“Borosil Limited
Q1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Borosil Limited Q1 FY2021 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Sahay. Thank you and over to you Sir!

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

Shreevar Kheruka: Thank you Praveen and Edelweiss for hosting this call. I wish everyone a good morning, thank you for joining the call. We have interacted quite recently - about a month ago to discuss the results for the year ended March 2020 and recent developments up to then., There have obviously been lots of changes in the quarter from April to June and we will talk about that on this call.

Borosil Limited's Board approved the company's financial results for Q1 FY2021 on August 14, 2020. Our results and an updated presentation have been sent to the stock exchanges and have also been uploaded on the company's website. As most of you know Borosil's scheme of amalgamation and demerger was implemented during the fourth quarter of last year. April - June 2020 was thus the first complete quarter of the merged Borosil Limited comprising its consumer and scientific divisions. Q1 FY2021 has also been unquestionably one of the most difficult environments we have had in a very long time. We lost almost the entire quarter due to COVID-related lockdowns in India. Our factories, except for Klasspack, were shut all of April and a part of May. Thereafter the disrupted supply chains gradually began to come back. Our Mumbai head office continues to remain shut and our teams continue to work from home.

Let me touch upon the operating performance during the first quarter of FY2021. The consolidated company Borosil Limited recorded net sales of INR 56.1 Crores. There is a decline of 56.5% over the same quarter last year. The steep drop in sales resulted in a fall in EBITDA to negative INR 3.2 Crores as compared to positive INR 21.8 Crores during the same period in the previous year. This includes a onetime expense of INR3.5 Crores excluding which, our EBITDA margin would be 0.6%, slightly in the positive territory. The company incurred a loss of INR7.4 Crores during Q1 FY2021 as compared to a profit of INR10.8 Crores in the same period last year. The consumer division registered a sale of INR19.7 Crores down from INR 79.4 Crores in the same period last year, that is a fall of almost 75%. All the sales channels were severely impacted. Modern trade (large format stores) remained shut through a good part of the quarter nationwide. Similarly, as you might expect B2B sales experienced a large drop. The company's e-commerce initiative over the last couple of years had been garnering some business. While sales declined in this channel as well, the impact was not as steep.

As I had mentioned on the last call Borosil's consumer product range is discretionary in nature. The lockdown and its economic shock resulted in consumers cutting back on purchases during the quarter. As might be expected gifting occasions, which is a use case of Borosil products more specially Larah, would have seen a significant decline. Similarly, with most companies doing their own belt tightening the B2B channel remain muted. The scientific division performed better compared to consumer division with net sales of INR 36.4 Crores down from 49.6 Crores, which is a decline of 26.5% over the same period in the previous year. As the customers for the scientific division are primarily in the pharmaceutical sector, we were classified under essential services. The factories were thus able to reopen and commence operations sooner. Though budgets for government funded scientific labs and educational institutes, still remained constrained, the impact on the business was not as severe as the consumer division owing to demand from pharmaceutical companies. Demand in the pharmaceutical packaging products under Klasspack saw a firm uptick with the unit achieving a very healthy growth. That was the silver lining in this past quarter.

Borosil's business composition has provided resilience to the company during this hard time. Our strategy to cater to two separate business sectors has helped the company navigate through the current storm better than if we were only in the consumer division. The scientific business contributed more than its normal share to sales and helped with operating cash flows. Additionally, building new lines of business in each of the divisions and developing multiple go to market channels has helped sales during this downturn. With revenues taking a hit, the company quickly turned to managing controllable cost. All cost lines have been closely examined and rationalized where feasible. In the consumer division for example, advertising and sales promotion as a percentage to revenue was cut back to 5% as against 8.5% in the same quarter last year. Fixed overheads were reduced by about INR 5 Crores in the first quarter when compared to the corresponding period in the previous year. So, while overall the quarter has been a tough one, we see some green shoots for the coming period. We are quite optimistic about the rest of the year, and I would like to now move onto the outlook.

As we discussed on the last call, we are not yet out of the period of uncertainty. While the lockdown has been lifted to varying degrees across different part of the country, business is still not normal. During the month of July, we saw fresh imposition of lockdown in some cities such as Thane, Pune and Chennai. Borosil's range of consumer products are discretionary in nature. We expect demand to remain muted and the return to pre-COVID levels maybe gradual in our categories.

In the scientific division while some customer segments continue to face cutbacks, demand from the pharma sector for lab glassware is coming back faster. The vials and ampoules business under Klasspack has received the fillip. Like I shared last time, FY2021 is likely to be a year to be taken one quarter at a time. We have decided that attempting to forecast the sales for the entire quarter or for the entire year might be a futile exercise especially in the event of lockdowns going on and off in various parts of the country. Instead we will try and work with shorter term targets while continuously monitoring the situation.

So how is Borosil planning to navigate the next few quarters and stay prepared for the future? Our priorities will be:

For the consumer division:

1) Capacity building and enhancing our capability in the online channel,

2) Building a more flexible and resilient supply chain with lower dependence on China,

3) Strengthening our multichannel go to market and reducing dependency on large format stores, that is at least in the near-term,

4) Close monitoring of channel inventories and timely supply to trade to help them manage their capital employed optimally and finally

5) Promoting Larah Opalware as daily usage product and reduce the brand's dependence on gifting.

For the scientific division we will focus on

1) Our laboratory glassware business with pharma manufacturing companies, which are less impacted owing to COVID,

2) Developing new customers in food and environment segment to mitigate the business loss from research and educational institutes,

3) Tapping new opportunities with potential vaccine manufacturers,

4) Thrust on import substitution with new products developed in the LabQuest instrumentation range and

5) Focus on expanding export sales across already existing customers in various markets and by appointment of new distributors.

While we are cognizant of the several near-term challenges in the business, the company will also focus on the opportunity beyond. Our straddling the consumer and scientific division is a strength and makes us resilient. Borosil's strategic direction to build multiple pillars for both the divisions has helped us in the last quarter and is playing out well. We envisage a multiyear growth opportunity in both our businesses.

Finally I would also like to add that in spite of the quarter being challenging from a sales and profitability perspective, our cash flows have been remarkably good. We have been able to reduce our working capital loans substantially over the past quarter and in general the cash position of the company remains very strong both from a treasury as well as from an operational perspective. I think the team has done a good job in managing free cash flows and cutting costs as required and I am pretty optimistic that from Q2 onwards we should return to some semblance of normalcy even though coming back to pre-COVID levels may take a little bit longer than that. So, with that I now conclude my remarks and I am happy to take questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: Two quick questions, what is this INR 3.5 Crores one-off that you outlined in your opening remarks?

Shreevar Kheruka: We had announced an ESOP policy for our senior employees about two-and-a-half years ago and as per the ESOP policy you have to provide for ESOP-related expenses in the books every quarter. Now because of the merger and demerger being approved in the last quarter of 2020, this provision is basically nine quarters of expenses all related to the same ESOP scheme, which has been debited in this quarter itself.

Ashwini Agarwal: This is an accumulated spend this will not recur in the coming quarter?

Shreevar Kheruka: No.

Ashwini Agarwal: It is non-cash expenses?

Shreevar Kheruka: Exactly.

Ashwini Agarwal: I missed the first couple of lines of our opening comments did you provide an update on the furnace as well?

Shreevar Kheruka: I was expecting that question. We are looking to start the furnace probably sometime in the next month. We do see demand coming back now and with Diwali not that far away that is our expectation. Obviously we will be announcing it when we take the call and we actually start the furnace, We are announcing it to the public at large. Our expectation is to start it sooner rather than later.

Ashwini Agarwal: My third question is that with your online trade partners or large format stores now starting to open up, your corporate accounts, etc., whoever were buying for Diwali-related gifting purposes… Are you getting any early signs of how festive season sales may turn out to be, that is not far away now?

Shreevar Kheruka: That is right., I am pretty optimistic, frankly, because especially in the last few days, there have been two things, which have changed. Number one is there is a lot more buzz in markets. I am talking about general trade and I think that is a very positive thing. It is very very early days - it is even before green shoots I guess, but we are getting inquiries, which are decent I would say. Also, even B2B inquiries have started coming in and in fact one or two of them are also at the last stage of conversion. So, we are getting a positive sense of Diwali. In general what we are seeing with COVID and I am sure that most people are perceiving this, is that while the infection rates are going up, with the increased testing happening I think we are detecting it earlier. The healthcare system is able to catch the disease earlier and treat it more effectively, so death rates are coming down. I think hospital beds are also opening up across the country, so there is a little less fear than that was even two, three weeks ago. That is my perception and less fear means a better outcome for any consumer company like ours, which offers discretionary products. So, in general I am quite hopeful that this August-September and the Diwali October-November are likely to be pretty good compared to what we have seen. I think we are still a little bit away from pre-COVID levels, but we still need to ramp up our production.

Ashwini Agarwal: All the best Shreevar, I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Securities. Please go ahead.

Rishabh Parekh: Congratulations on a resilient quarter. I had a question regarding Klasspack. I wanted to understand the ecosystem in a blue sky scenario what is the capacity we have to produce vials for vaccines? Also is this manufactured in-house or is this outsourced?

Shreevar Kheruka: As far as vials are concerned, we manufacture everything in-house we do not outsource anything that is point number one. Point number two, our capacity for the year is roughly 240 million vials that is 20 million vials a month. At the moment our capacity utilization would be hardly 45% and the reason for that is that we have added a lot of capacity in the last year or so. It will take some time to get registered as vendors to various companies because it is a primary packaging. As for our ability to ramp up, we could probably double revenues from here without having any further capex. That being said, there is a lot of hype in the market about vials. While I would definitely say that it is going to convert into actual sales, I think it is still a little bit away. Right now, various companies are still testing the vaccines. We are also in talks with various companies. I obviously cannot name them because we have NDAs in place, but we are in talks with various companies to supply our vials. Many of them are our existing customers, so the hurdle to get through to them is not that high. That being said, I think the question is which company is actually able to launch the vaccine first and that company is going to probably take a largest share of the pie for the vaccine. So if that company is not our customer then obviously we will not get that sale bump up. If the company is our customer then obviously we will get it. But even if that company is not our customer I think one thing is clear that this vaccine will consume a large quantum of demand for vials. If the competitor supplies it, it may not be able to supply other companies, which will then come to us. So either which way I do see a good future for this business. I am quite positive that whatever investments we made in Klasspack over the last two, three years including upgrading the infrastructure will lead to good results in the future.

Rishabh Parekh: My second question was around the consumer division, so you did mention some optimism coming back Q2 onwards, if you had to hazard a guess for the full year while I appreciate it is a difficult thing to do what would your best estimate of sales for the consumer division be?

Shreevar Kheruka: It is a great question I ask this question literally every day to my sales head. The thing is the policy of each state government is dynamic. For example, yesterday Punjab again said lockdown on the weekend and through to end of this month. Now if I had asked my Punjab sales team in the beginning of the month how much they will sell, they will give a number, but now if there is a lockdown and the weekends are shut no person can predict. With the lockdown the sales will automatically drop by 80%. So any number I gave will have absolutely no veracity because I do not control any of those policy decisions, which have been taken by various governments. So, I think it is a bit too challenging. What I can tell you is that we would love if we could achieve last year's sales number. We would love it because as on today I do not see that happening , but it is in the realm of possibility. Yes, we have not given up hope but that is hope and not a strategy at the moment. We are trying our level best to try and see whether we can achieve last year's numbers and with every month going by it is looking harder and harder, but I do not think we have given up the fight.

Rishabh Parekh: My last question is about competition so pre-COVID we saw a lot of competition in your product categories today do you see the intensity of the competition going down to your regular competition and are you seeing some kind of reduction?

Shreevar Kheruka: I think it is really too early. We will know the impact probably in another three months, maybe in the next quarter I can share my thoughts with you, but so far everything is dead, right. So when everything is dead it's hard to judge how others are responding or what they are going to do. Look the organized players are still around and they have strong balance sheets and they are not going anywhere. If it be the smaller and unorganized players that you are talking about, I think we will know more by Diwali time. So if we are having the same discussion for Q2, which will be just about around Diwali in my opinion, I will probably be able to answer this question a bit better.

Rishabh Parekh: Because there is a lot of unorganized segment in your spaces.

Shreevar Kheruka: One thing I can tell you is that there is a lot of anti-China sentiment in the customers. We receive email from a lot of customers asking which of our products are from China. So, that is something new. We have not seen that before and it is pretty interesting. As I already mentioned, we are looking move sourcing back to India and a lot of the unorganized guys are buying from China. I think that will help us for sure.

Rishabh Parekh: Thank you that is it.

Moderator: Thank you. The next question is from the line of Manav Vijay from ONE-UP Financial. Please go ahead.

Manav Vijay: Sir I actually have two sets of questions one is for Larah and second is for your Klasspack division. First of all on the your Klasspack so in FY2020 we did sales of around INR 45 Crores and you had mentioned in Q4 call that you were around 50% utilization. So, for an INR 25 Crores capacity you made around INR 12.5 Crores. So, that converts into roughly Rs.3.6 per bottle realization. Now, if I do some basic Google and if I see the costing of a vial or ampoule, a basic ampoule costs roughly Rs.2 to Rs.3, vial costing is anywhere from Rs.8 to Rs.20 as well. So I do not understand first of all why our realization was so low in that division when you are saying that you are making both vials and ampoules?

Shreevar Kheruka: I think firstly your estimation of pricing from Google is probably not correct. An ampoule would not cost anywhere close to Rs.2 Typically an ampoule costs few paisa, 40 paisa, 50 paisa 70 paisa. That is because it is primary pharma packaging. What you get in the end market is completely different, which has got the drug filled in it. A glass ampoule, depending on size would be not sold in rupees, it would be sold in paisa's. That is point number one. Two your estimation on per piece vial cost is very high. Obviously it depends on the size because ampoules typically are only 1 ml or 2 ml - most of the demand, but vials can be anywhere from 1 ml to 50 ml and there is a big price variance between these vials. So, it is hard to compare our pricing with whatever you are seeing on Google. I am not sure what the veracity of that information is, but I can definitely tell you that we strive to get the best price for our products. We sell to very well-organized pharma players who have access to global sourcing, so we have to compete in the global market and within that we try at the best price possible.

Manav Vijay: My second question is Sir now let us say whatever capacity that you have under Klasspack all the capacity is fungible between ampoule 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.

Manav Vijay: So, is it possible for you to break that down into how much is for vials and how much you have for ampoules?

Shreevar Kheruka: I think we have already done that. We have a capacity of about 500 million ampoules per year and about 240 million vials per year.

Manav Vijay: Now my third question is Sir in Q4 call you had mentioned that you can basically double your capacity in vials, in Klasspack without much investment. In one media article where you had mentioned that you can actually triple your capacity without much of a capex. So. at the plant that you have in Nasik so what kind of a space do you have? If a Covid drug comes and with that the demand for the vial and the ampoules, how much can you expand at this facility and what could be the timelines and capex?

Shreevar Kheruka: I do not know which article you are referring to but I can certainly say that as we have already mentioned in this call we have about 50% capacity utilization today. So, I can double our vial sales with Rs.0 investment because we already have capacity. Now beyond that I can further double in the same location without any infrastructure required because the building, workers and everything is in place. The only question is machinery that would be required. The cost of those machineries can vary substantially depending on what you are trying to produce and where we decide to buy the machines from. So, it is improper for me to just give a number on this call. It will depend on what size for example the COVID vaccine is released in. For a 30 ml vial we will buy a different machine, which will come from a particular manufacturer. If it is brought in a 3 ml vial or 5 ml vial or 10 ml vial it maybe a different machine from a different manufacturer and the capex may be totally different. So, I would not like to give a number today because I do not have any clarity on how that capacity will double and what form it will take. It is a bit challenging for me to give that number, but I can say from here I can double without any capex beyond that it will totally depend on what machines we buy and what machines we buy will be dependent on what product the pharma companies want.

Manav Vijay: My next question is Sir if you look worldwide all the large vial manufacturers let us say whether Schott, Corning, SGD, NIPRO, nobody is actually willing to commit capacity to anybody because like you mentioned that nobody knows who will come out with the medicine first. Are you also getting such kind of commitment requests from your customers, to pre-book the capacity?

Shreevar Kheruka: Frankly people talk about it but no one is going to pre-book capacity unless someone gives you an advance to pre-book capacity. It is good to say but I do not think anyone can do it or will do it.

Manav Vijay: Now my last question for this division I would say in your FY2019 annual report and I believe also in Q4 concall you have mentioned that you are actually number two in India in terms of your capacity whereas Schott Kaisha, which I believe there are 3 billion unit capacity and I think Piramal Glass has 1 billion capacity whereas you have roughly 25 Crores capacity so can you elaborate whether you are number two or number three?

Shreevar Kheruka: Firstly, Piramal Glass does not do our product category meaning it does not do tubular glass vials at all. They are molded vials and it is a totally different segment. They would not even fall in our competitor sets. Yes, I think Schott Kaisha is by far the number one player in India. I do not have exact capacity details of other players, but I would say we are definitely in the number two, number three range. If I take all of the other players that I know of, but that is not a formalized statement, which is based on any research this is based on our own internal estimates of the other players' capacity. In terms of the vaccine, most likely and again this is an assumption the demand will be mostly for tubular vials and not molded vials. That is our internal estimate.

Manav Vijay: My last couple of questions are actually on Larah in Q4 call you had mentioned that at full capacity you can do sales of around INR 200 Crores and at that sales capacity you will do an EBITDA margin of around 26% to 28%. Now your biggest competitor La Opala, which in FY2020 did a sales of INR 270 Crores with 45% EBITDA margin and 30% PAT margin, Sir I wanted to understand what is the basic reasons for this difference in margins. Does their scale give them operating leverage or they command better pricing in the market or they have lower working capital days? If you can elaborate that would really be helpful Sir?

Shreevar Kheruka: Yes, I have said this a few times in the past already and I will repeat it. The main difference is that we spend more money on advertising and sales promotion. Our advertising and sales promotion expense is almost 10% of our sales - anywhere between 8% and 10% of the revenues for last year whereas our competitor virtually spends zero. So, there is a 8% to 10% gap, which comes directly from that which is a large chunk of that gap. The second is our electricity prices are higher in Jaipur compared to what our competitors pay and that may account for 2% to 3% if I am not mistaken. Then we had a slightly higher cost of supply chain, which we have since rectified because we have got our consolidated warehousing now. Unfortunately, that happened right during COVID and we have not had a chance to benefit from it yet, but whenever things open up it will benefit us. I think these would make up the majority of a difference of say 12%, 13% and yes 2%, 3% may be attributable to larger size giving them operating leverage.

Anand Sultania: We can also say that they benefit 5% on account of other income that they are getting from their treasury division?

Shreevar Kheruka: Yes, their treasury division generates other income from a large cash surplus.

Manav Vijay: Sir in the information memorandum that you guys had filed in the month of July the print on the consolidated balance sheet page is not readable at all. If it is possible for you, please upload a consolidated balance sheet for Q1 or for FY2020 which is readable.

Rajesh K Chaudhary: Yes, we can do that.

Moderator: Thank you. The next question is from the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: This year will be tough, But if you take a long-term vision of three to five years how do you see the growth in margins and what would be the drivers of that?

Shreevar Kheruka: I do not think anything has changed. In fact I would think that eventually it would bring in benefit even in our consumer division because people will take time to go back to restaurants etc. and people will entertain more at home and cook more at home. So, I think that augurs well because a majority of our products in the consumer division are for home use. In the scientific division, research has not much of a focus in India. As far as pharma research is concerned, I do believe that COVID has taught the world that we should not be lax in research spending. So, I think COVID in the medium to long-term, it will be a fantastic driver of growth for both our divisions. That is my expectation. Obviously it is a little funny statement to make given that we have had a terrible quarter, but I do believe that in both the divisions we are well placed to capture the changes in consumer habits as well as the changes in R&D spending, which will likely result postCOVID. So, I am fairly confident about the future prospects of the organization. The first driver obviously is behavioral change from end customers. The second point is from a channel point of view - I would say e-commerce will be a large driver because COVID has again changed consumer habits where people are very comfortable buying online. I read in a research report that COVID has done in one quarter what has taken the last 10 years in terms of customer adoption to e-com. In one quarter more customers have adopted and gone online than in the last 10 years combined. I do not know whether that is a fake news or not but either way we are seeing e-commerce is becoming a large contributor. Someone asked a question on what is the future for the rest of the year. One thing I am sure of is our e-commerce division will have a substantial growth over last year even as other channels may reduce. E-commerce will definitely grow. So, these are the two main drivers. I do not change my medium-term outlook. What I had always mentioned was 15% to 20% CAGR on consumer and somewhere between 6% and 8% in scientific. I am not changing that anytime soon, this year being an aberration.

Anmol Grover: Just wanted to know more on the margin side how is the margins going forward? Is there any change in the cost structure or the key operating leverage we can earn, so is there a margin expansion possibly going forward as well?

Shreevar Kheruka: Yes, I think it is a good question. I do believe that there is a scope of margin expansion because one thing that COVID has shown us is that some expenses we had were not good expenses. They have all come off. Wherever we could cut we cut and I do expect that those expenses will not come back on even when demand returns. I think the good companies should learn from this crisis and I hope we are one of them. In that learning we should be able to only onboard back again expenses, which are good expenses and we should be able to eliminate expenses, which were truly not helping us at all. I cannot give you a number, but anecdotally I can tell you there are few areas where I feel that cost will not go back up and when sales return to normal. So, anecdotally I do believe that margin expansion can be expected as a result of this in the medium-term. Obviously short-term when sales are very badly impacted even if you reduce cost as a percentage you cannot get this cost to compensate for the dramatic reduction in sales. As regards COVID, either we learn to live with it or it may be over by this financial year end so next year I think we should see some benefits of the cost reductions.

Anmol Grover: Just to clarify on this CAGR which you said 20% you said over a medium-term so basically it is three to four years that could be right?

Shreevar Kheruka: Yes.

Anmol Grover: That is all from my side I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Krish Kothari from Shinobi Capital. Please go ahead.

Krish Kothari: There is a plan on reduction of reliance on China. Are you considering significantly building manufacturing capacity in any division especially appliances business and has the pandemic led to any opportunities for the stress acquisitions of either brands or manufacturing facilities?

Shreevar Kheruka: I am sorry I did not get the full first question about China could you just repeat that please?

Krish Kothari: I was just wondering that if you are looking at reducing your reliance on China or basically any import orders for any of the products that you sell then in order to do that will you have to significantly enhance your own manufacturing capacities?

Shreevar Kheruka: Yes, well we already started reducing our reliance on China. If it is glass then we would be expanding downstream capacities. I do not think would require too much capex at the moment. Where it is stuff like appliances or steel I think there are players in India who are already manufacturing these products and we would approach them because they have decent setups. We have already started approaching them so without spending capex of our own be able to move it from China to India. Obviously, it is not going to be 100% and it is not going to happen overnight, but it is a process and we have already started that process. It is really the thrust over here and after whatever has been happening at the border, I think our own team also feels very strongly that we do not really want to depend on China for our products. There is nothing in there which we cannot manufacture either internally or through third parties in India. So, everybody feels quite strongly about it and I hope that we can implement this change maybe over the next 12 to 18 months to a large extent.

Krish Kothari: My next question relates to Larah. Does the nature of the product as well as the challenges in shipping and handling of that product, does it necessitate that there needs to be a massive revival in physical brick and mortar shopping for that product to sell through well again or is e-commerce a viable option for that brand?

Shreevar Kheruka: Look e-commerce is absolutely a viable option for that brand in my opinion. We have also started getting good traction online. Obviously 100% of the sales cannot be on e-commerce but for sure there could be a much larger percentage than the current on e-commerce. I am betting on that in fact and as a team we are betting on it. We are setting up our packaging, which can withstand the kind of handling that happens in e-commerce. Look there is not much difference between the Larah Glass and Borosilicate Glass. We ship Borosilicate Glass to all corners of the country without any problem with less than 1% breakage on e-commerce. So, I do not see why we cannot do that for Larah. We think e-commerce will drive Larah in addition to Borosil.

Krish Kothari: I have one more question relating to Larah and the consumer division more broadly. In the process of constantly updating your SKU range including both additions and deletions, what are some of the major insights you gained with respect to consumer preferences and pricing and if eventually you could operate with a materially smaller number of SKUs?

Shreevar Kheruka: The insights we have gained I would rather not share because that is really competitive information, but in general I would say that choice is a requirement for customers. While obviously from a production point of view you want to have the smallest range possible, the customers like to have choice and in some sense having choice expands the market because when you go the store whether physical or digital and you see 10 products say 10 sets in 10 different designs you may buy one of them. If you had only seen one with a design you don't particularly care about, I do not think you would buy. So, by having 10 sets you sell one, on the other hand if you have one set you may sell none.. So, choice matters. That is, I think one of the key insights and given that constraint how do we set up our backend to be able to deliver that choice. With these possible inventory additions, I think that is a question which our supply chain can deal with both from a production as well as from an analytics point of view. If we are able to predict sales preferences, if we are able to talk directly to customers through e-commerce, again I think we get a much better idea of what they like and what they do not like. So, there too e-commerce will help us, deliver the choice without necessarily increasing the inventory that goes with delivering that choice. That is really what we are trying to put to work. I do not think we are there yet by the yardstick. We are far from it but I do not think we can reduce the number of SKUs.

Krish Kothari: My last question is the SIP division; do you have any major presence catering to chemical and diagnostics companies or are you only focusing primarily on pharma companies?

Shreevar Kheruka: We sell in the lab not in the process for chemical companies. So for those big lab reactors in the chemical process systems we do not sell to. Other companies do but we do not really focus there. As far as diagnostics is concerned, it is a very, very price conscious market and the product range is slightly different. It is more plastic oriented than ours. Although with our LabQuest range of instrumentation there will be some sales to diagnostics companies going down the road. However glassware specifically is not used in diagnostics much anymore. That has been so for the last 20 years maybe. So, diagnostics is not a big end use for our scientific products.

Krish Kothari: Okay got it thank you.

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

Ashwini Agarwal: To take on two of your comments - . one is you are saying that e-commerce is going to remain a very, very important channel and increase in its scope of importance. So, how do you see the brand salience in light of the fact that discovery of alternate products or discovery of less known brands over the internet is much easier. Do you fear that this could turn out to be again one of those consumer products where there are lot of lookalikes and knockoffs that erode the brand promise of either Borosil or Larah?

Shreevar Kheruka: Yes, I think that is definitely a risk. There is no doubt about it in e-commerce because you can see 10 different products, which look exactly the same. We do not touch or feel them and you may get one at a cheaper price. So, in some sense it is a race to the bottom. That being said on the risk side of the equation, I think the e-commerce is not simply just putting a product at a price. It is a whole system of working, which includes reviews, which includes product development, which includes advertising online and giving a brand story online. If we do all those things, which I think we have been doing fairly well, the chance of you buying a product even at 20% higher or 15% higher because it has a better rating next to a product, which is similar looking with no brand name, I think is quite high. Especially for a category where the absolute value is not that much. It is like INR 300 or 350. So. it is 50 bucks extra to buy a Borosil container. So, if we cannot do that then yes, we would have lost our brand value, but I think we can drive the ecosystem in a way that we are able to have the best ratings in the category. If we are able to advertise so that whenever customers are searching for products, we come up there and if we are able to make sure that we keep understanding what customers are commenting and launching new products faster than our competitors then I think e-commerce could drive substantial value. It already has and whatever I am saying is things we are doing already. So, I think that just like any channel it has advantages and some disadvantages, but I think the advantage has outweighed the disadvantage by far. The kind of reach that e-commerce has is beyond what we could have imagined five years ago in terms of all the zip codes our products are reaching. I do not think Borosil products would have entered that even 15 years later left to the routine scheme of things. The other thing I would like to add over here is glass is as it is underpenetrated as a category. So, with e-commerce if somebody is searching for a storage container let us say Borosil Glass and then they show some other X, Y, Z brand, but think about the people who are searching for just containers and who would have originally only thought of buying a plastic container or a steel container and if I can switch them to a glass container or at least having glass in the consideration set, which is very easy to do online. Then that opens up an opportunity. If glass has 5% share and I can increase our share to 10% from a customer's wallet point of view for a category like storage then I am doubling our business without too much pain. Doing the same thing in trade is virtually impossible. So, I think on the balance e-commerce is a very, very strong channel especially for us and I think that our brand value will grow and not reduce with the channel.

Ashwini Agarwal: Thanks so much for that in sight. The other one is that are you facing any restrictions on importing non-glass products from China because we mentioned that switching over to domestic supplies will not happen in full and will take time so in the interim is there a risk?

Shreevar Kheruka: Look now if things deteriorate and say there is a war with China then things may change. Of course that risk remains for sure, but for now there is no restriction on imports for us for any part of our range.

Ashwini Agarwal: Thanks so much.

Moderator: Thank you. The next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Couple of questions firstly can you just talk about the fixed cost for your business what is the annual fixed cost that is incurred in the entire for Borosil?

Shreevar Kheruka: I do not have an answer to that question.

Rajesh K Chaudhary: We will come back to you on this.

Dhruv Bhatia: Second thing is in the appliances category we have also entered recently into the cookers segment can you just talk about the strategy and your intent for the appliances business?

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?

Dhruv Bhatia: Yes, that is right.

Shreevar Kheruka: So everyday use brand is something that if we want to be. We need to have products which are used every day and the pressure cooker is one of them. Now what we have introduced is the stainless-steel pressure cooker and not an aluminum pressure cooker. It is the healthiest and the safest to use for everybody and it is a very high-quality product. The brand promise is that it performs beautifully. The performance of our product has to be the best and we have to look good, which is what we fulfill even in this pressure cooker. We want to be an everyday usage player not restricted to any particular medium. So, it is not just glass. We would not do plastic but we can do anything other than plastic as long as it is safe and healthy to use for individuals and good for the environment also. That is the strategy here and we found there is a gap in the pressure cookers category in the stainless steel segment for 3 and 5 liter pressure cookers. We have decided to expand into this and the initial feedback is quite positive. We will see how it goes. I am not saying all our product launches were distinct, but certainly many of them were distinct and we like trying new things. This is one such initiative.

Dhruv Bhatia: Because the distribution would be similar to your other consumer businesses in the same dealers network and it does not seem like there is too much branding expense that has been done on the appliances would it be fair to say that on a very small base of revenue you can break even in this business?

Shreevar Kheruka: Yes, absolutely I think we will already be. I am saying all this basis pre-COVID numbers. Last year our appliances business would have broken even more or less.

Dhruv Bhatia: What would be the appliances revenue that you did last year?

Shreevar Kheruka: We do not share that data yet, but we are reworking on our investor presentation and in the next quarter I may be able to share more data than I do currently. I will hold that in suspense for a little bit longer, but I can say that and I think I had mentioned last time that non-glassware is more than INR 100 Crores for last year.

Dhruv Bhatia: Lastly it is because you said that start of furnace maybe next month what is currently the inventory maybe sitting at the dealers and distributor level any sense at the dealer, distributor, retailer level?

Shreevar Kheruka: We do not have that data. We had been working on a pilot pre-COVID. In fact we have launched beyond pilot stage to actually get that information, so right now whatever I give you the anecdotal it is not hard data. I think the inventories have reduced fairly substantially and that is why I am saying that from the last couple of weeks we are seeing an increase in demand across the board. The only challenge is that outlet themselves need to be open. If they are allowed to open then I think we are okay, if the outlets are closed because of lockdowns then we have trouble on the trade side. On the large format stores, we have a deeper challenge because of the recent issue with Big Bazaar, which was obviously one of the largest in the country. Them having gone is a big customer just disappearing overnight. Obviously others will come and fill the gap, but in fact large format stores have mostly been in malls and malls have been closed till very recently. So, large format stores have been really badly impacted in this whole crisis. So, what we need is that the retail stores should be opened and somehow there should be a resolution to the problems the large format stores have been having, which I think has already started but that needs to happen faster. Then I am not so stressed about demand.

Dhruv Bhatia: Thanks a lot, good luck.

Moderator: Thank you. Next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Sir because we have gone through lot of restructuring in last few months just wanted to understand for this new Borosil business consumer ware and led that business for FY2020 what would be our ROCE return on capital excluding the treasury part of it the core business ROCE what would be this number for FY2020?

Shreevar Kheruka: I think it was in the low double digits, If I am not mistaken it was 10% or 11% for FY20.

Vaibhav Badjatya: Lastly for the appliances division, which is non-glass appliances division what would be our value propositions or what kind of positioning we are looking for because we are truly developing this product and this is a big, big market and really crowded market so what would be our positioning, whether it will be at the top end of the market or we will be value for money kind of a player what are you thinking about that?

Shreevar Kheruka: I would say that we are definitely towards the top end of the market. We are not looking at the very low value for money segment. We have a desire to compete with the likes of Murphy Richards or Phillips. That is the price point and the area we have been competing in and that is what we have set up our appliances to deliver. We have been there for three, four years, and I think we have done a decent job of it. Many of our appliances, whether it is sandwich makers or OTG or toasters, or kettles are doing very well in the market.

Vaibhav Badjatya: Just a clarification in my earlier answer you said that it is somewhere around 10%, 11% return on capital employed for consumer, but for sure our lab ware business would be very high ROCE ?

Shreevar Kheruka: In Consumer business also Larah is different and labware is different. Again rather than give a number I can work on this and come back to you. I do not have that presentation in front of me at the moment. Larah has a high quantum of capital employed given that we had acquired it and we have upgraded the facility. So, the return in Larah has been low so far and we need to sell the full capacity of the furnace to improve the return on capital. That is really the focus as soon as we start the furnace in Larah.

Vaibhav Badjatya: That is, it from my side.

Moderator: Thank you. The next question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Vaibhav Gogate: How should we look at the gross margin profile going ahead for the company?

Shreevar Kheruka: Hard to say. Now again we are talking about post COVID - is that a specific question relating to COVID or in general?

Vaibhav Gogate: Let us say as the consumer ware normalizes.

Shreevar Kheruka: Frankly I think gross margin will improve because as we go forward. We would be able to drive lower costs in terms of purchase of products or raw materials and I do not think selling prices will reduce. So, I think gross margins should improve. It may not be a substantial improvement but maybe a 1% or 2% improvement. Again, this is subject to many factors and subject to competition as I mentioned before. Right now everything will be quiet because there is hardly any sales happening. How competition is going to move we will only know in the next month or two. If the competitive intensity increases then maybe what I am saying will not happen but at the moment I do expect a small improvement in gross margin.

Vaibhav Gogate: How has the ad expense on a YoY basis compared to last quarter?

Shreevar Kheruka: I had mentioned this in the opening remarks. We are down on advertising from 8.5% to 5%.

Vaibhav Gogate: What would be the contribution of e-commerce to overall revenues in the current quarter?

Shreevar Kheruka: Last year was 10%. This quarter does not have any meaning because the sales itself are down 75% for consumer. Obviously, it has gone up beyond 10%, but I think it would be too early to see what is going to be on a normalized quarter, which may happen in Q3. Even Q2. I would say it is not a normalized quarter. Large format stores only started from August 5, 2020 or thereabouts in many cities. E-commerce I think from 10% will definitely go up maybe to 15% to 20% for the year.

Vaibhav Gogate: What is the typical contribution of modern trade to overall consumer revenues?

Shreevar Kheruka: It is about 15% to 20%. It is a substantial chunk.

Vaibhav Gogate: Got it thank you.

Moderator: We take the last question from the line of Dhruv Kashyap an individual investor. Please go ahead.

Dhruv Kashyap: Firstly, a big thank you and congratulations to you and your team. The way you have been running the company over the last few years. It has been quite an honor and a privilege to be an investor in this company. I had a few questions and since I am the last one, I hope you will humor me with about two, three minutes. Pandemics like COVID time and time again teach humanity that ecological and environmental balances are not to be tampered with. Now Borosil is beautifully poised in terms of moving people from melamine to Opalware or plastic to glass. Would this not be the moment of reckoning where we should go to every household in India to tell them to move from plastic to glass? Should not this be the time we should double, triple our advertising and not cut it down our communication about our product? Would not this be the time of strike while the iron is hot?

Shreevar Kheruka: In principle you are right. Like I said before, COVID is actually a long-term benefit in terms of change in lifestyles and what that means for the product range for our business. Yes in principle I cannot argue with your point. The only issue that is even if I go and bang on the doors and say that Borosil is the best product for you the question is how do they buy it? So, if I do a TV ad no one is going to retailers or to large format stores which are closed. Access to market knowledge is one thing and then action is the next right? So. that action is not fully possible today. In many cases people are too scared to go out and shop. They are buying online so while we have reduced our overall advertising spend, our spend online has doubled already. We are driving a lot of our ad spends online and that will continue. When to go offline and increase our ad spends will depend on how the markets open up and I think we are still maybe a month or two away from that. Even the monsoon has been in full swing during July, August and in general people are reluctant to go shopping because of heavy rains across the country. So, in general I buy what you are saying, but we would need to see some visibility for that knowledge to be able to be convert to action in terms of buying. That is when we can spend more money.

Dhruv Kashyap: So what I meant Shreevar was is time to keep your product pipeline and communication pipeline ready to deploy once the markets completely open because I guess we have to do the backend work in these dry times?

Shreevar Kheruka: Yes, that is right.

Dhruv Kashyap: My second question Shreevar is that on this strategy of yours from prepare, cook, serve and store I really loved the way you have done this being a Unilever guy myself I really like this slide. My question on this was on the prepare part, which is cut, chop, grind and mix we do not seem to have as much of a play here as we have in cook, serve and store. So, is there a pipeline planned on this or am I missing something?

Shreevar Kheruka: No, you are right. I would say in terms of grinding we have a beautiful spice grinder. We obviously have a mixer grinder, which is between mixing and grinding. We also have salad cutters and choppers, but I would agree there that our product portfolio can probably be strengthened. People buy our spice grinders, but we have been focused a lot on the cook, serve and store. That market definitely is bigger than the preparation market because many times people even prepare food manually like just cutting or chopping on a cutting board. So, thanks for that input. If you have a specific product ideas in mind I would love to get an e-mail from you about anything that you would like or you have seen. I can certainly discuss with my product management team.

Dhruv Kashyap: Yes, we will do in fact both for me and my wife we sort of marketers and especially we are great fans of the design ethos of Borosil. So, I have a lot of ideas. I guess we can discuss that offline.

Shreevar Kheruka: My e-mail address is my first name dot last name at borosil.com. I will be happy to receive an e-mail from you or anybody on this call.

Dhruv Kashyap: The third question Shreevar on your consumer product division was that given this China backlash and the fact that you are planning to move everything or as much as possible to Make in India, is there some benchmarking study in terms of the margin in in-house versus outhouse manufacturing and are you better of sourcing or are you better of producing all these products yourself?

Shreevar Kheruka: As far as our appliances and our steel range is concerned I do not think we have the scale yet. We had done some kind of study but that would require much larger scale because say for example the Chinese guys who manufacture they do 1000s of Crores of products and they supply to every brand. It could be a Phillips, they could supply to Morphy, they could supply to worldwide brands in the US and in Europe. You need a golf cart to drive inside the premises to go from one end to the other. So, I think costing really depends on scale. It is also dependent on ecosystem. It is a lot like mobile phones - you need to have an electronic supply chain ecosystem, which I think is slowly coming up in India. So, you need to have plastic molding, you need to have electronics, you need to have display technologies. There are lots of things that go into it otherwise just having an assembly line and importing the components from Vietnam or Korea or wherever or China for that matter is going to be a waste of time. The whole thing should be manufactured in India not just the assembly. So, there is an ecosystem, which I would say is going to grow and we will be a part of it for sure. It is early days to go and jump on that bandwagon and say let us invest in the manufacturing side also.

Dhruv Kashyap: Shreevar my last question on the CPD business was that if you talk to the mobile guys or Voltas or Havells this is the time around August 15, 2020 where they start building up the inventory for the festive season. How are you seeing inventory and are you seeing a good festive season ahead? How is the inventory build-up looking like?

Shreevar Kheruka: So, my guys were pushing for the last few months that we need to build it up and we took their inputs. I would say we had lots of back and forth on this, but we have decided to build up inventory as if we are going to have a good festive season. I am just hoping that it will happen and whatever we are seeing in the last few days, I think our decision will pan out hopefully. It was a risk and we took it. We have already done the inventory buildup and like I said we are starting production in our own factory now.

Dhruv Kashyap: I am so glad to hear that. I had one question on the SIP business one has been hearing a lot about the pushes and pulls on both sides. So, one is that pharma, labs, etc., diagnostics going to go through the roof, but on the other side one is also hearing a lot about government enterprises being big buyers of your SIP business products and they seem to have gone through this budget crunch. So, between the pushes and pulls how do you see the outlook given that there will be both leaks and fills in the bucket given what I just said?

Shreevar Kheruka: So overall I think we were down roughly 25% this quarter on our scientific side and that is largely comprised of educational institutes and government funded research institutes who have exactly the problem that you mentioned. I think educational institutes are not starting anytime soon that is my perspective so that sale is not going to rebound much. I did mention that we are looking at some new markets. Maybe in food and drugs. In food production uses lots of testing apparatus, which we can develop whether it is the testing of fat estimation or testing of nitrogen content in soil. There is something like Kjeldahl apparatus and few other instruments we have developed, which go into these markets and whatever loss in sale that we may have in one area we try and make it up in other areas.

Dhruv Kashyap: It is more specifically on the government outlook these R&D labs of the government and all that buy a lot of your products what is that looking like?

Shreevar Kheruka: That is not looking so great frankly. To be honest, we are not seeing much demand there and there is no funding. I think all the funding has gone to other places. We all know that there is a big deficit and the deficit is going to increase because of various reasons.

Dhruv Kashyap: What percentage of the current business of SIP is that?

Shreevar Kheruka: 15%.

Moderator: Sir sorry to interrupt we have run out of time so for any further clarifications you can directly contact the management.

Dhruv Kashyap: Yes. But anyway, thanks a lot Shreevar thank you so much take care.

Moderator: I now hand the conference over to the management for closing comments.

Shreevar Kheruka: Thanks all for participating, I truly appreciate the many questions this time. We have had a tough quarter, but I think we have a great team and we are going to bounce back from this even stronger. I think we are well set up. Like I said that we see green shoots, which are already coming on the consumer side. The fact that we have these two divisions consumer and scientific I think makes us very resilient and strong as an organization. I expect over the medium-term both these divisions should be positively impacted by the changes we see in the world around us and I am looking forward to returning to that kind of normalcy. With that I close my statement and maybe we will chat after three months or so. Thank you.

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