



“Mitsu Chem Plast Limited Q1 FY-22 Results Conference Call”

August 17, 2021



**MANAGEMENT: MR. MANISH DEDHIA – JOINT MANAGING DIRECTOR
& CFO, MITSU CHEM PLAST LIMITED**
MODERATOR: MR. VASTUPAL SHAH – KIRIN ADVISORS



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Moderator: Ladies and gentlemen good day and welcome to Q1 FY22 Results Conference Call of Mitsu Chem Plast Limited hosted by Kirin Advisors. 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. Vastupal Shah from Kirin Advisors. Thank you and over to you Mr. Shah.

Vastupal Shah: Thank you. Good afternoon everyone. I would like to welcome Mr. Manish Dedhia – Joint Managing Director and CFO of Mitsu Chem Plast Limited. Mr. Manish over to you.

Manish Dedhia: Thank you Vastupal ji. Good afternoon everyone. I thank you for taking time out from your busy schedules and extend a warm welcome to all of you for the conference call of Mitsu Chem Plast First Quarter of FY22.

Before we take you through the performance of your company in the first quarter let me elucidate of the economic condition that prevailed during the period under review. We have seen demand recovery in past few months. Last year was severely affected due to Corona pandemic the second wave did have a negative impact on the industry leading to unexpected lockdown, factory shutdown and demand disruption for the first 2 months of FY22. But now we are seeing economy is normalizing. There is a pickup in demand and gradually expected to rise slowly and steady state. Although S&P global rating cut India's growth forecast for the current fiscal to 9.5% from 11% earlier and warned of reach to the outlook from further waves of COVID pandemic, we believe the impact will not be so severe as felt in the first wave. Various steps taken by State and Central Government to break the chain, vaccination across the country at various age groups and learning from COVID to standstill in worst situation will enable people as well as companies to mitigate the impact of the third wave of COVID pandemic.

Let me give you industry perspective for plastic molding industries. The global blow molded plastic market size was valued at US\$75.7 billion in 2020 and is expected to grow at a compounded annual growth rate of 3.3% from ‘21 to ‘28. Growing demand from the key applications sectors including construction, automotive and packaging particularly in BRICS is expected to drive the market over the forecast period. Amidst global COVID-19 pandemic the demand for various pharmaceutical products, disinfectants and sanitizers has increased. This is turned in driving the demand for blow molded plastics in medical applications. The segment is expected to grow at a higher rate than a consumable and electronic and building construction segments. There has been a surge of capacity addition in high growth regions such as the Middle-east and Asia Pacific over the last few years. These regions are creating a consistent demand for these types of plastic in addition to helping in reducing the overall manufacturing cost. The blow molding injection molded plastic hold immense growth for potential particularly in the medical



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and automotive industry, is expected to grow at CAGR of 4.3% during '21 to '28 to US\$390.3 billion.

Now coming to the center government notification of ban on single use plastic items from July 1st 2022, increase thickness of polythene bags to 120 microns, the manufacturer import, stocking, distribution, sales and use of following single use plastic including polystyrene and expanded polystyrene commodities shall be prohibited with effect from July 1st 2022. Earbuds with the plastic sticks, plastic sticks for balloons, plastic flags, candy sticks, ice cream sticks polystyrene for decoration, plates, cups, glasses, cutlery, such as forks, spoon, knives, straws, trays, wrapping of packing films around sweet boxes, invitation cards and cigarette packets, plastic or PVC banners less than a 100 micron, stirrers the notification reads. So, I would like to tell our product does not come under this purview. So at least Mitsu Chem is in a different segment from this. The industry is expected to witness the highest growth in the medical devices, healthcare furniture components sector, optical clarity, biocompatibility and cost-effective method of production are expected to drive demand for injection and blow molded plastic in the medical industry. Stringent regulatory scenario regarding medical grade polymer use in the healthcare sector is anticipated to positively impact growth to the sector over next few years. Rising preference towards biodegradable polymers among the medical device manufacturer is also anticipated to create profitable opportunities in the medical industry over the forecast period. Mitsu Chem Plast process strong capabilities in the injection molding, blow molding and custom molding. Customized molding capabilities makes Mitsu a preferred supplier as against its competitors. We want to assure you that your company is all set to ride on rising demand from packaging industry as well as hospital and medical segment with a strong product portfolio and proposed new launches, the product innovation and value engineering is in DNA of the company and your company has set new benchmarks in offering quality products and highest customer satisfaction which has made the Mitsu brand a name to be recognized with. Your company has emerged as a promising player and has migrated from maiden IPO which was held in September, 2016 to main board of BAC in May, 2020 in the COVID time.

Now I will take you through the financial performance of the company in the last quarter. Your company witnessed strong demand growth in the last quarter and grew more than the double at its bottom line. Mitsu Chem Plast reported 104% year-on-year, net profit growth to 3.69 crores. Your company registered sales growth of 82.6% to report sales of Rs. 59.46 crores for the First Quarter of FY22. The strong business growth as compared with Quarter 1 FY21 pandemic period indicating the businesses back on track for the next level of growth. EBITDA of the company increased by splendid 52.8% to Rs. 7.9 crores and EBITDA margin was healthy at 13.4%. Company's finance cost reduced by 15.5% and aided profit before tax and PAT growth. Company's PBT grew 113.5% to Rs. 5.46 crores and PAT grew by 104.20% to Rs. 3.69 crores.

If we talk about the growth experienced by each product category our packaging business has seen a growth of 7%, our hospital furniture business grew by 113%, automotive component



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business grew by (-94%). This I am calculating versus March '21 quarter, the fourth quarter. For the quarter our factories have been working at 61% capacity of our total available capacity. For the period our working capital cycle was 57 days for which the improvement can be seen over 66 over the last quarter March '21. So now open the floor for QA.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Parthiv from NVS Brokerage Pvt. Ltd.

Parthiv Jhonsa: My question is, basically we have clocked a top-line of almost 60 crores. That's a pretty good run rate especially over the last two to three quarters now and also you mentioned that you will get more demand from packing and medical side of the business. What is if you have any kind of order book for next three quarters or two quarters and otherwise what is the internal perception of what kind of a top line growth and margin stack company can maintain?

Manish Dedhia: I think if you can see this is a start of the quarter and definitely, we will maintain this kind of top line for sure. For the profit always you are seeing quarter-to-quarter we are improving in the profitability as well.

Parthiv Jhonsa: The margins will be maintained going forward.

Manish Dedhia: Yes.

Parthiv Jhonsa: And the other question I have is you have a debt I believe of about 23-25 odd crores and you're making that kind of profit. So, any plans to repay the debt for this year as well?

Manish Dedhia: So yes, definitely your question is valid and we are not immediately going forward the same repayment of the complete debt. We will have good expansion plan in near future. So, we will do utilize that profitability maybe in that initial expansion mode.

Parthiv Jhonsa: Also, the dividend what you have paid is quite minuscule considering your equity share capital is pretty small compared to the market cap as well. Any plans to reward the shareholders because when you're making, I would say profitability of 4 crores per quarter, that's the run rate of 15-16 crores a year, so any plans to increase the dividend pay-outs for the investors or just like what you did last year by giving bonus something like that kind of a reward policy?

Manish Dedhia: Yes. We at Mitsu always believes in shareholders perspective for definitely. But as company is at growing stage right now and I think that as I said like those money, we'll be using in the expansion of the production capacity.

Parthiv Jhonsa: Just going back to the very first question, are you like considering even if by chance third wave comes in, are you still confident of clocking the same kind of a top line?



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- Manish Dedhia:** Yes. Maybe we will definitely maintain this plan. We will maintain this for sure. But definitely our targets are little higher on that. You'll see quarter-to-quarter better results for sure.
- Parthiv Jhonsa:** So, do you have any kind of order book in your hand or something like that?
- Manish Dedhia:** So, in our industry, generally we do not keep order books of more than one month. So, lot of raw material price variation. So, it's a very dynamic situation, so every month we have to change our rates.
- Moderator:** The next question is from the line of Jaina Shah, an Individual Investor.
- Jaina Shah:** My question is that, what are the products under hospital furniture business?
- Manish Dedhia:** Can you just repeat your question please?
- Jaina Shah:** My question is what are the products do we have under hospital furniture business?
- Manish Dedhia:** We make complete parts of hospitals beds which is in a plastic and we supply to hospital bed manufacturer, with the side trolley, with the table tray and the stretchers.
- Jaina Shah:** Are there any unique products which we have under this category?
- Manish Dedhia:** There are lot of unique products as well. So, we have a true patented product as well which we have already launched in this quarter.
- Moderator:** The next question is from the line of Nilesh Karani from Magnum Equity.
- Nilesh Karani:** We did good in hospital business like 113% growth, correct?
- Manish Dedhia:** Yes.
- Nilesh Karani:** Do we see same line on growth for next two-three quarters or it would be stagnant here at what we are right now?
- Manish Dedhia:** It's a good question. I think see right now the surge had come in a hospital furniture business. So maybe this can remain at least in this quarter. I mean Quarter 2. I do not know about Quarter 3-Quarter 4 but yes it will be not drastically down but it will remain almost Q4 situation.
- Nilesh Karani:** Basically, what type of marketing we do here? Like how we get this business? Can you just throw some lights on that?
- Manish Dedhia:** You need to repeat, what did he say, how?



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Nilesh Karani: How do we do this marketing of this thing, these products and how we get the orders? Can you just throw some light on that?

Manish Dedhia: All the hospitals manufacturer are earlier they used to import the panels and they used to supply the beds to hospitals. Now as we are already there in the market from last so many years and now there is a lot of issues from the China as well. We get our orders from the local market only. So, and we have already promoted each and every hospital bed manufacturer knows us we have all the database and we have tapped them. So, I think that's how I mean we cater to I mean almost all over India market.

Nilesh Karani: More broadly like do we need to empanel with the hospitals or what they directly come to us?

Manish Dedhia: We do not entertain to hospitals at all because we supply to hospitals bed manufacturer only.

Moderator: The next question is from the line of Parthiv from NVS Brokerage.

Parthiv: Just continuing our talk from the previous questions ahead. As you mentioned that you would put the money back to the CAPEX and everything for the company, am I correct?

Manish Dedhia: Yes, we would like to do that.

Parthiv: Right now, we have some three facilities, two at Tarapur and one at Khalapur. Any CAPEX plans to increase the capacity and what is the capacity at each plant?

Manish Dedhia: I think, I can tell you overall capacity right now. We are at running at 61% because of up and down in the month wise business, but what do you said, yes definitely we are planning for expansion, but definitely we will inform BSE and definitely our plans in a constructive manner, we will definitely inform.

Moderator: The next question is on the line of Pritesh Vohra from Mission Holdings.

Pritesh Vohra: Take us through your growth plan, like say, how you are equipped with your facilities and how do you see growth, whether the capacities are sufficient to grow? What is the utilization level, and do you plan to do some more CAPEX? How do you plan to grow from here on?

Manish Dedhia: Right now, as I said like, we have a 20,000-tonne capacity.

Pritesh Vohra: 20,000 tonne capacity.

Manish Dedhia: Yes. Sorry 22,000 approx. per annum and right now we are at 61 percentage utilization of that production. I think you can calculate very well that what are the opportunities. Yes, definitely on plant side we are doing a lot of improvements there where we can increase our capacity, how



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we can utilize our machine, with a better margin, with the better production. Definitely this can grow at a very good level. So, maybe we can increase in a very 60 to 70, in a very near future.

Pritesh Vohra: You're saying 60% utilization can go to 70% utilization.

Manish Dedhia: Yes. That can be easily, depends on the market again. You must have seen this, the whole quarter was too much turbulence, like sudden lockdown came and like June was also a little okay. So, we have to manage with obviously the market as well.

Pritesh Vohra: You are saying that capacity is sufficient. So, supply side there is no issue.

Manish Dedhia: No, there is no issue from supply, raw material also no issue.

Pritesh Vohra: So basically, how much capacity you can do maximum. Can it go to 100% or 80%?

Manish Dedhia: It will go to 85 percentage maximum. 85% totally we can go.

Pritesh Vohra: The supply side you mentioned that you can go up to 85% capacity of the plant, how about the demand side, how is the market behaving and how do you see the product, whatever you're producing, how the demand will shape up over the period of time?

Manish Dedhia: Definitely, export market is also very good, but because of this, you must have read in the newspaper, there are a lot of problems with the export of freight. So those reasons was little down and I think it's gearing up again and definitely the demand is like you can see the increase from August month. We are seeing good growth. Definitely from buying side, demand is coming up. I must say, this will be again, very good year for Mitsu as well.

Pritesh Vohra: Which segment do you see the demand, as you said, the hospital may have topped out. If that segment is not firing, then which other segment will fire for you?

Manish Dedhia: Container business is always like we are 80% in container business. Definitely that is going to have a good demand in the market and hospital I have not said it will go down, I said it will remain almost that pace only. You cannot say it will multifold, immediately it will not multifold.

Pritesh Vohra: Container business is 80% of the revenue is it?

Manish Dedhia: Yes.

Pritesh Vohra: And hospital segment is what percentage of the revenue?

Manish Dedhia: It was at 18% and 2% was others, like we are into infrastructure also. So, the chairs and other segment.



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- Pritesh Vohra:** 2% other segment.
- Manish Dedhia:** Yes.
- Pritesh Vohra:** So, what's happening in the 80% of the business, container business is growing at what rate?
- Manish Dedhia:** You can see the container business is also going from last March we have grown 7%, from March quarter we have grown 7% and in hospital furniture we have grown 113%.
- Pritesh Vohra:** Basically, if our growth doesn't come now subsidized from hospital furniture, the company can grow at 7% maximum.
- Manish Dedhia:** No, I did not say that, because we have interchangeability also. If the hospital furniture is does not come, definitely the container will grow at that pace because it's not 7% restricted to that. It was a last year comparison, last quarter comparison. But yes, definitely we are increasing sales in the container business.
- Pritesh Vohra:** Why it has grown only 7% last year? Is there any, because if hospital business, I can understand because of the COVID related stuff, there is a lot of bed occupied..?
- Manish Dedhia:** I'll give you an exact answer. What happens is like we have a same machinery, almost same machinery we use for container and the furniture part as well. So, when you have a container business, when you have a furniture part business, so Yes, definitely that containers will be little bit reduced in that.
- Pritesh Vohra:** But your utilization is only 60%. If business would have continued, you could have continued even in the container business because utilization is very low. It is not the hospital business, which is replacing container business, right?
- Manish Dedhia:** Yes it is. Somewhere it is yes.
- Pritesh Vohra:** So that is my question, so you've not answered that, are you replacing container business with hospital business? If it is so why? Because your capacity utilization is only 60%.
- Manish Dedhia:** Every machine has a different, different capacity. Some of the product, which is a hospital, I mean, which we can produce container, which we can produce hospital. In that yes, definitely hospital will take over that container business for sure. About others, like the large business, large blow molding. Definitely there was a no-good export business because of the container freight. We had a little lesser demand in the month of May and June. So, that was again a big part of that.
- Pritesh Vohra:** What is the EBITDA margin in respective segment?



- Manish Dedhia:** Sorry?
- Pritesh Vohra:** What is the EBITDA margin in respective segment? Like what is the container EBITDA margin? What is the hospital furniture EBITDA margin?
- Manish Dedhia:** Definitely it is little more than container business in hospital furniture.
- Pritesh Vohra:** How much more?
- Manish Dedhia:** It is around min 16 to 17% EBITDA in furniture.
- Pritesh Vohra:** And main business?
- Manish Dedhia:** It is min 12% to 13%.
- Moderator:** The next question is from the line of Apoorva Mehta an individual investor.
- Apoorva Mehta:** I have a few questions. My first question is what are the growth drivers for the Quarter 1 on YoY? What are the growth drivers for the Quarter 1?
- Manish Dedhia:** The growth driver was definitely furniture part in that Quarter 1 results. And, definitely the demand was there in furniture part as well. So that was a growth part.
- Apoorva Mehta:** What is the total number of clients we have?
- Manish Dedhia:** 500 plus.
- Apoorva Mehta:** In that, how many are active clients?
- Manish Dedhia:** I'm talking about active one right now, 500 plus.
- Apoorva Mehta:** 500 clients are active. What is the contribution from top 10 clients in your revenue?
- Manish Dedhia:** Top 10 people are giving me around 70% business.
- Apoorva Mehta:** Domestic and international both?
- Manish Dedhia:** Yes, we have mostly local business only.
- Apoorva Mehta:** And our finance cost was lower 15.5% so what is the main reason behind that change in interest or repayment?
- Manish Dedhia:** You have to repeat the questions, sorry.

- Apoorva Mehta:** Our finance cost was lower by 15.5%. What is the main reason behind that? Change in interest cost or repayment?
- Manish Dedhia:** Yes both. Repayment and interest, interest rate also has reduced in the last year. So now we can see the effect and definitely we did repayment also.
- Apoorva Mehta:** How much repayment?
- Manish Dedhia:** I am sorry. I don't have the figures right now with me what amount repayment done, I'm sorry, this is, I can't tell you right now.
- Moderator:** The next question is from the line of Yashwanti Kedkar an individual investor.
- Yashwanti Kedkar:** First question is like; it's continuing with the previous question. I just wanted to understand you said there is the reduction in the interest cost also, so what is the average cost we will have for the current year? So, I may not want for the quarter, but what can be the interest cost for the full year FY22? This is my first question. The second question is that how do we see ourselves different from the competitors? What can make us strong as compared to our company to which will drive the good?
- Manish Dedhia:** Thank you for your comment and the first question you said what was the interest rate? So, interest rate we are enjoying right now from 7% to 8.5% different bank, some different interest. And definitely we are always striving for the lesser interest rates, we do that. About the second question you asked how you differentiate from our competitors. Definitely the first thing I will say, quality. We really maintain our quality and we are looking for always a good quality. The second one is customer service and the third one is customer approach with unique things like, I can say what exactly they want and where we can save their money. So, we have a lot of examples. We have saved our customers, packaging costs drastically, because we understand what is their requirement, how they are buying. So, that's definitely I can say, we have a brilliant team of doing that and that's how we are different. Even we got a comment from our customers that really nobody has told us this and they saved using family rupees in crores rupees when we give suggestions. So definitely this way, we are definitely, we feel that we are a different from the competitor.
- Yashwanti Kedkar:** What is our contribution for the automobile segment and what we are seeing as the economy is returning back, are we seeing good uptick in the demand? This is the first question. And the second question is that are we supplying to OEMs, or we are in the secondary market?
- Manish Dedhia:** We are supplying to OEMs. The first question was definitely we have a degrowth of automotive business and definitely somewhere we felt that was not good profitable business and hence we are definitely not increasing that business right now. But yes, further going definitely we are seeing a lot of growth as the BS6 things will come up and definitely new products will come up



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and definitely our input will be more. Let's hope for the best, I can say in automotive hope for the best, because majorly we are into commercial vehicles. So, hope for the best.

Yashwanti Kedkar: Going forward we see the major contribution will come the hospital business and the container business?

Manish Dedhia: Yes.

Yashwanti Kedkar: What is the growth you expect from this segment for FY22?

Manish Dedhia: I am really sorry, I have to ask you again and again the question, but maybe you come in range and then maybe you can connect again please. This is my request to you. I'm not able to understand the question.

Yashwanti Kedkar: It's okay I will connect you personally.

Moderator: As there are no further questions, I will now hand the conference over to Mr. Vastupal Shah for closing comments.

Vastupal Shah: Thank you everyone for joining the conference call of Mitsuchem Plast Ltd. If you have any queries you can write us at vastupall@kirinadvisors.com. Once more, many thanks for joining the conference.

Moderator: Thank you very much. On behalf of Kirin Advisors Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.