BOROSIL®

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February 17, 2025

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Dear Sirs,

Sub: Transcript of Earnings Call

Please find attached transcript of the Earnings Conference Call held on Tuesday, February 11, 2025.

The aforesaid transcript is also available on the Company's website at www.borosil.com.

You are requested to take the same on records.

Yours faithfully,

For Borosil Limited

Anshu Arvind Agarwal

Digitally signed by Anshu Arvind Agarwal
Date: 2025.02.17 21:32:49 +05'30'

Anshu Agarwal
Company Secretary & Compliance Officer
FCS – 9921

Encl: as above

“Borosil Limited
Q3 FY '25 Earnings Conference Call”
February 11, 2025

MANAGEMENT: **MR. SHREEVAR KHERUKA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BOROSIL LIMITED**
MR. RAJESH KUMAR CHAUDHARY – WHOLE-TIME DIRECTOR – BOROSIL LIMITED
MR. ANAND SULTANIA – CHIEF FINANCIAL OFFICER – BOROSIL LIMITED
MR. RITURAJ SHARMA – PRESIDENT, CONSUMER PRODUCTS – BOROSIL LIMITED
MR. BALESH TALAPADY – VICE PRESIDENT-INVESTOR RELATIONS – BOROSIL LIMITED

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Borosil Limited Q3 FY '25 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Thanks, Lizann. On behalf of ICICI Securities, we welcome you all to Q3 FY '25 Results Conference Call of Borosil Limited. We have with us today senior management represented by Mr. Shreevar Kheruka, Managing Director and CEO; Mr. Rajesh Kumar Chaudhary, Whole-Time Director; Mr. Anand Sultania, CFO; Mr. Rituraj Sharma, President, Consumer Products; and Mr. Balesh Talapady, Vice President, Investor Relations.

Now I hand over the call to the management for initial comments on the quarterly as well as 9-month performance, and then we will open the floor for a question-and-answer session. Thanks, and over to you, Shreevar Sir.

Shreevar Kheruka: So thank you, Aniruddha and ICICI Securities for raising this call. I wish everyone a good afternoon. The Borosil team is delighted to be communicating with everyone again. I'm pleased to inform you that Borosil Limited's Board approved the financial results for Q3 FY '25 and 9 months FY '25 during our meeting on 7th February '25.

We have submitted our results and an updated presentation to the stock exchanges, and they are also available on the company's website for your review. This quarter, we have sustained our growth momentum driven by, I would say, not as strong as before consumer demand, but we have been able to execute across key categories, which gives us industry-leading revenue growth for both the quarter as well as the 9-month period ended sales.

Our revenue performance remains robust, reflecting the trust consumers place in our brand. We continue to enhance operational efficiencies and ensure sustainable growth across all business verticals. I'm pleased to share that Borosil Limited delivered a strong performance in 9 months FY '25 with revenue from operations reaching INR837.6 crores, up from INR715.1 crores in the same period last year.

This indicates a 17.1% year-over-year growth. And, as mentioned before, we are one of the industry's top performers as far as revenue growth is concerned. This underscores the strength of our strategy, operational excellence, and most importantly, the trust and loyalty of our customers. It also reflects our ability to tackle challenges head on and make the most of new opportunities with new products introduced as well as reinforces our Borosil's strong position in the market.

As far as profitability is concerned, in 9 months FY '25, the company achieved an operating EBITDA that is before investment and onetime income of INR140.2 crores, up from INR119.3 crores in 9 months FY '24, which is also a 17.4% year-on-year growth, reflecting our continued focus on efficiency and growth.

The operating EBITDA margin for 9-month FY '25 stood at 17% versus 16.7% in the same period last year. One of the downsides for us this year was the uniform code for Pharmaceutical Marketing Practices 2024, which restricts pharmaceutical companies and their agents like distributors, wholesalers, and retailers from offering gifts.

This has impacted our B2B sales, which was a reasonable portion of our revenues, and that affected bulk orders and distributor engagements. To counterbalance this, we shifted focus to online sales, and that has experienced strong growth, although the loss of a key channel or sales in a key channel has definitely impacted overall sales growth.

Also, given the switch to more e-commerce sales, the marketing expenses have also increased because of higher customer acquisition costs, and that has put some pressure on margins. As a result, the company has incurred higher A&SP expenses of INR18.56 crores in 9 months FY '25 and INR5.74 crores in the quarter Q3 FY '25 as compared to the same period last year.

As the Diwali festival being a little bit early this year compared to last does not make the exact quarter-on-quarter sales exactly comparable. So I think it's better to look at the 9-month sales data versus specifically looking at Q3 or Q2 sales data because of the 1-month earlier Diwali this year.

Additionally, other operating income includes INR12.6 crores from shared service support income for 9-month FY '25 and INR1.2 crores for 9-month FY '24, with the associated expenses captured under total expenses.

Consequently, profit before tax for 9-month FY '25 came in at INR86.3 crores, up from INR81.2 crores in 9-month FY '24, which includes a one-time income of approximately INR13.5 crores from the sale of certain tenancy rights at our erstwhile office premises in Mumbai.

At the same time, depreciation and finance costs have increased substantially by INR27.8 crores, and this was largely due to the commissioning of our new Borosil glass furnace in the last quarter of FY '24. The investment income was also lower by about INR1.4 crores in 9 months FY '25 as compared to the same period last year. As a result, PAT for 9 months FY '25 reached INR63.1 crores compared to INR60.8 crores in the same period last year.

Furthermore, as per the Union Budget 2024, the discontinuation of indexation benefits on long-term capital assets, effective July 23, 2024, led to a reversal of deferred tax credit. This resulted in higher taxation for 9-month FY '25, impacting profit after tax by INR2.7 crores.

Now let's take a closer look at both the category-wise performance for 9 months FY '25. The Borosil Consumer division continued to expand across both glassware and non-glassware categories under the Borosil brand, along with our Opalware range under the Larah brand.

The Larah Opalware segment known for its modern design and superior quality reported sales of INR292.6 crores in 9 months FY '25, up from INR268.5 crores in the same period last year, reflecting a 9% growth.

In our glassware segment, which includes Borosilicate microwavables, lunch boxes, serving ware, glass tumblers, and storage solutions, we recorded a very strong year-on-year growth of 22.9% with revenues reaching INR190.9 crores in 9 months FY '25 compared to INR155.3 crores in the same period last year.

The non-glassware segment, which has a range of small home appliances, insulated bottles and flasks, cookware, and other kitchen essentials also performed quite strongly, posting a 17.8% increase in revenue. Turnover for the segment reached INR340.9 crores in this year's 9 months compared to INR289.5 crores in the same period last year.

This impressive performance reflects the successful execution of our strategy to expand the Borosil portfolio, catering to the evolving culinary and serving needs of Indian households. It also reaffirms the strong brand equity and broad appeal of Borosil across multiple product categories.

During the quarter ended June 30, 2024, the company successfully raised INR150 crores through a QIP to facilitate the repayment/prepayment of long-term project loans and for general corporate purposes.

Post-issue expenses of INR4 crores, the entire net proceeds of INR146 crores have been utilized. The company has utilized INR107 crores for the repayment of working capital loans and INR39 crores for the repayment/prepayment of long-term project loans.

Pursuant to the composite scheme of arrangement during the quarter ended 31st December '24, the company has also paid INR93.07 crores to Borosil Scientific Limited towards repayment of the loan, including interest.

As of 31st December 2024, Borosil Limited has a net debt of INR20.4 crores.

Through portfolio optimization, we have enhanced efficiency and profitability, streaming our offerings to focus on high-growth categories.

Our premium product lines have continued to witness strong traction, reflecting evolving consumer preferences. We continue to invest in design, functionality, and quality enhancements, further strengthening our leadership in key segments.

In addition, our initiatives in e-commerce and digital have gained strong momentum. By leveraging technology and consumer insights, we have effectively scaled our reach and engagement, thereby helping customers.

At Larah, we believe dining should be a perfect blend of beauty and functionality, transforming everyday meals into memorable experiences. We launched our premia dinner set collection which is a sophisticated new addition to our premium kitchenware lineup.

The premia collection combines exquisite aesthetics with practical functionality, making it an ideal choice for contemporary homes. Featuring intricately embossed designs, this collection brings a touch of timeless elegance and luxury to any dining table.

On the marketing front, our campaigns have delivered a strong impact, reinforcing our brand leadership.

Our integrated campaigns have helped us to deepen customer connections and expand market penetrations. We are seeing significant engagement growth across digital platforms, which reflects the success of our content-driven approach. The focus on brand storytelling and consumer experiences will continue to be a strategic priority for us.

Additionally, our media engagement and industry outreach have further strengthened our positioning. As I mentioned in previous calls, I want to reaffirm that since acquiring Larah in 2016, this flagship brand has been on a remarkable growth trajectory.

Larah's success is a testament to our strategic vision, operational excellence, and unwavering focus on customer satisfaction. Sales for Larah have grown at a CAGR of 22% from INR87 crores in FY '16-'17 to an impressive INR358 crores in '23-'24. Similarly, our non-glassware segment has emerged as a key growth driver for Borosil with a CAGR of 50%.

Sales have grown from INR23 crores in '16-'17 to INR387 crores in '23-'24. This achievement reflects our commitment to broadening our product portfolio and staying ahead of evolving consumer needs.

The commissioning of our new borosilicate glassware furnace last year marks a major milestone for us. By expanding production capacity, we're not only meeting the growing demand but also strategically reducing our reliance on imports. This move aligns seamlessly with our mission to drive a shift from plastic and steel towards healthier, more sustainable glass alternatives.

Our approach of combining product innovation with accessible pricing has resonated strongly with consumers, particularly in everyday use categories like lunch boxes, which appeals across all age groups.

As awareness of the benefits of glassware continues to grow, we see this momentum sustaining in the long run. Our key focus right now is to broaden and strengthen our brand presence. We are committed to transitioning consumers from plastic and melamine to glass storage and Opal, while also encouraging greater adoption of microwavable products.

To diversify our portfolio, we've continuously introduced new innovations, including high-grade steel products and home appliances. Our ultimate goal is to establish Borosil and Larah as a go-to brand for modern Indian kitchens, catering to every storage, preparation, cooking, heating, and serving needs.

We are highly confident in the medium-term outlook for our business. While we may experience periods of slow growth and cautious consumer sentiment, which are natural in market cycles, our long-term growth potential remains strong.

Our strategy is focused on expanding our consumer reach through targeted initiatives and launching innovative products that cater to evolving customer needs. We also plan to optimize our supply chain and marketing efforts to drive maximum impact.

With that, I would like to throw the floor open to questions.

Moderator: Thank you. The first question is from the line of Resha Mehta from GreenEdge Wealth. Please go ahead.

Resha Mehta: Compliments for the revenue growth considering the muted macro demand. The first is on the sourcing. I'm fairly new to the company. So first on the sourcing, if you could just clarify that now glassware with the furnace that we have is everything 100% in-house?

Or how is it for each of the segments, if you could elaborate on glassware and non-glassware, is there anything that we in-source or everything is outsourced? And what would be the China sourcing component over here? For each of these segments, if you could also comment on what would be our utilization for glassware and opalware?

Shreevar Kheruka: Okay. So thanks for your interest in the company. I'll answer this question from multiple perspectives. As far as I'll go segment by segment.

As far as opalware is concerned, 100% is in-house manufactured and there is no external sourcing. Coming to glassware, glassware has 3 separate product categories. One is pressware, which is entirely made in-house after the addition of our new production line. Second is blownware, which is a very small segment, maybe only 5%, 7% of our overall glassware sales, and that is imported, and that will continue to be imported.

And the third is what we call tube-made glass products, which are actually manufactured by Borosil Scientific and that is purchased from Borosil Scientific. So these are the 3 categories. I would say glassware and even the blown glassware is not bought from China.

So glassware is 100% either made in India or then some quantity comes from other geographies, but that's hardly 5%, 7% of the total glassware sales. As coming to non-glassware.

Resha Mehta: Sorry to interrupt. Just the last one you said what is it that we get it manufactured from the scientific ware, which one?

Shreevar Kheruka: These are our glass bottles and our vision glasses, some storage containers.

Resha Mehta: And I mean, from an overall revenue or a manufacturing standpoint, that would be how much that is basically sourced from?

Shreevar Kheruka: No, we don't share that data. But I would say the vast majority of glassware is the press production, which is anywhere made in-house. Coming to non-glassware, it's 100% outsourced at the present moment. It used to be mostly coming in from outside of the country.

But I would say in the last 2 years, we've now about 30% to 35% made in India, 65% is imported still. With various BIS norms coming into play, I would say, if I have to take a bet in the next 3 years, this will become 70%, 80% in India, and maybe 20% outside of India, that will be the shift.

And we are also evaluating our production versus outsourced production here. I think we'll be taking a call very shortly on capex in this area because as you can see, the market is growing, and we have also done reasonably well in the segment.

So overall, the in-sourcing is definitely the theme and made in India is definitely the theme that we see across this range. And coming to capacity utilization, I would say, in opalware, we are roughly at about 85% capacity utilization this year. And in glassware, as far as the press is concerned, we would be closer to 55%, 60% capacity utilization.

So there's room for growth in both these product categories. The other area is, there's no real on the non-glassware front, there's no capacity utilization anyway is outsourced. So it doesn't make sense to have any number on capacity utilization. So yes, I think that answers more or less all your questions. But some data we can't share.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, 2, or 3 questions from my side. So first of all, just wanted to understand regarding this ban in a way, the metal bottles, etc. So what does the current situation mean the SMEs are, I guess, allowed to import right now.

But till what time they might be allowed to import again, in India, I guess, the capacity to produce the products that are getting consumed right now is very limited, the high-quality production capacity. So what can be the ultimate solution over here? So that is question number two.

Secondly, now that can be a very big opportunity for a successful brand like Borosil because we can gain market share as the smaller stock unorganized players may struggle to set up the new manufacturing units as early as Borosil. So what is our strategy in this market?

And lastly, if the steel bottle market itself may in a way decline, can that be taken over by glassware bottles?

Shreevar Kheruka: Okay. So look, I'll answer the last one first, and the answer is no. Because steel has a totally different requirement. So I don't think glass can replace steel from an application or from a use perspective because people go to the gym or sit on the train or go on a bike to work, unlikely that they will carry a glass bottle for fear of breakage.

So we have, frankly speaking, no alternative but to decide to make this product in India. And I think very shortly, we'll be doing that. We do see some short-term challenges in terms of revenue growth I think we've alluded to that in the past also. But I think these are short-term challenges.

As you rightly kind of highlighted, there's actually a very strong medium-term opportunity for us because when we set up the manufacturing plant here, we are likely to be doing it in a much more organized way than, let's say, smaller players. And I hope that will give us a long-term reason to win in this category in a bigger and better way than we have.

So whatever we do, we'll be doing it with some large scale in mind. And I expect that the short-term headwinds will be able to, let's say, overcome that from a medium-term perspective.

We have imported more products in the short run to avoid or to, let's say, reduce the impact of the sales slowdown. But yes, there will be some small short-term impact. And we're actively working even today to increase our domestic sourcing.

The challenge is that we can't even just go ahead and choose any vendor. We really have a lot of quality control mechanisms, which are in play to make sure we give a quality product to the end customer. So we can't compromise our brand even if we have the cost of losing sales even in the short run.

So there are certain challenges. But I think in the medium term, I'm not even saying long term, but even in the medium term, I think it's a fantastic opportunity for us. And it will only help us increase our sales and increasing profit in the medium term.

Aniruddha Joshi: The second question is on the small kitchen appliances. So we have entered multiple kitchen appliances, obviously, at the top end or premium end of the market. So what is the current revenue run rate and whether the products are available pan-India or we are still present largely in metros and Tier 1 cities? And how do you see this business panning out?

We see there is some stress at the bottom of the pyramid and overall other kitchen appliance companies have also reported muted growth rates over the past 2, or 3 quarters. And even e-commerce is the only channel that is doing well in that kind of market. So how do you see the market panning out? And what is the 3-year road map for this business as well?

Shreevar Kheruka: See, non-glassware, you can see the growth, 18%, okay, 17.8% to be precise. It's on Page 13 of the presentation in 9 months. So I can say that non-glassware primarily comprises 3 categories, that is your kitchen appliances, Second is the hydra, bottles and the third is steel servingware. And the steel servingware is still quite small. The other 2 categories are, let's say, the dominant in share from non-glassware.

So I would say we have scaled reasonably well in that segment. And I think the mass premium segment where we operate, we are not really spending too much money in advertising for this category. Of course, we spend a lot of money advertising overall for the brand. But for this specific category, we don't really spend much money. And it's more dependent on customer pull.

And hopefully, you can see reviews on Amazon and other social channels. You'll find that people generally have a good view of our products. So we are a quality-led company in terms of the feel of the product, the performance of the product has to really help customers give word-of-mouth feedback to their friends and relatives. And we have been quite successful over there.

So I don't see that the muted growth from this is something for us at this scale to really be too concerned about. The larger challenge even here is the supply chain because, again, BIS issues even in appliances are getting larger and larger.

Although we have successfully transitioned a lot of this range from India to Made in India. There are a few products that still are not in the ecosystem, the vendor ecosystem doesn't exist in India. But I think we'll be able to find solutions here in terms of the supply chain, the supply chain for the steel bottle is more critical at this stage at least compared to the appliances.

But overall, I believe this market has substantial potential. We are available, like you rightly mentioned, more in metros. But actually, we are seeing the penetration increasing in terms of a number of retail outlets in which our appliances are available. But I would say it's still the tip of the pyramid.

There's a huge number of places where we are not available. And our team is working diligently to add those areas wherever it makes sense. But online, I think we have a fairly good presence even here. But on the trade side, I think there's still a lot of work to do.

Aniruddha Joshi: Sir, last question, and then I will join back in the queue. So what is our current channel-wise mix, let's say, in 9 months FY '25? So general trade, even modern trade, e-commerce, including our own website and other e-commerce? And also, what is our strategy for quick commerce?

Lastly, we have seen there is a lot of stress in the MFI channel also. So, one is Borosil present in the MFI channel? And again, this means, is there any impact we have also observed in that channel?

Also, in the case of CSD, some of the companies have said that there is inventory correction happening and that can lead to relatively lower primary sales, while secondary sales may remain healthy. So again, what is our impact due to the changes in CSD norms per se? Yes, that's it from my side.

Shreevar Kheruka: Thanks. Aniruddha. You said one question, you've asked ten there anyway. To answer your questions, I would say that as far as percentage share of channels is concerned, we don't share that data. And I would not like to share it either. We want to reach the customer.

The basic strategy is that the customer is who we care about, how to reach the customer that the customer chooses, whether he or she wants to buy online, wants to buy on quick commerce, wants to buy on trade, that's the customer's prerogative. We have to be everywhere.

And wherever the customer decides to buy our product, they will find it there. So that's actually the strategy, not necessarily speaking quick commerce or e-commerce or those are just means to the end. And those channels, every time there's a change in their own competitive intensity, their own desire to kind of penetrate the market.

So, we just follow those trends. We are not making those trends. But yes, to substitute plastic in the kitchen, to substitute, let's say, melamine, these are the strategies that we have and the channel is just a means to achieve that end.

As far as the question of the channels is concerned of MFI rather specifically, we are not directly present in MFI. And therefore, you're right, there has been some, at least what I've heard is that there has been some stress there.

We have not been impacted because we didn't have much revenue from that segment. Not to say we won't participate in the future. But at the moment, we don't have much revenue directly. Maybe some of our distributors would be doing it on their own independently, but nothing direct.

Coming to CSD, you're absolutely right. You have good research. There has been some correction in stocking at CSD. But these things happen in business every 2, or 3 years, something or the other happens. So sometimes something grows a bit less, sometimes it grows more. I would say that's just a general business case.

So I would not highlight it. The one thing that has to be highlighted, which I also shared in my opening remarks, is the gifting reduction in B2B for your pharma companies, this has definitely impacted not just us but the whole industry. So that is something that is a one-off. I do believe that eventually, this should come back. But at the moment, I would say that if I had to pick one thing in the whole year, that was the biggest impact from a sales perspective for us in this year.

Other things are business as usual, whether it's an increase in quick commerce or a decrease of any other channel. Those are just normal things, and I would not say they are from a larger trend perspective, they are not that meaningful.

Moderator: We'll move on to the next question. That is from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: Very good growth in non-glassware compared to the industry. So sir, my question is related to the brand extension in terms of getting more products and to support our growth going forward. So if you could tell us more about it. Also, opalware now seems to be hitting full utilization, and we are already at INR400 crores annual run rate. So how do we get growth going forward from the opal segment? And also the newer categories, which we had spoken about. So how do we get growth for the future years?

Shreevar Kheruka: Yes. So we are actively working. Let me talk about categories first. Although we ourselves say opalware, actually, the appropriate definition for that is not opalware. The appropriate definition is dinnerware. We say as opalware, let's say, serving wear is the appropriate definition for that category.

Now in opalware, we do see more competitors coming also maybe in the future. But there is still a lot of scope in the broader category of serving to substitute plastic, melamine, and even bone China. So we are actively working on other materials. And hopefully, soon, we should be able to launch some products. I don't know how the scale will work over here. But that's certainly something we're working on, and we will be launching in the next few months, new products in the general dinner or serving ware segment.

We also have other products, other categories we are working on, in the non-glassware space, which I believe we will also probably look at launching in the next 3 to 6 months. So I would say that new categories will drive some percentage of growth.

Obviously, when you launch a new category, there's no guarantee of success. We have succeeded many times. We also failed many times. So we keep trying, and I believe that if we do the right process, we should have a fair share of successes.

But I would not like to comment too much on that because it's still work in progress. And hopefully, that should also cover some percentage of, say, losses that happen in the short term coming from things like BIS implementation.

So let's not look at opalware growth. I don't have any answer for you specifically that how opalware will grow, but I do have an answer on how serving ware will grow. And I have always maintained that overall as a company, we should have a 15% to 20% kind of medium-term CAGR, which I still believe that we can achieve.

Although in the very short run, there may be some challenges owing to BIS, but I would say we should be able to overcome that. And if you look at historical numbers from 2016 till now, even through COVID, we have grown at better than 20%. So while, of course, the base grows higher, I would say that 15% to 20% is achievable when we look at new, new category launches as well.

Dhaval Shah: Sir, 2 questions on this topic, sir. So one is now when we say about newer category of products we get into. So in the dinnerware you have a lot of, you say Bone China or maybe something else. So in terms of positioning of the products, so we have glassware, I mean, borosilicate glass though not as pure dinnerware, but as at the premium end of the pyramid, and then we have opalware.

So the newer category would be priced below that or somewhere in between. So, as I can understand, we will be occupying more shelf space at the retailer end. So how the pricing would work because yes, giving the premiumness of Borosil as a brand in the consumers' minds. Then I have other questions. This one, please.

Shreevar Kheruka: Okay. So you mentioned that glassware is the high end of premium, that's not entirely correct. It's probably a mass premium product, slightly higher than mass premium, but there are also other products that are even more premium than glass.

So, we are evaluating entering even further more premium categories as one option. But in principle, we don't really go after markets which are too low in cost. That's not like, say, melamine, that's not the idea to get into those kind of categories where it's not good for you or not good for environment, not good for health. So we'll not enter those categories.

The idea would be to look at categories which are good. Our tagline performs beautifully. So products that have some high performance and they must look good also while performing. So those are categories where we will enter.

I would not like to give too much away at the moment because it's still work in progress. When we launch it, we'll definitely talk about it. But it's not necessary to say that glass is the highest end. There are even many categories that are more premium than glass.

Conversely, there are categories which are cheaper than opal, but also are healthy and which may be looking for some disruption. So those are also categories we can think about. But I would not like to comment more on it until we actually have a firm launch of those products.

Dhaval Shah: And now the other question is on the margins front. So 2 things here. So one is that this quarter, the margins were clearly below expectations of the investors. So there must be some line item that could have seen a lot of inflation, a lot of onetime maybe.

So I would like to understand in detail about it. And secondly, now in the short term, is there some cost or some BIS regulation as a one-off it could be, which could put further pressure on the margin? So as over a longer-term period, a 2-year period, we are aiming to have a 20% EBITDA margin at a company level. So in that journey, what should we be expecting?

Shreevar Kheruka: I'll refer to EBITDA margins because going after PAT doesn't make sense right now because our depreciation has skyrocketed, which is always expected given the capex invested. So if you look at EBITDA margins, we are roughly around 17.5% EBITDA margins.

And as mentioned already, it's not a gross margin issue. It's an EBITDA margin issue, okay? Gross margins, which we don't share of course the data, so you don't have it, but our gross margin has actually been growing. Even this year, we have grown at least 2 percentage points in gross margin across all the categories.

The challenge has been, as I mentioned earlier, there's been a change in channel mix, and advertisement expenses for online have increased which has contributed to this. The second thing is because, again, this a course change in channel mix, things like institutional sales, which were relatively more profitable because normally, these are large volume orders, they are more efficiently producible and they are delivered at one location.

So freight costs are lower and so on, plus manpower costs are lower because these are large key customers. So the loss of the pharma, let's say, orders have definitely contributed to some reduction in margin.

Now I would say that's a temporary phenomenon that should reverse itself. So we look at the gross margin and the gross margin is more, I would say, indicative of any challenge, let's say, in the category itself, which we don't see. So the number which I have also always mentioned that in the next say, two, or three years, can we increase our EBITDA margin to beyond 20%. I think that is very much on the cards.

There will be short-term blips. It's never a straight-line increase. So we are going through one of those blips. And given the fact that gross margins are improving, I'm not too worried about it.

Dhaval Shah: Would that be a related issue that could come would be in terms of higher sourcing cost and thus, again, some pressure on the margin? Is that what you mean?

Shreevar Kheruka: See, the higher sourcing cost would be applicable for everybody in the whole industry, okay? So in my opinion, that should not reduce margins because the product price may go up and the total demand of the product may suffer to some extent if you increase the price. I don't think the margins will be impacted there. Your revenue growth may be impacted for sure.

And in the short term, if you're not able to get the full supply chain in order, you have fixed overhead, which you will not be able to absorb, okay? The short-term margin impact will only come from overhead, not from the actual gross margin of the product.

And in the long term, the impact will be dependent on how efficiently we can make the product in India. And therefore, how little an impact it will be -- there will be definitely some impact to the end customer in terms of higher selling prices, but how we can limit that impact? But I would say I don't see any margin impact because of this in the medium-term at all, only revenue growth in that.

Dhaval Shah: Sir, when are the BIS norms kicking in?

Shreevar Kheruka: They've already kicked in.

Dhaval Shah: So is there some quota in terms of reduction of imports? Or how is it?

Shreevar Kheruka: No, there's no quota per se, but fresh imports are not allowed.

Moderator: The next question is from the line of Aman from Seven Rivers.

Aman: So my first question is on opalware. We haven't grown much there in this quarter. And since we had launched some premium products recently, does that mean there was volume loss in this quarter?

Shreevar Kheruka: No, actually, volume growth was higher. The premium product is just a small percentage of overall sales, at least at the moment. There's no volume loss. In fact, like I said, volume growth, overall 9-month revenue growth of 9% volume growth is probably slightly higher than that. But again, I'll just repeat the main issue was because of the loss in institutional sales, which has impacted the revenue growth of the organization. And because most of that has come out of the opalware sales.

Aman: And my second question is on the utilization of glassware capacity. So when do we expect to reach the maximum capacity there?

Shreevar Kheruka: Well, we have overall given three years as, let's say, the time frame in which we should utilize the whole glass capacity. But we hope to do it in two. Let's see. It's only year one, which we are going through at the moment. So it depends on the market.

I mean we are not really having a lot of tailwinds from a market perspective at the moment. So we would hope that we have some more tailwinds. And if things go well in terms of our new product development, even in glassware, I do hope that we can do this in two years. But in any case, it should not be longer than three.

Aman: So it's fair to assume like FY '27, we should be able to completely utilize this?

Shreevar Kheruka: Yes, absolutely.

Aman: And do we have a number for steady-state EBITDA margins then?

Shreevar Kheruka: Yes, we have already indicated that we expect somewhere in the 20% to 22% EBITDA margin overall.

Aman: And my other question is again on other expenses. So other expenses have come in higher than last year, like you mentioned. But in our Q2 call, we were expecting some normalization in ad spends from this quarter on, right? So are we expecting ad spends to stay elevated for some time? If you could give us some time line there?

Shreevar Kheruka: Yes. Like I said, the challenge has been the channel mix because the e-commerce has become a larger share. So normally for e-commerce, you have to spend more advertising money to keep sales localized. And that because of the B2B business reducing the ad spend has kind of been impacted in a negative way, meaning we have to spend more.

It's hard to give you very short-term input on this in what will happen in Q4, and Q1. In the long-term, we have always indicated that at a certain scale, our ad spend should come down, and that will also be a part of the operating leverage, which I still expect it has to happen. But unfortunately, in the very short run, in quarter-on-quarter, it sometimes gets impacted. But I do expect our ad spend used to be 10% at some point. Now it's down to 8%. And hopefully, over the next two, three years, it should come down to 6%. And I think we should be able to maintain that.

Aman: You just said that there was some slowdown on some of the channels. Is it like a broad-based slowdown? Like in all the channels, are we seeing some slowdown? Or how do you see?

Shreevar Kheruka: Generally, you can see data across. There has been a general consumer slowdown. I mean, it's not just restricted to kitchen products. If you look at numbers shown by most of the consumer facing companies, I don't think there's been really very aggressive growth. So in general, there is a slowdown. And specific for us, there was a slowdown in the B2B channel.

Aman: Another question I have is on sir, would you have a number for us for change in margins when it comes to importing bottles versus, let's say, sourcing them from India manufacturing?

Shreevar Kheruka: At the moment, I can't share. I mean that's too early. It's too early.

Aman: And how much do these bottles contribute to sales?

Shreevar Kheruka: See, non-glassware is about 1/3 of our sales, if I'm not mistaken. And this is a large chunk of non-glassware. It's about 40% of our sales. And yes, it's about half of that, let's say 20%.

Aman: 20% or so?

Shreevar Kheruka: Yes.

Aman: And the last question I have is, so we are doing about INR20 crores in depreciation every quarter. Can we expect this number to come down next year since the second opalware furnace might be near full depreciation, right?

Shreevar Kheruka: No, no. The depreciation takes about five, seven years, if I'm not mistaken.

Aman: So this number will be around this INR20 crores for the -- throughout next year, right?

Shreevar Kheruka: Yes. Is not a bad thing.

Aman: And sir, do you have any capex plans to be shared with us for next year?

Shreevar Kheruka: At the moment, I have nothing specific to share. But like I told you, thematically, we will have to put the most likely the capacity for the bottles here in India. And that will have some capex. I don't know the exact number, but my sense is somewhere in the INR50 crores to INR70 crores range would be the capex.

Aman: INR50 crores to INR70 crores for bottles for next year?

Shreevar Kheruka: Yes. This includes working capital and everything.

Moderator: The next question is from the line of Akhil Parekh from B&K Securities.

Akhil Parekh: Sir, my first question is on the opalware. I mean you have mentioned the reason for weakness in sales in opalware mainly because the gifting sales has not happened. Would you be able to quantify how much is the impact or maybe broadly how big was gifting as a percentage of all these?

Shreevar Kheruka: I would say it's cost us at least about 10% of revenues of our opal revenues.

Akhil Parekh: And this is like a permanent loss, I believe, right? I mean it's not going to come back next year because of this.

Shreevar Kheruka: Look, I don't know very well, but I think there's some change now. So maybe we'll expect this to bounce back. But it's not clear to me yet.. So when we get orders, we'll tell you.

Akhil Parekh: And secondly, you mentioned that the capacity utilization is already at 85%, right? I mean we know that it takes a lot of time for a glass facility to come on stream.

So theoretically speaking, I mean, shouldn't we have already started building a new facility? Or is it that the channel level inventory in Opalware is right now at a higher level? And it might take more time for that capacity to get absorbed.

Shreevar Kheruka: See, firstly, we are doing debottlenecking for our current capacity. And so our furnace will be down this quarter, 1 furnace will be down next quarter for rebuilding. When we rebuild these furnaces, we will increase our capacity by roughly 10% as it is. So our capacity will go from 100 units to 110 units in this coming year just by simple debottlenecking.

Then we have another potential to further debottleneck, which could maybe increase it from 110 to 120 units about 2 years out. So effectively, we have room to go from 85 to 120 in the next 2 years. In this interim, we do see competition may be increasing here. So we should then evaluate whether we want to focus more on this category or look at other categories within the dinnerware segment. We see some opportunities there as well.

So at this moment, we are not ready to commit to any further opal capacity increase, except for the 100 to 120 sales journey, which will happen just with very minimal capex and will happen organically in the next couple of years.

Akhil Parekh: It's a bit surprising to hear that competitive intensity has gone up in opalware ,we always thought that it's very difficult to have opalware capacity and the business is very complicated. And the market size is not big enough for the other players to kind of enter into this segment.

Would you be able to comment on which are the players because our channels in past, like a year back were indicating built and probably trying to enter into this segment. Is that correct? Or maybe if you can throw some more light on competitive intensity part?

Shreevar Kheruka: So your assessment is right in that there is very few players can play in the segment because of the challenges that you already mentioned. But there are at least 5 players in India who can do this, out of which 3 are already playing. So our understanding is that a fourth player coming in this segment. It's coming, it's about to come.

Akhil Parekh: But if we don't expand in opalware, I mean, my ballpark assumption is that 50% of our operating profits are coming from the opalware segment as a percentage of the total. And if we don't grow in that segment, our margin trajectory won't it get impacted because of that?

Shreevar Kheruka: No, that's not correct because glassware also will actually may have even better margins than that. And we are growing aggressively in glassware. And glassware capacity utilization, as already mentioned, is, say, 55%, 60% long way to grow. And we can further expand capacity quite organically over there in, I would say, in a relatively low capex manner.

So I would not jump to that conclusion that Opalware is the only one that's profitable.. So we have other levers also. In non-glassware also, there are other product categories, which we can start working on and then also get into manufacturing there.

So there are many levers to increase the margin. Opalware is one, glassware is the second. And the BIS implementation will also open up at least 1, if not 2 more avenues for margin expansion. Again, the reason I don't talk much about it is we should prove it and then talk about it. So no point in giving something and then everything takes time. So anything new we do does take 12, 18, or 24 months to see results.

So in the very short run, that it's not likely to happen. But in the medium term, all these market changes may give big opportunities to existing players.

Akhil Parekh: And just 2 last questions, if I can squeeze in. One is, so capacity-wise, like glassware and opalware is completely in-house sourcing, right? And non-glass is completely outsourced at that point?

Shreevar Kheruka: Broadly, yes.

Akhil Parekh: And in the pressware facility, the end product would be drinking glasses or with the --

Shreevar Kheruka: Lunch Boxes.

Akhil Parekh: And these are largely imported at this point of time, if I'm not mistaken?

Shreevar Kheruka: No, we make it all. It used to be imported.

Akhil Parekh: It used to be. I mean, so it's more of an import substitution plus domestic growth. I mean that's what I'm gonna say.

Shreevar Kheruka: That's right.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Shreevar Kheruka: Okay. Well, thanks, everyone, for the interest in the company. And I just want to end by saying that as already mentioned, revenue growth has been good. Margins, definitely, as you can see, there are some challenges. But from an organization perspective, our concern is always 3, 5, 10 years out. And in that particular thing, we do things to grow the organization from that perspective, even at the cost of short-term decision-making, which can improve margins or which can help you in the short run to show, let's say, better numbers, but it may hurt growth.

So our focus has been on growth, on communicating to customers what we're all about, on spending money on developing teams. And definitely, when you have quarters such as a couple of ones that have just gone by where demand has not been so robust, then you do see some short-term impact on the margin. I'm not too worried about it.

I think we have to build a company which is very strong and customer-centric for the future. India's opportunity is vast, and that's how we look at the business, not specifically too worried about quarter-on-quarter from a margin perspective. It's just a kind of thought I would like to leave everyone with. But really thank you for your support and your engagement and look forward to speaking with you next time. Bye-bye.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.