This pandemic has destroyed trillions of dollars of value from the global economy. This will drive thinking towards higher spends in R&D. Prevent that trillion of dollar loss by maybe spending \$5 billion every year on R&D for various diseases. That will definitely be good for our lab glass business. R&D and QC is also directly connected with our LabQuest business and to our Klasspack or pharma packaging business. Long-term growth prospects have been enhanced by COVID.

Make in India vs Government Support

Shreevar Kheruka: There are other players in India who manufacture lab instruments for sure. Most of them are exporting the products and there are others for sure. As far as any support from the government goes, no there is no support from the government and frankly none is needed. These are products which are imported at very good values and we do not need any support from the government at all to successfully make it in India.

Origination after Demerger in past

Honourable National Company Law Tribunal, Mumbai Bench (NCLT) on January 15, 2020, demerged the Scientific and Industrial products and Consumer products businesses of Borosil Renewables Limited (BRL) (formerly known as Borosil Glass Works Limited) along with the Scientific and Industrial products and Consumer products business of Vyline Glass Works Limited (through BRL) demerged into the Company. The Scheme became effective from **February 12, 2020**. Appointed date of the Scheme is October 1, 2018. Accordingly, post demerger, the Company is carrying the Scientific and Industrial Product Business and Consumer Product Business including its own opal ware business. All investments of Borosil Renewable Limited (BRL) including the investments in four subsidiary companies, namely, Borosil Afrasia FZE, Borosil Technologies Limited, Acalypha Realty Limited and Klasspack Limited, got transferred into the Company. Accordingly, the aforesaid four companies became subsidiaries the Company.

Manufacturing Plants , Expansions, Market Dynamics

Rajasthan (Jaipur), Gujarat (Bharuch), Maharashtra (Tarapur)

Consumerware: Total Capital Outlay for these projects will be more than Rs. 250 Cr. The company plans to double its capacity of Opalware at its Jaipur plant. Introduce new Borosilicate (Borosilicate is backward integration) pressware facility in Jaipur. Company is entering new product segments (Stainless steel cookers not aluminum cookers 3-5 liters.), OTG's, Hydra Steel Bottle and Steel Serve Fresh Products, casseroles, pans, Kadhais {Oven Toaster Grill, Waffle Maker, Sandwich Maker are products which the management may look to launch in future) (non-glass ware products. Revenue contribution more than glassware revenue contribution). Currently the company has low market share for non-glass ware products which they plan to increase going forward (a key reason for more add spends vs revenue).

Shreevar Kheruka: Overall the theme for us is that we want to be an everyday use brand. If we want to be really a kitchen and table ware brand for everyday usage then the pressure cooker category for example is something that all Indian households use. I guess you are referring to pressure cookers, right?

Scientificware: Total Capital Outlay for these projects will be about Rs. 170 Cr. The company has plans to create capacity in glass tubing due to uncertainty in global supply chain as well as increased cost. It also plans to increase its capacity in pharma packaging under Klasspack.

A fatal fire accident broke out in Q1 Fy 21 (April 1 2021). About 40-50 people were working in the unit at the time of fire outburst. The company had to face damages to its inventory of Scientific business and some bit in Consumerware business (more of scientific business was affected). With the inventory some bit of fixed assets (Plant and Machinery) were also damaged in the same. The company has adequate insurance cover to cope up for the losses. The management quickly moved to leased warehouse for the smooth running of the operations with getting disrupted.

(Source: - Credit Rating April 21)

Market Size

And if I may ask one more question you see when I look at the glassware categories and the LaOpala kind of category basically what we are looking at is the market size which is not very large. If I add up the numbers you have given in the presentation it comes to about 2000 odd Crores. The

(Source: - Concall Nov 20)

The Borosil Online Store: - [Here](#) (amazon), www.myborosil.com

Raw Materials

The major raw materials required by the company for CP and SIP products include 3.3 Borosilicate glass tubing, semi-finished materials and soda lime sheet glass.

- Glass tubing's requirements are met through imports.
- Semi-finished materials and soda lime sheet glass requirements are met partially through imports and partially through local sources.
- For Borosilicate Glass: Silica (SiO₂) Magnesia (MgO) and lead oxide (PbO) are the principal modifiers/fluxes.
- The main raw material to make Opalware products is silica, which constitutes close to 70% of the total raw material. Borosil sources silica from Gujarat and Rajasthan where the production of silica is abundant. Production Process: Molten glass (made from silica, soda ash, sodium nitrate, etc.) is cut and passed on to the conveyer belt and into the furnace. The furnace used by the company is called a green furnace as it doesn't use any oil or gas to melt and only uses power, which is an added advantage for the company. Further, most of the critical components like moulds and decal are manufactured in-house. Outsourcing has been kept to a bare minimum. (Source: Monarch capital research report).
- For Klasspack division the major raw material is borosilicate glass (51 expansion) which is sourced locally.
- The Company has started development of machines in-house/local instead of buying it from other countries. e.g., handle bending & mug sealing machine is developed in-house within the Bharuch plant. This has led to substantial reduction in dependence on the external vendors and reduced time for repair and other works.

What is Changing

Global Supply Chain Disruptions: Supply chains leading to delays in procuring raw materials, finished products or capital goods, gaps in fulfilment of demand, increase in inventories and project implementation delays. Strategy: The company presently imports Borosilicate 3.3 expansion tubing furnace (TPD) from China, Europe which is used as raw material in both consumer and scientific division. Due to uncertainty in global supply chain, the company has planned to create capacity in glass tubing.

- Increase in Input Costs: Higher input continues to be a challenge for the company, with a steep increase in power and fuel cost, packaging, etc. Borosil has taken a price hike of close to 10-15% from February to counter this. Due to supply chain disruption, it might further increase the price by 4-6%.
- Capacity Constraints: Borosil Ltd. is losing on orders especially in Opalware due to capacity constraints. The company has announced various capacity expansions to meet the targeted demand.
- Anti-dumping duty on Opalware: Present ADD of 30.5% on import from China and 4.5% on import from UAE, to expire in August 2022. Borosil has demanded to extend the anti-dumping duty on Opalware for next 5 years which is under consideration by DGTR.
- High Power Cost: Higher power cost impacts the overall profitability. The company has set a 1 MW roof top solar power plant.

Demerger

On Feb 7 2022 the company announced a Demerger of its business divisions namely Consumerware and Scientific Glass ware which scheme of arrangement with its material subsidiaries Klass Pack Limited (KPL) and Borosil Technologies Limited (BTL). Borosil's share capital in KPL (Klass Pack Limited) will stand canceled and there on KPL will be amalgamated with BTL (Borosil Technologies Limited) which then would be names Borosil Scientific Limited (BSL). Thereby the scientific and industrial product division of Borosil Limited will be demerged with the new company BSL. The current holding of Borosil Limited i.e 82.49% in Klasspack will get canceled.

After the De-Merger

COMPOSITE SCHEME OF ARRANGEMENT

The Board of Directors of the Company at their meeting held on February 7, 2022, have subject to the requisite approvals and consents, approved a Composite Scheme of Arrangement ("the Scheme") as per which Scientific and Industrial Products (SIP) Division of the Company is proposed to be demerged into Klass Pack Ltd. ("Resulting Company") on a going concern basis and Borosil Technologies Ltd., a wholly owned subsidiary of the Company will get merged into Klass Pack Ltd. The appointed date of the Scheme is April 1, 2022.

As a part of the Scheme, the existing paid-up equity share capital of Klass Pack Ltd., the Resulting Company held by the Company will get cancelled and Resulting Company will issue 3 (Three) fully paid up equity share of ₹ 1/- each (post proposed re-organisation of share capital as detailed in the Scheme) credited as fully paid up, for every 4 (Four) fully paid up equity share of ₹ 1/- each of the Company.

Klass Pack Ltd., the Resulting Company shall apply for listing of its equity shares on the Stock Exchanges.

Business under Borosil Limited: -

Glassware
Non-Glassware
Opalware business

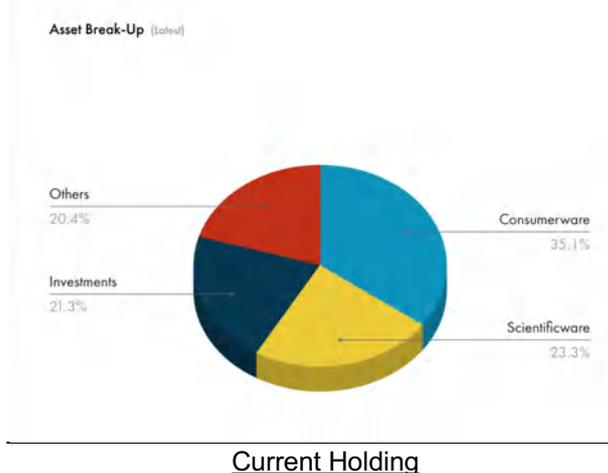
Business under Borosil Scientific Limited / Klasspack: -

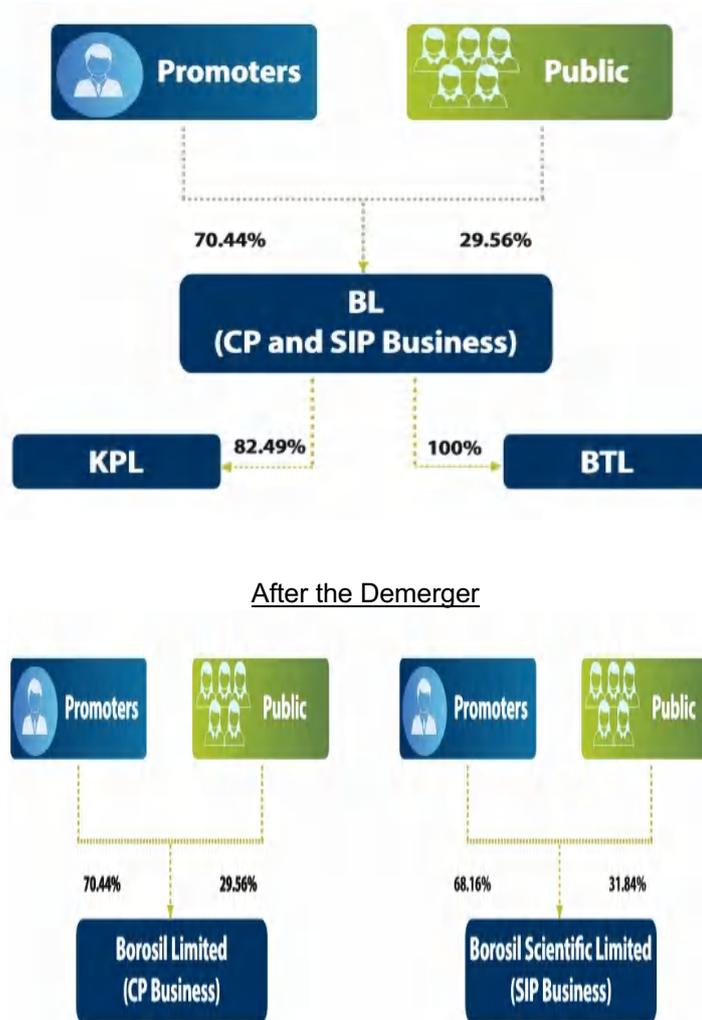
Lab Glassware
Lab Instrumentation (Borosil Technologies Limited)
Pharma Packaging (Klasspack Limited)

Impact of Material Event

ICRA has placed the rating of [ICRA]A+/[ICRA]A1+ outstanding on the bank facilities of BL on watch with developing implications. As per the new composite scheme of arrangement approved by the company's board of directors, BL's existing paid-up equity share capital in KPL will be cancelled. Later, KPL will be amalgamated with BTL, which will result in a new entity named, Borosil Scientific Limited (BSL). Further, the scientific and industrial product division of BL will be demerged and later transferred to the new company. Post effectiveness of the scheme, the equity shares of BSL will be listed on exchanges (Bombay Stock Exchange and National Stock Exchange). Also, to achieve an optimum equity restructuring share capital base commensurate with the business activities of the resulting company subsequent to the demerger and merger, it is proposed to reduce the face value of the equity shares and reorganise the equity share capital of the resulting company prior to the said demerger and merger. There will be no consideration for the promoter's/ promoter group's/ group's aforesaid reduction and reorganisation of companies from such proposed equity share capital of the resulting restructuring company. Thus, as a result, there will be no benefit to any promoter/ promoter group/ group companies from the resulting company. Post implementation of the restructuring, there will not be any cross holdings between BL and BSL, while the promoters will hold 70.44% in BL and 68.16% in BSL. BL will house the consumer product business and BSL will house the scientific and industrial product business. The proposed restructuring exercise is aimed at simplifying the Group structure by eliminating holding and enabling both BL and BSL to grow independently in their respective business verticals and de-risk businesses from each other.

Asset Breakup before the Demerger





CAPEX

Expansions

Name	Revenue	Market Share	Capacity	Capex	Total
La Opala	323	36%	24780	11000	35780
Borosil Ltd	220	24%	15330	15330	30660
Others	429	48%			
Total	900	108%			

Expansion in pharma packaging business (Klasspack as capacity utilization hits 80% and Opalware in Consumerware business)

The management has decided to setup a glass turbine facility with investment of 100 Crores to reduce their dependence on imports (and rising cost) by setting up Borosilicate 3.3 expansion turbine furnace. This is mainly for SIP business but also used in CPD business (SIP will get backward integration).

Enhance furnace capacity from 42 TPD to 84 TPD investments 175 Crores. Expected completion Oct 22. The expanded capacity will be live from Q3 Fy23. The enhanced capacity is expected to cater to annualized sales of Larah of about Rs.380 Crores to Rs.400 Crores.

(TPD: - Tons Per Day)

Shreevar Kheruka:

See the returns on capital as per the projected case will be in the high teens. This is because we are building capacity in advance and may run at lower capacities initially. If I take a three-year horizon including the first couple of years where you have lower capacity utilization the returns look like the high teens. When the capacities are running say at 80% to 100% capacity then the return on capital will cross 20% and probably be closer to 24%-25%.

Shreevar Kheruka:

This plant will be in Jaipur where we already have the opal glass plant. In at that location we are expanding into a second opal glass plant as well as this borosilicate plant. With these two new furnaces coming up there we will be kind of sold out I mean it is not sold out but should be tapped out from a space point of view. Then we would have to buy some more land and create some more infrastructure but that is probably available. So, we will have to buy that in due course but if assuming that we are able to buy land contiguous to our plant then I believe it will take about 12 months to put up new capacity.

(Source: - Concall Aug 21)

Borosilicate Glass Manufacturing Unit at Jaipur by investing 75 Crores. Expected to be completed by Q1 FY24. The management foresees a 100-crore revenue addition from this unit.

1 MW roof top photovoltaic solar plant in Jaipur unit that is equivalent to 6% of annual consumption.

(Source: - Concall May 21)

Klasspack: - It has announced to expand the capacity from 300 million vials and 500 million ampoules per annum to 500 million vials and 700 million ampoules per annum spending 70 crore. Klasspack faced capacity constraints at 80% utilization levels. This business does not scale up to 100% utilization levels.

CAPEX announced for backward integration: In order to reduce the uncertainties around global supply chains as well as the cost of importing tubes, the company has obtained an approval to create alternative sources for Borosilicate 3.3 expansion tubing

As of September 30, 2021 the company had net cash of about Rs.224 Crores. More than 80% of this, is invested in high credit quality secured debt instruments. The company has been liquidating the legacy investment in real estate. The overall real estate fund exposure now stands at only about 10% of the total investments. The company believes that it can deploy the cash in the business for efficient growth both organically as well as through strategic M&A.

(Source: - Concall Nov 21)

Property / Real Estate

Shreevar Kheruka: Let me explain this to you again. This is something that has been stated in the past but I will repeat it. The company historically from many decades ago has a property near Andheri and this property is an encroached property and dwellers are living on that particular property. As per the regulations for encroached properties, we have to get approvals for them to redevelop that property. We do not want to do any developments, we want to sell that property because we are not in the real estate business; however, because we are the landlord per se and this is for many decades, it is us who have to get the approvals. Now we cannot if we get the approvals in the name of Borosil Limited then Borosil Limited will have to develop the property. So, therefore it was decided that we will get the approvals in this 100% subsidiary and then at the appropriate time when the approvals are got we can then find the appropriate buyer for this asset and sell assets for development to a third party. So, we are not intending to get into any kind of real estate development either now or anything in the foreseeable future but this is the only way to liquidate what could be a valuable asset for the organization.

(Source: - Concall Aug 21)

Why inventory levels will be inflated (Company has 5 locations where they store their inventories)

Praveen Sahay: Related to that do you see or do you want to expand your SKUs in this particular segment with this expansion?

Shreevar Kheruka: Yes, that is likely to happen because the new technologies we are getting, will allow us to make slightly bigger products and possibly will allow us to give a wider product range. So, for sure in order to grow the market, we will have to expand some SKUs and that is also

Industry Analysis

Appliances and consumer electronics industry stood at US\$ 9.84 billion in 2021 is expected to more than double to reach Rs. 1.48 lakh crore (US\$ 21.18 billion) by 2025. The kitchen appliances market which is a part of Indian appliances market includes appliances or devices intended for smooth functioning of kitchen activities like food preparation, cooking, storage, and cleaning functions. The global kitchen appliances market can be segmented based on product structure into two categories Large/Major appliances which include refrigerator, dishwasher, microwaves, cooktops, ovens, hobs, and kitchen chimneys; and Small/Minor appliances which include food processors, mixer grinders, blenders and juicers, coffee machines, kettles, grills, and fryers. The Indian Kitchen Appliances market is highly fragmented. There are a large number of companies involved, and the majority of the market share is concentrated among a few firms. The industry is witnessing a transformational shift from unorganised to organised Sector.

(Source:- <https://www.ibef.org/industry/indian-consumer-market>)

Urban markets account for the major share (65%) of total revenues in the consumer durables sector in India whereas rural markets have only now begun to contribute recently. By FY 2024-25, India is expected to rise from the 12th to the 5th largest consumer durables market in the world.

(Source: <https://www.electronicb2b.com/importantsectors/consumer-electronics-and-gadgets/theacefactor-in-india/>)

Consumer electronics and appliances manufacturers are set to increase their production by 5-8% in FY22.

Care Research

Market Opportunity					
Category	Total Market Size	Growth	Share		
Glass Microwave	230	10%	60%		
Tumblers	520	10%	Borosilicate and Soda Lime Glass		
Storage	700	15% to 20%			
Opalware	900	20%			
Tea / coffee	400 (includes ceramic ware)	15%			
Insulated Bottl	1100	10%			
Appliances	9000	10%			
SIP Division					
Market Size					
		Size	Growth		Share
Lab Glass (Domestic)		235 Crore	8-10%		64%
Lab Glass (International)		4000 Crore	0-2%		Recent Entry
Lab Glass (ME/Africa/SEA)		80 Crore	15%		
Pharma Packaging		1175 Crore	10-12%	500 Cr	No 2
Lab Instruments		570 Crore	8-10%		Recent Entry
Kasspack	Acquired 60.3% in 2016				
	Further increased to 79.53%				
					Long Lead time to stringent quality test

Consumer Division

Shreevar Kheruka: **Schott Kaisha** is the dominant player in the market. As far as grabbing shares concerned we want to get the customer and so who we grab share from is not that critical. The point is we need to get share.

(Source: - Aug 21 Concall)

The global tableware market size is projected to reach USD 55 billion by 2027, growing at a CAGR of 4.3%. The glassware segment, which comprises a major share of the tableware market is expected to grow at a CAGR rate aligned with that of its parent segment (4.3%) by the year 2027 and is estimated to reach a market value of USD 12.9 billion

(Source: Strategyr.com)

As we look into the future we see an opportunity to grow Borosil business at a CAGR of 15% to 20%. The consumer products business is expected to grow faster.

(Source: - Nov 21 Concall)

Competition: - Borosil and La Opala products are priced at similar levels for the customer side vs cello's products sell at a premium to both. Borosil is currently facing supply constraints for the same they are increasing their expansion and going for capex in their Consumerware business. Opalware is a cost-effective solution were compared to ceramic and melamine. The major usage demand for Opalware products is in houses and hotels. LARAH by Borosil comes in the premium segment range. For lunch boxes segment cello is the competition for Borosil. Counterfeits, pass-offs and lookalikes are a constant source of unfair competition for leadership brands.

On competitive structure with La Opala in Consumerware business.

Competition Intensity Analysis (with La Opala)

Peer comparison		Add company <input type="text" value="eg. AB"/>	
	Borosil Ltd	La Opala RG Ltd	
Market Cap	4,015	3,206	
Current Price	352	289	
High / Low	₹ 499 / 196	₹ 487 / 240	
Stock P/E	43.8	34.6	
Book Value	67.2	66.7	
Dividend Yield	0.28	0.52	
ROCE	18.3	18.0	
ROE	12.5	13.2	
Face Value	1.00	2.00	
Pledged percentage	0.00	0.00	
Debtor days	32.8	36.7	
Days Payable Outstanding	67.7	111	
Debt to equity	0.00	0.02	
Price to Sales	4.85	9.93	

La Opala is the leader in the industry for Opal Ware and Premium Ware. The company has a network of 12,000 retailers and 200 distributors across 600 towns. The company has 26000 TPA capacity which has utilisation od around 80%. The company is setting up a new 11,000 TPA greenfield unit at Sitargunj with capex of 130 Crores rupees. The Valuation Premium they get vs Borosil. A key reason for demerger of scientific business from Borosil to unlock value.

La-Opala commands better margins profile than Borosil. Which the management has clarified in their Concall's as La Opala is the market leader having established Brand. Borosil is trying to ramp up Larah to scale up as a brand. That is why the company has higher add spends vs its competition La Opala. The management is penalizing current short term earnings (by spending more on brand building) to get long term gains.

Profit & Loss

		Mar 2019	Mar 2020	Mar 2021	Mar 2022
Sales	Borosil	361	630	577	828
	La Opala RG	278	270	211	323
Operating Profit	Borosil	58	85	82	148
	La Opala RG	113	104	89	122
OPM %	Borosil	16%	13%	14%	18%
	La Opala RG	40%	39%	32%	38%

Management

The key management for the business is Mr. Shreevar Kheruka as MD and CEO of the company. Mr PK Kheruka is the Chairman and Non-Executive promoter. Shreevar Kheruka is a Bsc in Economics with concentrations in Finance and Entrepreneurship from Wharton School and Bachelor of Arts in International relations from College of Arts and Science from University of Pennsylvania in Philadelphia. Shreevar is with the company since 2006 and has led it through period of substantial growth. Leveraging a business crisis he has introduced new business model that relied on Borosil's brand equity, strong distribution network and customer centricity. He is 4th generation member of Kheruka Family. Mr Pradeep Kumar Kheruka is father of Shreevar Kheruka (Chairman of the Company).



Pradeep Kumar Kheruka
Chairman



Shreevar Kheruka
Vice Chairman and
Managing Director & CEO



Rajesh Kumar Chaudhary
Whole Time Director



Anupa Rajeev Sahney
Independent Director



Kewal Kundanlal Handa
Independent Director



Kanwar Bir Singh Anand
Independent Director



Naveen Kumar Kshatriya
Independent Director

KBS Anand is a director at Asian Paints.

Related Party Transactions

PARTICULARS OF LOANS AND INVESTMENTS MADE BY THE COMPANY

During the year under review, the Company has made following loans and investments in compliance with the provisions of Section 186 of the Companies Act, 2013:

Sr. No.	Name of the Entity	Relation	₹ in Lakhs	Nature of transaction
1	Klass Pack Limited (KPL)	Subsidiary Company	2000.00	Investment in equity shares of KPL
2	Borosil Technologies Limited (BTL)	Wholly Owned Subsidiary Company	463.40	Investment in equity shares of BTL
3	Borosil Technologies Limited (Utilised for Business Expansion through Capital Expenditure and general corporate purpose)	Wholly Owned Subsidiary Company	167.00	Inter Corporate Deposits

In addition to the above, the Company has given advance against salary/loan to employees of the Company as per the terms of appointment and loan policy of the Company in terms of circular issued by Ministry of Corporate Affairs no. 04/2015 dated 10.03.2015.

Remuneration :- The remuneration of the key management personnel is 9.32 Crore which is 11% of the net profits of the business. Baring all other directors Mr. Shreevar Kheruka has a remuneration of 6.41 crores which has been increased from 4.03 crores in fy 21. The steep rise in the remuneration of the MD which is more than 5% of the net profits of the company are steep and a **Red Flag**.

“RESOLVED THAT in partial modification of the special resolution passed by the shareholders at their meeting held on September 29, 2020, and in accordance with the provisions of Sections 196, 197, 203 read with Schedule V and other applicable provisions of the Companies Act, 2013, the rules made thereunder, and the applicable provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, (including any statutory modification(s) or re-enactment(s) thereof, for the time being in force), approval of the shareholders be and is hereby accorded for increase in the fixed monthly salary of Mr. Shreevar Kheruka (DIN:01802416), Managing Director & Chief Executive Officer and Key Managerial Personnel of the Company from the existing ₹ 10,00,000 (Rupees Ten Lakhs) per month to ₹ 40,00,000 (Rupees Forty Lakhs) per month, with effect from April 01, 2022.

Financial Analysis

Borosil s Limited conducts its operations in two business segments, namely its Scientific & Industrial Products Division (SIP) and its Consumer Products Division (CPD). The management has grown the sales of the business (since the business had many divisions / merger / de mergers in the past. Here business means consumer division and scientific division aggregated. The two reportable divisions of the company which the management plans to de merge them going ahead) from 134 crores (2013 standalone data) to 828 crores in 2022 (consolidating BTL, Klasspack). The company saw a de growth in sales by 8.3% in the mist of COVID-19 as Q1 fy 20-21 was severely effected by national lock down. The management curtailed down their add spends during the lock down period to save costs and sail the business from the difficult pessimistic times. The operating margins of the business have shown a good increase from hardly earning anything up to 2016 which jumped significantly to 16-18% further on.

After the demerger the present holding of Borosil Limited in Klasspack 82.49% will get canceled: - This will have a reduction impact on the balance sheet.

Narration	BOROSIL LTD										Mar-22
	Standalone					Consolidated					
	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	
	1	2	3	4	5	6	7	8	9	10	Last 4 Quarters
Sales	134	156	175	222	267	296	361	630	577	828	840
Sales YoY%		15.97%	12.48%	26.67%	20.15%	10.80%	22.19%	74.16%	-8.31%	43.42%	1.44%
Gross Profit	59.69	65.70	74.20	95.87	123.05	146.91	230.04	392.26	408.72	415.94	144
GP Margin	44%	42%	42%	43%	46%	50%	64%	62%	71%	50%	17%
Operating Profit	(11)	9	(3)	1	18	41	58	85	82	146	144
Operating Profit Margin (OPM%)	0%	6%	0%	0%	7%	14%	16%	13%	14%	18%	17%
Other Income	25.13	40.76	66.00	58.11	34.97	36.36	11.41	2.61	16.81	10.96	13.36
EBIT	26	42	64	61	139	71	43	49	64	123	123
EBIT Margin%	19.56%	27.02%	36.36%	27.33%	52.20%	23.84%	11.99%	7.80%	11.03%	14.87%	14.66%
EBIT YoY %		60.19%	51.39%	-4.80%	129.55%	-49.40%	-38.54%	13.33%	29.57%	93.43%	0.00%
Interest	0	0	0	1	1	0	10	6	2	1.12	1
Depreciation	2	4	5	5	6	5	26	38	35	34	34
Profit before tax (PBT)	26	42	64	60	138	70	33	44	61	122.02	122.02
PBT Margin(PBT%)	19.36%	26.71%	36.22%	26.80%	51.65%	23.75%	9.26%	6.92%	10.61%	14.74%	14.53%
Tax	6.68	4.52	14.37	7.30	23.89	11.22	8.50	8.26	18.88	36.78	36.78
Tax%	26%	11%	23%	12%	17%	16%	25%	19%	31%	30%	30%
Net profit after tax (PAT)	19.83	37.14	52.20	52.20	126.62	46.37	25.14	35.77	42.10	83.73	84
PAT YoY%		87.29%	40.55%	0.00%	142.57%	-63.38%	-45.78%	42.28%	17.70%	98.88%	0.00%
Net Profit Margin (NPM%)	15%	24%	30%	23%	47%	16%	7%	6%	7%	10%	10%
Total Debt (D)	-	-	-	-	-	-	72	51	9	1	1

The scientific division business has grown at a cagr rate of 14% in last 5 years. The consumer division business has grown at a cagr rate of 35% in last 5 years. The key reasons for the growth of both the segments as given by the management are as under.

	Standalone					Consolidated					Cagr 11	Cagr 5	Cagr 3	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021				2022
Sales														
SIP	75.28	77.63	86.84	101.6	119.1	136.57	187.12	195	202	200	267	13%	14%	11%
CPD	48.34	55.47	66.42	72.56	101.82	129.68	248.9	269	434	385	573	28%	35%	29%
Results														
SIP	17.81	21.71	23.15	25.65	22.11	29.56	32.34	20	29	32	51	11%	12%	37%
CPD	5.6	3.69	7.72	7.56	1.01	9.03	12.12	19	41	28	73	29%	52%	57%
Capital Employed														
SIP	22.11	29.25	31.05	33.92	47.28	48.83	65.78	152	159	138.35	168	22%	28%	3%
CPD	11.78	18.7	25.7	27.18	39.64	43.29	158.43	231	259	186.13	244	35%	41%	2%
ROCE														
SIP	80.55%	74.22%	74.56%	75.62%	46.76%	60.54%	49.16%	13.16%	18.24%	23.13%	30.36%			
CPD	47.54%	19.73%	30.04%	27.81%	2.55%	20.86%	7.65%	8.23%	15.83%	15.04%	29.92%			

Market Size				
	Size	Growth	Share	
Lab Glass (Domestic)	235 Crore	8-10%	64%	
Lab Glass (International)	4000 Crore	0-2%	Recent Entry	
Lab Glass (ME/Africa/SEA)	80 Crore	15%		
Pharma Packaging	1175 Crore	10-12%	500 Cr	No 2
Lab Instruments	570 Crore	8-10%		Klasspack
Kasspack	Acquired 60.3% in 2016	Long Lead tiem to stringent quality test		
	Futer increased to 79.53%			

The Indian kitchen storage is still dominated by plastic and steel containers. Glass storage products currently have a very low penetration. However, there is a growing awareness about the health hazards of storing foods in most types of plastics. While stainless steel is safe is has the disadvantage of being opaque. Borosil has introduced a range of kitchen cabinet glass storage products. They may have plastic closures which do not come into contact with the food stored in them. With a conscious trend of a trend away from plastics, Borosil sees a significant headroom for growth from increasing the penetration of glass storage containers.

Segmented Results

Segment	FY 21	FY22	YoY
Sales			
SIP			Growth
Scientific Ware	200	267	33.50%
LabQuest	15.94	21.3	33.63%
Klasspack	61.57	89.4	45.20%
Labware	126.58	156.2	23.40%
CPD			
Consumerware	385	573	48.83%
Glassware	102.6	146	42.30%
Non Glassware	141.09	207.4	47.00%
Larah	141.04	219.6	55.70%
EBIT			
SIP	16%	19%	
CPD	7%	13%	

SIP caters to the needs of the Pharmaceutical, Research and Development, Education and Healthcare segments of the market. These industries are seeing a rapid move towards automation. This shift is improving productivity multifold and exponentially increasing the volumes of tests and analyses being conducted. New methodologies are being developed for sample preparation enabling multiple analyses. Consequently, there is a large market emerging for new equipment and other products. Traditionally the Company used to market glassware including a wide variety of scientific, industrial and pharmaceutical glass items sourced both from international and domestic markets. Changing with market needs, it has now begun to see itself evolve from a glassware manufacturer to a solutions provider to its customers for their laboratory and product needs. A beginning has been made through the marketing of HPLC vials, Liquid Handling Systems as well as Bench Top Equipment under the brand LabQuest by Borosil. Net revenue of pharma packaging business during FY '21 was INR 57.5 crores and approximately 57% of our capacity was utilized which they further ramped up to 70% by 2017. Scientific provides solidity built on longstanding customer relationships with repeat business, steady cash flows, and healthy return on capital employed.

CPD has been marketing microwaveable glassware products to consumers. There is a definite trend in terms of increased disposable income of households, more nuclear families and changes in consumer lifestyle. Kitchen designs are improving (even as they might get smaller) and consumers are entertaining at home more often. This gives rise to the need for kitchen and serving products that perform more efficiently and are at the same time more elegant. Borosil products seek to empower their consumers with just that, in accordance with our tag-line "performs beautifully". With a rise in health consciousness in the country, there is a gradual shift from storage of food items in plastic to glass containers. The Company now markets Larah by Borosil, a range of opal tableware products, a glass storage range and has introduced a range of kitchen appliances to exploit these opportunities. Some consumer appliances we source from China and some of the steel products that we sell we source from China. That is the bulk of the sourcing. The company **acquired Larah in 2016** and since then the consumer ware division has shown good growth year over year.

(Source: - 2017 AR)

Consumer Products:



Borosil has been a market leader with over ~60% share in microwavable and heat resistant glassware products over the last few years. Borosil has had a first mover advantage in the segment and established for itself unassailable brand equity over five decades.

Shreevar Kheruka:

It is not so simple. We do not simply just import. We have a full design and development team in our company and we design and develop the products with our bill of materials, with our specifications, what steel to use, in case of appliances whether to use copper for our motors, what is the quality of the motors, the rating of the motor, the electronic chips every single thing which goes into the product is specified by us. We do the product testing and we do it at the vendor, the vendor is only an assembler. The vendor assembles the product as per our specifications, our product design and we do the testing at the vendor's location, we do the testing after it arrives here, and we have the full after sales support, after sales service network. So, it is not a trading business per se. Trading is when you just buy and sell something, but here we do the whole designing and all of the things that I mentioned.

(Source: - May 21 Concall)

In Covid Times

Just to make a point here the main reason for glassware degrowth has been the issue with lunch boxes which of course have seen very low in demand owing to the closure of offices across the country. However like I said before, we have more than made up for it with the sale of other products that have seen high demand. Yes, you are right that is the cycle we keep. Although what also changed is that lot of our sales to distributors which used to be on credit has now become cash on delivery, *which is great*. Not all of it but a lot of it has. I think there will be some reduction in the working capital cycle that we see but yes some of the cash generation has come from that unwinding which you mentioned. *We may have to increase our working capital*. There are two key components, *one is for inventory and the other is for receivables*. I think the *receivables portion will not increase* to the extent it has been in the past. Of course, the *inventory may go up*

Margins

Speaking about their operating margins the company use of gas is such a small percentage of our cost price, it is not meaningful at all. Electricity is far more meaningful for us because our furnaces are electric furnaces (for the same the management has installed a 1 MV roof top solar plant at their Jaipur facility). Gas is not so meaningful, so even though the prices have gone up they do not really make a big impact on the bottom line.

Shreevar Kheruka: In some parts of the process it can but in the main part say for example for our opal glass for the main melting you cannot replace electricity with gas. In some parts of the process you can, but those are marginal.

Ashit Kothi: And with regards to pricing, if thermal prices are not going down much then are you looking at utilizing solar energy within your plant.

Shreevar Kheruka: That is right, we are.

Why SG&A (Add spends and what it does to margins)



Shreevar Kheruka: As far as kitchenware and appliances is concerned where you rightly mentioned we are far away from being market leaders and there are many larger players, the strategy is very simple. We have high quality products which we put at the top end of the market in terms of our competitors. We do not want to discount our product to sell it. We'd rather focus on the high quality where the customer comes asking for the product. **Therefore you need to spend money on marketing, advertising.** Like I already mentioned many times before, we are spending about 10% of our consumer revenues on advertising which includes advertising

(Source: - Aug 21 Concall)

The company does not rely broadly on debt for its working for the same the interest cost is not a drag on its operations.

Loss of margins due to fire: - There was a fire in our factory at Bharuch on April 1, 2021. There was a loss of fixed assets and inventories estimated to be about Rs.42.3 Crores. These assets were covered under appropriate insurance policies. Pending finalization of claims filed with the insurance company, we have recognized the loss of Rs.6 Crores in the books during this quarter. Amendment in the Provision of the Finance Act 2021 related to depreciation on goodwill has resulted in a deferred tax expense of Rs.11.7 Crores during Q1 FY2022. Giving effect to these two items has resulted in the company showing up post tax loss of Rs.1.9 Crores during Q1 FY2022. Had it not been for these two items it would have posted a profit after tax of Rs.13.7 Crores.

(Source: - Aug 21 Concall)

Why margins are lesser than competition

The company enjoys 25% to 28% in terms of EBITDA margins. And there are two gaps, one is the advertising and sales promotional expenses which I have been saying for a while that we are spending more and that is likely to be continued. The second is some packaging expenses which we are working as I also covered in my opening remarks, which will hopefully help us bridge that gap. These are the only two areas frankly which are the main gaps between ourselves and our competitor. One may not go away and the second one hopefully we can reduce the gap over the next 12 to 18 months.

Only in the consumer division because the ad spend on the scientific side is very, very low. Most of the ad spend about would say 90% of the ad spend would be on the consumer side of the business. 10% of our consumer business is what ad spend is likely to be and roughly the same in proportion for Borosil brand and Larah brand.

On the glass side of the business, there would not be drastic effect in terms of inflation, though certainly freight rates have going up hurts the margins. On the non-glassware part of the business or the consumer business, there is inflation pressure because it could be steel or it could be copper pricing.

The Scientific Division enjoys a better margin profile than Consumer Product Business

The company has an ROCE of 23.6% (without considering the surplus funds of 223.2 crore, deferred tax of 18.6 crore and goodwill of 67.7 crore created to the Composite Scheme of Arrangement. The capital employed of the business is 511 crore which contributes 297.8 crore to CPD and 213.2 crore to SIP with overall EBIT margin of 14.4% and EBIT of 120.6 crore in FY 22.

Taxes

The effective tax rate during the year was 30.8% owing to higher component of deferred tax. The tax expense for the company in FY '21 was INR 19.6 crores as compared to INR 9.3 crores for the previous year. The reason for higher tax expense for FY '21 is due to an increase in applicable tax rate for the company from 29.12% to 34.94%, and therefore, the company has computed its deferred tax for FY '21 using the rate of 34.94%. The tax expense is higher by INR 3.2 crores due to this. As also the tax expense for FY '20 conversely was lower by approximately INR 4 crores due to utilization of brought forward business losses

(Source:- May 21 Concall)

At a scale of INR 1000 crores revenue, the company can expect to generate an operating ROCE between 20% to 24%.

Acalypha Realty Limited (ARL), a wholly owned subsidiary, intends to venture in real estate business and is contemplating to develop one slum land parcel in Mumbai has no operations.

Key Metrics

DETAILS OF SIGNIFICANT CHANGES IN KEY FINANCIAL RATIOS, ALONG-WITH DETAILED EXPLANATIONS:

Ratios (Based on Standalone Financials)	2021-22	2020-21	Change (%)	Explanation where changes is more than 25%
Debtors Turnover Ratio	13.15	8.04	63.5%	Primarily due to increase in Revenue
Inventory Turnover Ratio	4.97	3.51	41.6%	Primarily due to increase in Revenue
Interest Coverage Ratio	139.68	35.25	296.3%	Primarily due to increase in Earnings
Current Ratio	3.85	3.75	2.5%	-
Debt equity Ratio	-	-	-	-
Operating Profit Margin %	14.99%	11.78%	27.2%	Primarily due to increase in Earnings
Net Profit Margin %	10.32%	7.73%	33.5%	Primarily due to increase in Earnings
Return on Net Worth %	10.56%	6.02%	75.4%	Primarily due to increase in Earnings

As of FY 22 the company has net cash of about Rs.223 Crores invested primarily in high credit quality secured debt instruments.

The assets held for sale:- (details on Page 12):-

47.1 Description of the assets held for sale	₹ in lakhs	
	As at 31 st March, 2022	As at 31 st March, 2021
Property, Plant and Equipment - Land	1,419.87	-
Property, Plant and Equipment - Building	4,717.63	-
Total	6,137.50	-

In the last Financial Year. The company gave 15 crores as corporate deposits to NBFC. The terms of the same (at what rate of interest they are given) is not specified in the annual report. Which is a **Red Flag**.

Note 17 - Current Financial Assets - Loans

Particulars	₹ in lakhs	
	As at 31 st March, 2022	As at 31 st March, 2021
Unsecured, Considered Good:		
Corporate deposits with Non-Banking Financial Company (NBFC)	1,500.00	-
Loan to Employees	38.47	46.86
Total	1,538.47	46.86

Valuations

Borosil trades at 4000 crore market capitalization as on date combined for both business 1) Consumer Ware and 2) Scientific Ware. The total revenue for both as on fy 21-22 was 828 Crore. Consumerware being 573 crore and scientific ware 267 Crore. This makes consumer business 68-70% of the total pie vs 30-32% for the scientific business. Taking today's market cap of 4000 crore. 70% towards consumer business and 30% for scientific business.

Tentatively after the Demerger goes through

- 1) Consumerware Business could get 2700-2800 crore of market cap
- 2) Scientific Business could get 1200-1300 crore of market cap.

The blended ROCE for the business is (PBT + INT / Capital Employed) is 17-18% (data from screener). After the demerger the capital employed of Rs 244 Crore goes to Consumer Ware business vs 168 Crore goes to Scientific Business and 195 crore towards investments (data from screener) which gives both business of 29-30% which is a significant from 17-18% blended Roce currently. The main reason for this is the investments which earns 7%. As stated above in the note the company has investments in real estate funds and high-quality debt instruments.

The business shows its investment in Klasspack as an investment (holding a major % in Klasspack) will get canceled. Other inter corporate investments will get canceled. After the De – Merger the investment account will be reduced and distributed between both the business as on stand-alone basis and as per amounts investment in their core business.

This will give significant re rating to the return on capital employed for both the business.

- 1) Consumer ware: - The listed peer La Opala trades at a valuation of 10 times price to sales vs Borosil at much lower due to both the business amalgamated in one company. After de merger we have 570 crores of sales for the consumer business. The company is expanding its capacities from 42 TPD to 84 TPD which is doubling of capacity as its already having capacity constrains in its Opalware segment. Giving it doubling of capacity in next 2-3 years which would get in operating leverage with respect to high add spends which the company does today for brand building, I give price to sales of about 7-8 times to the business going forward heavily discounting doubling of capacity and re rating of ROCE as company in opal ware has lots of competition and does not have a strong moat. Taking today's (FY 22) numbers which makes it $570 * 7 = 4000$ crore – 4500 crore which gives a 60% potential from the demerger tentative value.
- 2) Scientific Business: - Since the scientific business (as stated by the management multiple times in their Concall's) does not grow on a large scale as the business depends upon proper working of the educational R&D labs / institutes which needs government spending for their growth. Covid has re acknowledged the need for R&D in food, medicine and various areas where it was lacking. The market opportunity size of the business is not a big market. The company is not aggressive in expansion of the SIP business. The management is looking to become a import substitute and gather domestic market share. The export market is much larger than domestic market for lab instruments business which the company very well addresses. The company is expanding its Borosilicate capacity by investing 75 crore. Taking all the aspects into consideration we give a price to sales of 7 -8 times for the business. Which makes it $267 * 7 = 1900 - 2150$ crore which gives a 50-60% potential from tentative market cap after the de merger.

Capital structure of SIP business the resulting company after the demerger

4. REDUCTION AND REORGANIZATION OF EQUITY SHARE OF THE RESULTING COMPANY

- 4.1 With effect from the Effective Date, the face value of the equity shares of the Resulting Company shall be reduced from INR 100 each to INR 10 each such that, the issued, subscribed and paid up equity share capital of the Resulting Company is reduced from the present sum of INR 16,32,94,900 divided into 16,32,949 equity shares of INR 100 each fully paid to INR 1,63,29,490 divided into 16,32,949 equity shares of INR 10 each fully paid up.
- 4.2 Immediately, upon reduction of the face value of the equity shares of the Resulting Company under Clause 4.1 above, every 1 equity share of the Resulting Company of face value of INR 10 each shall be further split into 10 equity of INR 1 each, such that the issued, subscribed and paid up equity share capital of the Resulting Company shall be INR 1,63,29,490 divided into 1,63,29,490 equity shares of INR 1 each fully paid up.

The management has a good track record in the past with demergers and re organizations of their business with the amalgamation of Gujarat Borosil and demerger of the flat gas business to make Borosil Renewables.

Amalgamation of KPL and BTL (the cancelling of investments)

On completion of proposed Demerger of Demerged Undertaking of BL into KPL, BTL will become a wholly owned subsidiary of KPL i.e entire paid-up share capital of BTL will be held by KPL. Upon the effective date, pursuant to amalgamation of BTL with KPL, the entire shareholding of KPL in BTL will be cancelled. Pursuant to the amalgamation, there would be no change in the paid-up share capital of KPL. Since there is no impact on the shareholding pattern of KPL, no valuation of KPL and of BTL is required.

Auditor Valuation for this amalgamation

Valuation Approach	KPL		Demerged Undertaking of BL	
	Value per Share (INR)	Weights	Value per Share (INR)	Weights
Asset Approach *	NA	NA	NA	NA
Income Approach	151.66	50%	113.63	50%
Market Approach	150.02	50%	113.89	50%
Fair Value per Equity Share	150.84		113.76	
Equity Share Entitlement Ratio	1.33			

The Financials

The financial details and capital evolution of **Borosil Limited** ("BL" or "Demerged Company") for the previous 3 years as per the audited statement of Accounts:

Name of the Company: **Borosil Limited**

(Rs. in Crores)

	As per last	As per last	As per last	1 year prior to the	2 years prior
	Unaudited financials	Unaudited financials	Audited	last Audited	to the last
	for the Nine Months	for the Nine Months	Financial Year	Financial Year	Audited
	31 December 2021	31 December 2021	31 March 2021	31 March 2020	31 March 2019
	(Consolidated)	(Standalone)	(Standalone)	(Standalone)	(Standalone)
Equity Paid up Capital	11.42	11.42	11.41	11.41	0
Equity Share Suspense Account**	0	0	0	0	11.41
Reserves and surplus	722.93	723.63	688.32	642.88	602.13
Carry forward losses	0	0	0	0	0
Net Worth	648.98	646.86	611.84	566.67	525.52
Miscellaneous Expenditure	0	0	0	0	0
Secured Loans	0	0	0	43.53	57.96
Unsecured Loans	0	0	0	0	3.49
Fixed Assets	352.09	283.46	294.17	312.23	305.10
Income from Operations	619.81	552.56	527.23	590.82	345.32
Total Income	639.88	572.18	543.61	600.05	359.17
Total Expenditure	549.00	488.98	483.27	549.62	327.41
Profit before Tax	90.89	83.21	60.34	50.44	31.76
Profit after Tax	50.65	45.02	40.77	41.15	23.66
Cash profit	76.50	65.92	70.38	73.73	47.25
EPS (In Rs.)	4.32	3.95	3.57	3.61	1.27
Book value	748.59	735.05	699.73	654.29	613.53

The financial details and capital evolution of **Klass Pack Limited** (“KPL” or “Resulting Company” or “Transferee Company”) for the previous 3 years as per the audited statement of Accounts:

Name of the Company: **Klass Pack Limited**

(Rs. in Crores)

	As per last Audited for Nine Month Period	As per last Audited Financial Year	1 year prior to the last Audited Financial Year	2 years prior to the last Audited Financial Year
	31 December 2021	31 March 2021	31 March 2020	31 March 2019
Equity Paid up Capital	13.97	13.97	13.97	10.15
Equity Share Application Money	20.00	0	0	0
Reserves and surplus	55.61	48.87	47.63	36.14
Carry forward losses	(2.57)	(9.30)	(10.52)	(8.33)
Net Worth	58.44	51.72	50.49	35.18
Miscellaneous Expenditure	0	0	0	0
Secured Loans	0	7.29	7.20	10.78
Unsecured Loans	0	0	0	0
Fixed Assets	57.38	55.80	50.49	39.39
Income from Operations	79.15	65.19	49.06	46.66
Total Income	79.73	65.75	49.42	46.98
Total Expenditure	70.83	64.26	52.59	49.20
Profit before Tax	8.90	1.49	(3.17)	(2.23)
Profit after Tax	6.72	1.23	(2.19)	(1.76)
Cash profit	11.27	6.43	2.89	2.31
EPS (In Rs.)	48.13	8.79	(17.30)	(19.58)
Book value	89.57	62.84	61.60	46.29

The financial details and capital evolution of **Borosil Technologies Limited** (“BTL” or “Transferor Company”) for the previous 3 years as per the audited statement of Accounts:

Name of the Company: **Borosil Technologies Limited**

(Rs. in Crores)

	As per last Audited for Nine Month Period	As per last Audited Financial Year	1 year prior to the last Audited Financial Year	2 years prior to the last Audited Financial Year
	31 December 2021	31 March 2021	31 March 2020	31 March 2019
Equity Paid up Capital	9.58	4.95	4.95	4.95
Reserves and surplus	(1.65)	(1.10)	(0.67)	(0.44)
Carry forward losses	(1.71)	(1.13)	(0.67)	(0.44)
Net Worth	7.94	3.86	4.29	4.51
Miscellaneous Expenditure	0	0	0	0
Secured Loans	0	0	0	0
Unsecured Loans	0	2.21	0	0
Fixed Assets	2.90	2.32	1.92	1.31
Income from Operations	9.18	6.49	4.32	1.96
Total Income	9.21	6.53	4.38	2.04
Total Expenditure	9.90	7.13	4.69	2.49
Profit before Tax	(0.69)	(0.60)	(0.31)	(0.45)
Profit after Tax	(0.57)	(0.46)	(0.23)	(0.41)
Cash profit	(0.17)	0.20	0.35	(0.26)
EPS (In Rs.)	(0.76)	(0.93)	(0.46)	(1.53)
Book value	7.93	3.85	4.28	4.51