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

MTPL/SECT/96/2023-24 **Date: 13th November, 2023**

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

Sub: Transcripts of Earnings Conference Call for discussing the Un-audited Financial Results of the Company for the second quarter and half year ended on 30th September, 2023 and other Business Updates

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

This has reference to our letter dated 1st November, 2023 where-in the Company has given intimation to the exchange(s) about the schedule of the Earnings Conference Call of the company for discussing the Un-audited Financial Results of the Company for the second quarter and half year ended on 30th September, 2023 and other business updates on Wednesday, the 8th day of November, 2023 at 12:30 P.M. (IST).

In this regard, pursuant to the requirement of Regulation 30(6) read with Para A of Part A of Schedule-III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcripts of the said earnings call of the company and be informed that the same has also been uploaded on the website of the Company at:

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

For Mold-Tek Packaging Limited

SUBHOJEET BHATTACHARJEE

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Subhojeet Bhattacharjee
Company Secretary & Compliance Officer

Encl: A/a

"Mold-Tek Packaging Limited

Q2 FY '24 Earnings Conference Call"

November 08, 2023

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

MODERATOR: MR. ABHISHEK NAVALGUND – NIRMAL BANG INSTITUTIONAL EQUITIES

Moderator: Ladies and gentlemen, good day and welcome to Mold-Tek Packaging 2Q FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand over the conference over to Mr. Abhishek Navalgund from Nirmal Bang Institutional Equities. Thank you and over to you, Abhishek.

Abhishek Navalgund: Thanks, Malcolm. Hello, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all to Mold-Tek Packaging 2Q FY24 Earnings Conference Call.

We have with us Mr. Lakshmana Rao, the Chairman and Managing Director of the company along with the Finance Team. Without further ado, I would request Mr. Lakshmana sir to start with his opening comments, post which we can open the floor for questions and answers. Thank you and over to you, sir.

Lakshmana Rao: Thank you very much for your interest in our company's operations and results. I wish to state that we have a flattish quarter in Q2. The growth was marginal at about 5% in terms of volume in terms in the Q2.

Overall, H1 on H1, we had 3.4% growth in volume terms. This basically we have a growth coming up in our square packs and lubricants and also food and FMCG, but paints continue to be on the decline. As I have stated in the past, we are not choosing the small-term paint companies and letting go some of those paint companies.

Also, there is a flattish performance of all the major paint companies, if you have noticed, in the market. That has resulted in our paint sales to be put by about 8%. Being the largest contributor at around 50% of our total sales, this has impacted our growth to a reasonable extent.

However, the positive thing is the lubricants have grown at 9%, food and FMCG at 15%, and Qpack, which is our square packs, has gone up by a huge 80% growth in volume because of the new segments have been opened up and other details, which I will talk over in your Q&A session. I now would rather go back to the operator to let us take the Q&A so that we can cover more details.

Moderator: Thank you very much. The first question is from the line of Avadhoot Joshi from Bryanston Investments. Please go ahead.

Avadhoot Joshi: Thank you for the opportunity. Sir, three questions. First, on the lubricants, we have seen an increase in the volume. I would just like to know what has contributed to it. There are two or three major companies that are also getting into the lubricant businesses like Amararaja is getting into the lubricant business plus Goodyear. Are we able to add new clients into this segment? That is first for the lubricant.

Do we expect this growth for the lubricants to keep on going further?

Lakshmana Rao: In Amararaja and Goodyear, we are just in touch with them. They have to go into commercial production in a big way. And the growth we are seeing is mainly because of continued movement of companies into IML and also some of them into QR coding, coded IML containers.

Shell is moving one by one of its grades into QR code. And apart from that, I would say IML movement from ordinary decoration to IML decoration is what is causing the growth in the lubricant sector. Adding new clients will be still on the platter for the next few quarters.

So we expect the lubricants to do well. In spite of the lubricant sector volumes may not grow up principally, we may still have about 7% to 10% annual growth for the next one to two years.

Avadhoot Joshi: And on the food and FMCG, the Qpack segment has been doing well for the last two quarters. It could be majorly due to the reduction in palm oil prices. How do we see growth into the core FMCG sector? You have mentioned in the beginning that core FMCG has grown 15%. Do we expect it to grow more going forward? Because we were expecting 20% plus growth into this segment. How do you look at it?

Lakshmana Rao: Yes, even in the half year, the growth of 14% is much lower than our expectation. Basically because the ice cream sector in the first quarter especially was really affected due to the rains in the summer season, which impacted their sales considerably. You might have noticed and read the news items also on that, which is a major contributor to our top line growth.

So having said that, this quarter 15% growth is also because of the ice cream's slack in ice cream demand. Otherwise, we have added several clients, and it would have been more than 20% as envisaged. Coming to the Qpack, the demand rise is not just because of edible oil at all.

It is mainly because of our other sectors like cashews and fertilizer, nutrients, and other applications which our marketing could open up. It has contributed towards the increase in the Qpack sale. One news which we also gave in our press note is that a few months ago, we received a patent for the square packs, which we have been fighting for the last four or five years.

That has been awarded to us a few months ago. Then we completed some legal formalities and through various courts. I don't want to name the courts.

We have got the injunction orders against a couple of duplicators. We have copied our container as it is and manufacturing them in a very unscrupulous, unhygienic atmosphere and offering lower prices, impacting our margins indirectly and also our market size. So those effects just started a month, two months ago.

From September, we started taking action on people who have copied our patented design. Courts are also supporting this time because the Delhi High Court itself has given us an injunction order to seize one of the competitors. Similar orders are now being given by other high courts.

We hope to stop at least three or four very low-end competitors who have copied our design in total. That may also gradually improve our margins and volumes in that segment in the next few quarters.

Avadhoot Joshi: Lastly, on the guidance, you have added that in the last quarter, the volume growth will be around 10% for this year. Will you still maintain that guidance?

Lakshmana Rao: Yes, the third quarter is moving good. We are looking at around 14%-15% volume growth in this quarter. So far, the volume growth in these two quarters is only 3.4%. So even if we can do at least 15% growth in the next two quarters, we can still be there. But we may slip a little bit to the extent of 8%-9%, but not severely down because our pharma packaging will start production from December in one of the segments. And the second segment will start from January. So in the fourth quarter, there could be some numbers added in both pharma and also ABG plants.

Two plants of ABG, one at Panipat, one at Payur, they will go into production by the end of December, beginning of January. So there will be some numbers, not huge numbers, but some numbers will be added in the fourth quarter. So I'm still positive that we may be able to reach a double-digit growth in the overall volumes in the full year.

Avadhoot Joshi: Thank you so much, sir. I will join back in queue.

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

Jaiveer Shekhawat: Sure, thanks for taking my question. Good afternoon, Mr. Rao. So first you want to know pharma packaging plants. Can you update us? Where are you in terms of your trial production, customer audits, and client sign-ups?

Lakshmana Rao: We are really bullish about our entry into pharma packaging. Thanks to the good guidance and some of the market research done by our marketing team, we are, instead of coming out with just the tablet packs, which we introduced a year and a half ago, we are now coming out in the fourth segment, that is OTC. Of course, it was there in the beginning also, that we are over-the-counter products.

And then the regular tablet packs, which we have introduced in the beginning itself. But we have added effervescent tubes and canisters, which are also very critical inputs for the pharma industry. And there are very few suppliers, and some of these products are still imported, at least canisters, and distributed by some companies here in India.

So this product will give us an edge in terms of quicker entry with the pharma companies, we hope. And that will open up the avenues to get into other areas of pharma packaging, like nasal drops, eye drops, inhalers, gradually. But going forward, one thing we feel in our management is that pharma is going to be the touch bearer for our growth in the next at least five to ten years.

Like what IML did ten years ago, we hope pharma will be able to do for our company in terms of improving the EBITDA especially, and taking us forward in revenue growth later. So we have done the starting, and we have created the team in place. The final stages of cleanroom work is going on now.

We hope to start commercial production in the beginning of December for one of the lines. And probably by January, we will have all the four segments up and running. So we have created the team of our technical people, quality control, and we are in the search for a couple of marketing people to join, but we are still in the search for a top-ranked person.

And meanwhile, our initial talks with some of the pharma giants have indicated that they will be welcome to join the club because there are very few operators, 3G, and Gopaldas, and DrPak. Like that, there are only three or four known operators of a decent size. And there is a tremendous growth coming up, and even Indian, like I said, there is a council for medical production and packaging.

They are also becoming more stringent in terms of packaging production, packaging quality of the ambience, and manufacturing practices of packaging companies also, apart from just pharma. So if that happens, even in a country like China, it happened now. They have strong standards like FDA.

So if the standards in India start tightening, the domestic market is a very huge opportunity. So we'll be placing ourselves in time to grab those opportunities. Apart from the huge pharma city coming up at Hyderabad, of course the work is still going on, and probably in a year or two, we see pharma companies ramping up their production capacities in Hyderabad, in that pharma city.

So it will also take us a year or two to build up our capabilities, numbers, and relations with these pharma companies. And we'll be well set for long innings in pharma packaging as our growth strategy.

Jaiveer Shekhawat: Sure, sir. That's helpful. And moving on to your Lubes and F&F business. So while on a Y-o-Y basis, you've grown 10% to 15%, but that's also because of a low base in the base quarter. Because if I see quarter on quarter, the decline is roughly 15% to 20% in your Lubes and F&F business. So can you just explain the reason behind that and what is your outlook for the rest of the year in Lubes and F&F?

Lakshmana Rao: In food and FMCG, you mean?

Jaiveer Shekhawat: Yes. In your Lube pack, as well as in your food and FMCG, sir.

Lakshmana Rao: Compared to Q1, you're saying?

Jaiveer Shekhawat: Yes.

Lakshmana Rao: Yes, compared to Q1. Q1 is always our best year, best in terms of F&F, mainly because of diaries and ice creams and all other products continue to be the best year. So when it comes to the Q2, you have a lot of rains and the consumption of mainly the ice creams and dairy products will come down sharply.

That is the reason. Otherwise, Q1 is historically highest all the time. But if you compare our current performance with the last year performance of Q2, we have grown by 15%.

Jaiveer Shekhawat: Yes, I see that. In terms of guidance for F&F business, I understand this year you're seeing challenges. But in terms of your expectation about this business over the next two to three years, do you still maintain your 30% plus volume growth guidance in F&F?

Lakshmana Rao: Yes, going forward, we always aim at 20% to 25% at least, if not 30%. 25% is possible because now we are going to set up our first plant in F&F at Panipat with basic machinery of about four to six machines by February, March this year, 24. By then, the summer also will set in, and hopefully we'll catch up with the summer season in Panipat area, and that is not an area.

So we hope to maintain that 25% guidance in F&F going forward for the next couple of years. And Q PACKs will continue to grow in something like 30% to 40%, at least, if not 80%. And that is because we are not only getting new segments coming into this pack, but you might have noticed Gemini Oil, which is one of the largest oil manufacturers in the country, has adopted our 10 liter in a big way, and they're advertising the pack and pushing the quantities in a very big way.

So there is a lot of inquiries coming in our way for the edible oil packs also now because one of the leaders has adopted it. So far, mid-size companies only adopted. This is the first time other, I mean, a company like Gemini Oil has adopted this pack in their portfolio and giving it a very good test. So we hope that this will create further demand for the Q PACK in the coming quarters.

Jaiveer Shekhawat: Sure. That's very helpful, sir. Wish you all the best. Thank you.

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

Jenish Karia: Yes, sir. Thank you so much for the opportunity. The first question is, with regards to data maintenance, if you can just help us with the volume and value share and Food & FMCG lubricants and paint segment, volume and value both?

Lakshmana Rao: Sorry, volume and value of paint and lube segment.

Jenish Karia: Yes, paint, lube and Food & FMCG.

Lakshmana Rao: Okay. See, paint, the value is INR78.32 crores. Tonnage is 4,460. Lube is INR37.7 crores. Tonnage is 2,160. Food & FMCG, 32.86. Tonnage is 1117. Q PACK is INR19 crores. Tonnage is 8,779.

Jenish Karia: And also, similar numbers for IML and non-IML?

Lakshmana Rao: Sorry, Q PACK is INR1117 and food is INR1040. Q PACK is INR1117. Food & FMCG, 1040 tons.

Jenish Karia: Okay. And similar numbers for IML, non-IML segment?

Lakshmana Rao: Yes, IML, non-IML, we have 62% IML, 38% non-IML. In terms of value terms, 66.7 and 33.3.

Jenish Karia: Okay. The second is on the capex. So, we are adding for INR120 crore capex for FY'24. In first half, we have spent approximately INR25 crores. So, second half, we are...

Lakshmana Rao: No, no, first half, we have spent around INR54 crores.

Jenish Karia: Okay, I was referring to the cash flow statement. Cash flow statement, you showed 25?

Lakshmana Rao: He says in the cash flow statement, you have showed only 25 crores for capex.

Jenish Karia: Intangible is a separate line item. Sorry.

Lakshmana Rao: Working process is not shown in there.

Jenish Karia: Okay, that was mine. Okay. So, how do we plan to fund the second half capex?

Lakshmana Rao: We have applied for INR20 crores of term loan from Citibank, and the rest will be coming through our internal generations. So, overall total, INR120 to INR125 crores investment is planned. It is on card as per the estimate. Already missionary and molds are ordered to the worth of around INR40 crores as of today.

They will be arriving in the next three months, and there will be construction activities still going on at Panipat, Cheyyar. And Panipat has to – sorry Mahad has to start from probably end of December because we just got the land clearance, and now we need to complete the registration formalities for the government of Maharashtra. And then probably in December, we will be able to start construction at Mahad. That plant is supposed to go into production by June next year. So, all this expenditure will be crossing the projected 120 crores.

Jenish Karia: Okay. Okay, that's helpful. So, any guidance on the EBITDA on four kg basis for this year and in the long term?

Lakshmana Rao: This year, we noticed that there is increased pressure on EBITDA, mainly because we have to take people and train them for various plants across India. Already people have been taken for Panipat and key personnel, not everybody. Key personnel have been taken, and they are under various levels of training. Some of our internal people are being transferred to those areas, and these new people will be absorbed in the plant either ways. So, the team, both in pharma, both in payees, there is increased manpower.

That's reflected in the increase in manpower cost by more than 14% this quarter. So, that is one of the reasons for reduced EBITDA. And also, we have the challenge of adding RCP material for the paint and lube industries, especially because they are under the government statutory obligation to use recycled plastic. And in turn, they ask us to mix those materials. And of course, the pricing way, they take advantage. But more than the pricing, this involves a lot of price to establish the products and changes in the molds.

So, last several months, at least seven, eight months, we have been doing these changes and bringing those molds compatible with the RCP. So, that work is now just getting completed. So, this is another reason where we are finding more rejection and more trial work going on. And the percentage wise, I'm not saying it is very high. Let's say previously it is 2%. Now, it is in the range of 4% to 5%.

So, that is indirectly causing a little extra cost. So, this is why the EBITDA is a little declined towards 37, 38 levels. And I hope this year we'll continue to be in the similar range. Probably in the fourth quarter, it may look up a bit because of pharma adding. But for the next full year, that is 24, 25, we certainly want to see it in the range of 41, 42, with the addition of pharma business that will add at a very high EBITDA. And also improving Food & FMCG through our north plant.

Jenish Karia: Okay. And just one last thing. In your earlier question, you replied that October had started on a good note, and you should close the quarter at 14% growth. So, it is a cross segment or is it driven majorly by Food & FMCG recovery?

Lakshmana Rao: Yes, it is mainly in the Food & FMCG and Q PACK. Lubs and paint will be probably stagnant or a little bit growth in lubs. Paint also might grow by a few points but not much because Diwali is the season when in October they pick up the max. But in November onwards, once Diwali is over, generally paint industry volumes dip a bit.

So, third quarter will be generally the worst quarter for us if you see the past record. But this time it is not bad. So, we hope there will be a decent double digit growth in the Q3.

Jenish Karia: Okay. That's helpful. I will come back in the Q4 with more questions. Thank you.

Lakshmana Rao: Okay. Thanks.

Moderator: Thank you very much. The next question is from the line of Harsh from Marcellus. Please go ahead.

Harsh: Yes. So, sir, just wanted to check what is happening in the paint segment. I mean, volumes are down by almost 8% and we also track Asian paints and Berger paints and their volumes are sort of flattish. And even one of the competitors reported numbers yesterday. And even from the numbers, it seems that their volumes are also sort of flattish. So, what explains the disconnect?

Lakshmana Rao: Yes. As I told you in the beginning, we have consciously dropping some of the low-end paint companies from our customers list. We are not trying to chase them because of the pricing pressure. One of the main reasons is that. And we wish to use that capacity for better products and use that for mainly maybe our Q PACK, which are equivalent in terms of EBITDA or better than some of the small players.

So, that is one of the reasons we are moving away from small paint companies, which has impacted to some extent the volumes, not only just this quarter, but for the last two, three quarters. Now, the Satara plant of Asian paints is back in operation, but the numbers are still catching up. So, that is another setback that continues to be there. They are much better than the previous quarter, but with the flattishness, I would say that there is a little decline also in the case of paint companies other than Asian paints by 2% to 3% volume terms. So, that has also caused the reduction in our paint sales.

Harsh: And where would the utilization levels be for the Satara plant?

Lakshmana Rao: Sorry, Satara plant utilization is now around close to 60%.

Harsh: Okay. And so, regarding the past, why won't we be able to pass on the pricing to the paint companies? I mean, since we have a better product quality, and we have been sort of the market leader in the paint segment, then are we seeing an increased competitive intensity in the paint segment, or is there some other reason, sir?

Lakshmana Rao: No, I missed your first part of the question.

Harsh: So, basically, sir, my question is that if we are seeing pricing pressure, then ideally we pass on the pricing to the end customer. So, why haven't we been able to do so?

Lakshmana Rao: No, we are able to pass on the prices of raw material increase or decrease very easily. That is a common understanding. In the smaller paint segment, there are small companies who are manufacturing paints at a lower price with their lower overheads, and they're competing with us. In those segments, we don't want to further compete and reduce our margins. Rather, we use those capacities for our Q PACK, which has a much better value addition than those paints. So, that's where we are shifting our capacities towards Q PACK, that is our five liter, 10 liter, 15 liter, 20 liter square packs.

Harsh: My question is, sir, basically, are we seeing increased competitive intensity in the lower end paint market?

Lakshmana Rao: Yes. Not only now, it has been there for the last several years. It's getting more and more aggressive because the smaller players don't mind adding second RCP material arbitrarily, and they will be cutting the prices to save their costs. But not so with the major clients. They always go for better materials and consistent quality. So, we still stick with the top four, five companies in the paint industry.

Harsh: And what would be our current volumes from these small, small customers in the paint segment?

Lakshmana Rao: I would say it's down to 5% of our overall paint sales. Not even 5%. It's coming down. It used to be 7%, 8% last year. It's almost come down to nil now.

Harsh: Okay. Got it. And sir, regarding the explanation for lower EBITDA per kgs, now I understand that because of using this RCP material, we have to go through a lot of rejection rates. But I thought that this would be sort of temporary. And from your commentary, it seems that for the entire year, EBITDA per kgs would be at a lower end. So, is there a reason?

Lakshmana Rao: The other reason also I explained to you, we have already taken the staff for Pharma, staff for Panipat and Cheyyar, who are working in the current plants to pick up their knowledge and adopt our way of working. So, their costs are also one of the reasons. But that won't be too much.

Maybe a couple of rupees drop may, it may be around 55% to 75% due to that factor. The rest will be due to the increased trials and rejections and some of the, I would rather attribute this drop to the, drop in our growth in Food & FMCG, which we anticipated to be at least 30%, is only around 15% in the first half, 14 point something. So, that is mainly contributed because the Food & FMCG is our breadwinner in terms of highest EBITDA as of today. But that didn't grow the way we anticipated.

Harsh: Where I was coming from is the gross profit per kg. The gross profit per kg number has gone down from around INR89 to INR83. So, and so, employee cost and everything won't be a part of this. And this decrease is, I guess, mainly because of the rejection rates increasing, right?

Lakshmana Rao: Rejection rate increase is one of the reasons. Another reason is also this – this also causes – I don't know whether you added maintenance costs in it. A use of more RCP increases the maintenance costs also. So, because there will be more wear and tear of the machine and there will be extra process to be used. So, power consumption may go up. So, indirectly, this causes higher cost of production. Actually, we are taking up this point with all the top paint companies. Even our competitors are speaking that if you need to add RCP material, you also need to change the conversion prices. So, that discussion has just started. Probably in next few quarters, we may try to convince them for increasing the conversion price.

Harsh: Okay. Okay. Got it. And lastly, in the Food & FMCG segment, we see some increased competitive intensity in this segment because the volumes in this quarter are 15% growth compared to last, same quarter last year. However, the same quarter last year also the numbers are depressed because we are facing some issues on the labelling side. So, to that extent, actually, the volumes growth is more like 10% to 12%, sir. So, are we seeing any increased competitive intensity in this segment?

Lakshmana Rao: There are definitely competition has started picking up in Food & FMCG also. There are small players here and there who are with 1, 2 Robos and 5, 6 containers. They are competing. But none of the big players would go for that because they know they need in season capacities and volumes and also uninterrupted supplies. So, like what we – happens in the paint industry might happen over the next five to seven years in the food industry where you will have more pockets of competition coming up. That's why we also setting up plant in North.

We are also planning a plant in Daman. Like that, we will also try to be there locally present so that we will be competing because our cost advantage comes from in-house manufacturing of labels, in-house manufacturing of molds and Robos, which will always give us an edge over the – even a local supplier. So, that will continue to be there in our favor.

But as you said, the competition is definitely increasing. Where there used to be only one or two competitors five years ago, here are at least seven or eight competitors now who are having small, small product range. It's not that they make variety as big as ours, but they have seven or eight or nine products for ice cream or for some dairy like that.

So, that competition is also slowly growing, but that – I won't add it as a reason for our dip in growth. The main dip in growth is because of the complete washout of ice cream business during the summer months. Up to June, July, we used to have excellent demand from this industry that has dipped by almost 40%, 50%. So, that is the reason in the first half we used to see this number. But I am confident that in the second half the number will be more than 20%, 25%.

Moderator: The next question is from the line of Richa, who is from Equitymaster. Please go ahead.

Richa: Thank you for the opportunity, sir. So, my question is, you know, ice creams and a washout has been one of the key reasons for declining in FMCG growth. What is the share of ice cream related products within the FMCG for you and within Food & FMCG? What is the share of Qpacks value wise?

Lakshmana Rao: No, I am not counting Qpacks in Food & FMCG. They are treated as a separate entity, though they are used for food products, because their EBITDA margins are at par with the payees. It is not as high as the Food & FMCG. That is the first, second part I am answering. The first question of food and ice cream as a%age in Food & FMCG, in the first four months or six months of the year, they contribute almost 50% of our sales. So, that has fallen by about 30%. So, 15% of our growth in the first half or %10 to 12% of the growth in the first half has been evaporated due to that fact.

Richa: Okay. So, but sir, typically your Food & FMCG segment margins in terms of EBITDA per kg is around 80, if I am not wrong. And with all this impact, what kind of margins are you making within that segment?

Lakshmana Rao: No, we are still at around 80, not much of a price pressure on that. Coming to the volume growth, we are now entering various other sectors, mainly restaurants and sweets. Sweet boxes growth is considerable in this quarter.

That is starting from August, September, till October, there will be good growth, even November beginning. Thereafter, they will taper off because of Diwali season is over. And that might pick up again in the New Year time.

So, the seasonality of the products is always there. That is why you need to have a wider range of products to compete and stay fit in the Food & FMCG segment, which we are doing. Every year, we are adding a couple of new segments so that we stay ahead and widen our product range.

Richa: Okay. And sir, if you could also talk about the installed capacities at the end of 1H FY '24 and where do you expect your capacities to be by the end of FY '24 and '25?

Lakshmana Rao: I would tell you by the end of April 24, that is March 31st, 24, that is the end of this year, we will be reaching almost 55,000 to 57,000 tons from 45,000 tons at the beginning of the year. So, almost a 23%, 25%, 24% jump because of the investments that we are making both last year and this year. So, we will be touching somewhere around 55, 000, 57,000 all put together.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Lilladher Private Limited. Please go head.

Amnish Agarwal: Yes. Hi, Lakshman sir. I have a couple of questions. Firstly, I am based out on the numbers which you have given for volumes for paint, tubes and Food & FMCG in 2Q. Can you please repeat the same? Yes, I am talking about that I missed out on the volume numbers which you have given for paints, tubes and Food & FMCG in second quarter this year in volume terms and value terms?

Lakshmana Rao: You want the terms, is it? Volumes, quantities you want?

Amnish Agarwal: Yes, Yes, Yes.

Lakshmana Rao: Okay. In paint, it is 4,460 tons. Tubes, it is 2,162. Food & FMCG, 1,040. And Qpacks, 1117.

Amnish Agarwal: 1117. Okay. And sir, in value terms?

Lakshmana Rao: Value terms, 78.3 crores, 37.7, 32.86 and 19, 19.1.

Amnish Agarwal: Okay. And sir, my second question is that we are making a lot of investments further, you can say, in I think one site in north and another site for one of the large new paint entrants. So what is the progress on that and by when it will start contributing to our top line?

Lakshmana Rao: Yes, we will be starting commercial trials in December this year at Panipat and commercial production may start from January 2024. Similarly, trials in January will happen at Chaiyur and probably end of Jan or beginning of February, Chaiyur plant also will be up and ready for supplies. Whereas the third plant, Mahad, we have just acquired the land, clearance has come from the Government of Maharashtra and then we need to get the registration done and probably start the construction from December. And by June, July, we should be ready there for the first phase. So these three plants will be going up in the commercial production from January, two plants, and the third one in June, July.

Amnish Agarwal: Okay. And sir, how much capacity will these three plants have for us?

Lakshmana Rao: Starting with, we are going very, the buildings and land have been acquired for huge capacities, but for the present plant, we have 1,500 tons each at Chaiyur and Panipat and the third one also may be starting somewhere around 1,200 tons because smaller requirement there. So it will start with about 4,000 tons, let's say, for ABG.

Amnish Agarwal: Okay. And how much will this capacity be as a proportion of the total capacity for paints, which we are having today in our system?

Lakshmana Rao: See, today, paint and loops together, we have about 30,000, 33,000 maybe, and that is going up to 40,000. So the 4,000 contributes to around 10% to 12%.

Amnish Agarwal: Of paints and loops put together?

Lakshmana Rao: Of the paint and loops put together. And because they are fungible. Paint containers and loop containers are more or less fungible.

Amnish Agarwal: Okay. Okay. And sir, finally, on the, how much has been the EBITDA per kg in 2Q and what is the outlook for 3Q and 4Q?

Lakshmana Rao: See, we have achieved only INR37.2 in Q2 and INR38 for the H1 overall. I think it will be similar for the next half year also. Probably a little bit of improvement can be seen in the Q4.

Where we hope that Pharma and ABG products, which will be starting commercial production sometime in January, might start adding some numbers and better EBITDA for the Q4. And going forward next year, we are positive that it should be in the region of 41, less than or minus 1, mainly 41 is possible with the Pharma sales picking up numbers. And also our Northern Food & FMCG products going on stream.

Unfortunately, we have decent price agreement with ABG, at least in the first five years. So that will certainly also help us in improving our EBITDA.

Moderator: Thank you. We have the next question from the line of Richa from Equitymaster. Please go ahead. Hello, Richa, are you there?

Richa: Yes. So thanks again for the opportunity. My question is on the Pharma capacity that will start producing from last quarter. So for FY '25, do you have any kind of visibility or can you give any guidance of the range of revenue that you can expect from this segment? And also with the three, four products, do you expect the margins to be in the range of, I think you suggested INR150 per kg. So would the existing basket or the products that we have planned will be able to get those kind of margins on this segment?

Lakshmana Rao: Yes. Coming to the margin side, I am confident it will be in the region of at least INR150 per kg for any of these products or at least the average of all these products put together. But I can't give an exact detail of the sale for the next year because it is a new line we are entering.

The overall capacity-wise, we can achieve INR60 crores to INR70 crores turnover with the product mix what we are starting. But how much capacity utilization would happen, I would only be able to comment probably after one quarter at least, that is the end of March 24. So by then probably we will have a picture of the demand is emerging and how many big clients are really giving us orders. So more clarity will come probably in the next four to five months.

Richa: Okay. And so for the new paint line, we have around 4,000 to 5,000 kind of capacities planned. So by the end of FY '25, what kind of utilization do you expect in these incremental capacities?

Lakshmana Rao: See, as you know, these 4,000 tons are meant for a new player who is coming into the paint industry. So their numbers are very optimistic, but I would only know as again how the market responds to their product and how well they will be able to penetrate into the paint industry. So that is a little bit uncertain as of now. But given the fact that Panipat and Chiyur are their first two plants out of the six locations they are planning, there will be certainly demand from these two plants to start with and seed market in the rest of the country.

By the time they go ahead with the rest of the plants by middle of June 24 or March and June, I think they have plans, there will be good reasonable demand for these products from the first plants, that is Panipat and Chiyur. But all depends upon how aggressively and how well their products are received in the market and how they market themselves. That depends upon the utilization.

Richa: Okay. And given all these developments that are happening in terms of capacity addition and whatever is happening with the paint segment, would you like to, is any kind of revision warranted in 18% to 20% kind of growth guidance that you had hinted in the earlier call?

Lakshmana Rao: No. I still believe that we will be able to be in that growth region from '24, '25 onwards because of all these several plants and a new segment of pharma is opening up. We are still aiming at that range of growth for next year.

Moderator: Thank you. The next question is from the line of Avadhoot Joshi from Bryanston Investments. Please go ahead.

Avadhoot Joshi: Thank you. Thank you for the follow-up. Two questions. You have in the press briefly mentioned about the export potential also. So I think the focus would be on the Food & FMCG packaging. So what's the value proposition when we are approaching the clients overseas and how do we want to go ahead with which areas we are focusing and how do we plan to export it? And what's the price differential we have with the people at the other overseas players if you can elaborate on that?

Lakshmana Rao: Yes. This is a very nascent stage, but I'm glad that we are reaching at least INR5 crores, INR6 crores of turnover in exports, which is about less than 1% of our overall sales. But we notice that there's quite a good demand for not only the Food & FMCG products, but also the proposed products of our pharma division. So we are now participating mainly in the food segment as of now, because that is the area where we have a range of products to offer for different industries abroad, like restaurants or ice creams or food products and dairy products.

So all this, while our focus, and even now for the next few months, will continue to be on exporting of Food & FMCG containers. But once our products, canisters and FRMs and tube packs come out, they will be also having a good export potential, not only in Middle East and African countries, but also in Europe and developed countries, because we are manufacturing them under DMF certified plant.

Our products will be acceptable in even USA. So we would like to take the focus, bring the experts also a growth area here after, and have a team working on it in the near future, so that they will be able to start contributing to the growth.

Avadhoot Joshi: So going further, say three years to five years down, how do we see the potential from this business?

Lakshmana Rao: Yes, it certainly can grow to at least 3% to 5% of our sales, with better margins and better utilization.

Avadhoot Joshi: Okay. And lastly, in the annual report, you had mentioned about the medical equipment manufacturing also, for the pharma segment. Is there any such plans going further you have?

Lakshmana Rao: Not medical equipment, medical devices. Yes, devices means these inhalers and products like that, which fall under injection molding or IBM, or maybe a combination.

Avadhoot Joshi: So it is in line with our current goal?

Lakshmana Rao: Yes. That will be a long shot, not in this next year, because next year, we have to augment our capacities, expand in the product range what we are already entering in the four segments. And definitely because it's a huge market, in my opinion, overall, including the export market itself is around INR5,000 crores, that is FDA exports and through our, exports of our pharma products into US and Europe, uses about INR4,000 to INR5,000 crores of packaging material, like bottles and caps.

So apart from that segment, we are entering into canisters, effervescent tubes, and the OTC, of course, that's local product. This will be able to generate growth that can be really needing higher investments and faster improvement of the capacities, if things go well. So that's what we will review this sometime in March, April. By then, we'll have at least three months of experience in the pharma market.

Avadhoot Joshi: Okay, understood. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Kanishka Sorcar, who's a private investor. Please go ahead.

Kanishka Sorcar: Hi. I just want to -- bring you back to that particular point almost a year and a half back. You had mentioned that, the second line of leadership, the young guys, I think it was your son and another person, they were working on certain projects, which is primarily they were working in terms of exploring markets, that is, international markets.

And this talk about, building business, that export business has been kind of in talks for some time now. So I want to really know, what's actually happened, because it's quite some time now. And by now, we should have done some meaningful work on that side. That's one.

And second thing, sir, is about the pharmaceutical business. So I just want to understand, you also, you had mentioned that some kind of prototypes were made, and you would have got some kind of feedback. So I want to understand, how do we as a company start? How was it received and how, what is the kind of traction that you're, in a preliminary interaction that you're getting from these pharma companies? And are these like big pharma companies or these are like typical biotech companies? What are these companies?

And third point is the packaging, which you mentioned about in terms of medical devices and also in terms of those caps for FDA. Where are we on that? And are these some sort of a differentiator products that we are creating, which is not available in the market right now?

Lakshmana Rao: Yes, I'll answer the first question of exports. If you notice, three years, four years ago, our exports were stuck to only Middle East and that to only one or two companies like Shell and Gulf, Elf, Total, that is Elf. So now we have exports going to USA in the last one year. The numbers have shot up, not very big numbers, from one to two crores per annum to five, six crores now, which is a reasonable increase. But that gives us now credentials and references to showcase and try to get more and more export opportunities.

I will never say that exports will be our major contributor. It will also add to the growth numbers even in the future. But in pharma, we have better export opportunities because most of the developing countries and even some of the developed countries have restricted capacities are high costs associated with pharma products. That is where we can pitch in and try to grab a part of the export business.

So going forward, exports can grow up to, like I said, 3% to 4% of our sales in the next few years. But it will never be a top contributor like 20% of our sales and all that, unless our product range changes drastically in the next few years. So coming to your second question about pharma, our interactions are with big companies only.

We also have small companies, one or two of them, showing interest in our products. But we also met with one, I can say, very large company. I can't name it now. And there are two auditors in December, probably they'll come for audit in December, January, once we have completely set our product lines and plant. So the traction looks good because one of our products is an import substitute.

The two are, of course, already there in the market, but with limited capacities in one of them. So we hope that, the export traction in pharma will start picking up in the next couple of quarters. And we'll be in a better picture to see the performance maybe in April when we have the Q4 results. Then we'll be having some names to tell you.

And then coming to the last question of caps and devices, that is a long shot, I just said. It is not for the next year. We'll be looking at devices when the time comes up because the moment we start our association with big pharma companies with typical products, what I mentioned, all these four products, there will be demand and opportunity to develop devices for their particular medicines.

And they could be different from the current designs available in the market or could be somewhat similar. But that is where we can step in because we have a design studio with about seven, eight engineers working on product development for several years. And we are also planning to add one or two with a pharma background. So that will be a little longer shot.

But certainly, Mold-Tek with its ability to design new concepts and work with MNCs in various product development has the necessary background and necessary skill set. That main skill set is mold development. After all, end of the day, in injection molding or IBM, the mold development defines your ability to develop new products. Of course, the designing of a product itself is an art which we need to acquire. So that is why, I'm saying it is a little longer shot a year down the line.

And coming to our second generation, their main focus as of today is in the pharma and taking the new food and FMCG products, widening the product range. These are the areas where they have been assigned to work on. And until now, the contributions look good. And as I said, after maybe another four months to five months, we can have a review on how pharma is shaping up.

Kanishka Sorcar: Thank you so much. Thank you.

Lakshmana Rao: Thanks.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comments. Go ahead, sir.

Lakshmana Rao: I take this opportunity to thank Nirmal Bang and thank all the participants who have taken their time to hear our story and our future plans. And thank you also to the operator for Malcolm for being there and assisting us. Thank you very much.

Moderator: Thank you very much, sir.

Lakshmana Rao: And I take this opportunity to wish you all a very Happy Diwali and a great year ahead. Good luck.

Moderator: Good luck. Wish you a happy Diwali as well, sir. Thank you. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.