



“Mitsu Chem Plast Limited  
Q3 FY2021 Earnings Conference Call”

February 05, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings 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 call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vastupal Shah from Kirin Advisors. Thank you and over to you Sir!

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

**Manish Dedhia:** Thank you very much, Mr. Vastupal. Good afternoon everyone. We hope that everyone is safe and healthy. In last few weeks there are a lot of positive developments for the country and economy. First of all we got the news that the whole world was waiting for a vaccine for COVID-19 and it is finally here and the vaccination process has started. We also got positive news from the Indian economy from IMF in the next financial year Indian GDP will grow by 11.5% and finally we got our Union Budget too. The Union Budget was a good mix of judicious fiscal expansion and the continuation of the supply side policy. It also refrained from any direct tax hike, which is a positive and market have taken this positively and both are leading indices gone up by 5%.

In my opinion, the current circumstances this was a very good budget, the direction is correct and reforms liberalization and compliance are continuing. I think it is also a relief that no bad news is the good news. Typical of midlife budget second and third, year of government and on fourth we will hear more about the bottom of the pyramid. Now, almost our operations are coming at normal levels and we are seeing the impact of that on our day-to-day working.

Now, coming on performance for Q3 FY2021, talking about the business last quarter the turnover of the company grew by 36% from Rs.36 Crores to Rs.49.07 Crores year-on-year, also the EBITDA grew from Rs.3.98 Crores to Rs.6.25



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Crores, which show the up size of 57%. In the same way our PAT growth was also on a similar line.

In Q3 FY2021, PAT was Rs.2.49 Crores against Rs.0.81 Crores in Q3 FY2020, which was a growth of 207% along with this our margin also got improved. EBITDA has witnessed improvement by 168 basis points to 12.74%. Also PAT margin has improved by 282 basis points to 5.07% year-on-year.

I would like to highlight here that we have achieved more than 200% growth in our PAT despite a sharp increase in the raw material prices. We have seen 13.5% price increase in our basic raw material price in the three-and-a-half months. The price change in the plastic was a very frequent because of that we were not able to pass on that to our customers on an immediate basis.

As mentioned in the last call since Q2 we are focusing on improving our margins and also we have started the process of improving output efficiency of manufacturing equipments, which has helped us improve our bottomline as well as margins despite the sharp increase in our raw material prices and kept us on track for yearly growth targets. For the period our working capital cycle was 62.26 days for which the improvement can be seen 10% over the last quarter. We are seeing a shift in the way people live this new normal life most of the households are giving more and more emphasis on hygiene and we have seen robust demand growth for our packaging products. Also our packaging material does not have any scalable or user-friendly alternative hence we would expect steady demand growth on the segment.

Now on impact of Union Budget on our different product category, price in healthcare expenditure will benefit the Indian health infrastructure as we see. Introduction of a new scheme PM Atmanirbhar Bharat Yojana, which has an outlay of Rs.64180 Crores spread over six years, which will develop capacities of primary, secondary, and tertiary healthcare system in India. Pricing focus on the wider of which healthcare services is expected to boost demand for medical equipments. We are expecting a very positive impact on our hospital furniture business as we are the first movers in India in hospital bed parts, which is also a



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pure import substitute and making India Atmanirbhar. A voluntary vehicle scrapping policy where vehicles would undergo fitness test in automatic fitness center after 20 years in case of personal vehicle and after 15 years in case of commercial vehicle policy, vehicle scrapping policy would help in boosting demand for both commercial and personal vehicles of OEMs. This is a big positive for our automative component. Now, the floor is open for the Q&A session.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vidhi Mishra an Individual Investor. Please go ahead.

**Vidhi Mishra:** Good afternoon, Sir. My question was that as you mentioned about getting benefited from the PM Atmanirbhar Bharat Yojana, so is your expectation for fund allocation for new hospitals expansion and what should be the share of hospitals furniture out of that?

**Manish Dedhia:** I think in the detail this amount is spread across six years. We are also not very clear how they allocate the hospitals because as of hospitals will come and my business will grow up and they will require new beds.

**Vidhi Mishra:** So, on continuing that how much we can supply in that and are we having enough capacity to cater to that demand?

**Manish Dedhia:** We as a Mitsu?

**Vidhi Mishra:** Yes.

**Manish Dedhia:** Yes, we do have. We can completely replace the import market 100%.

**Vidhi Mishra:** Great, Sir and more question on continuing that what is the typical lifecycle of the hospital bed?

**Manish Dedhia:** Generally, 10 to 12 years, but some of the very good hospitals they replace before 9 to 10 years only they replace the product.



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- Vidhi Mishra:** The last question is how big is the replacement contract?
- Manish Dedhia:** I will not be able to give you exact answer on that, the reason it is like some people are just continuing that more than 12 years also and bed which was the metal bed, they are also replacing into the plastic beds.
- Vidhi Mishra:** Thank you so much, Sir.
- Moderator:** Thank you. The next question is from the line of Ravi Joshi from Joshi Advisors. Please go ahead.
- Ravi Joshi:** Good afternoon, Sir. My question is if we compare quarter-on-quarter we have seen a significant decline in our PAT from 320 Crores to 250 Crores, which is a decrease of 70 lakhs while revenue has grown 45 Crores to 49 Crores what is the primary reason for that?
- Manish Dedhia:** There are two reasons: the exact profit has been decreased by 36 lakhs because some of the taxes has been increased as the depreciation has increased, the depreciation and the taxation has increased and some of the raw material as I mentioned in the speech, the raw material price rose 13.5%, so that frequency was too fast we could get those prices benefit on an immediate basis, so hence a little bit effect on the profitability.
- Ravi Joshi:** My second quarter is if increase in raw material price continue are we still be able to maintain the probability and pass on the increase to the customers?
- Manish Dedhia:** Yes, subject to. In September October onwards the price was increasing every week and also after increasing for the first price or second price the raw material availability was a big issue, so neither we could have bought the material nor we could transfer the rates to the customers, but yes, definitely now rates are still increasing, October, November, December and January also rates are increasing and it is not so frequent we can definitely pass on the prices.



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- Ravi Joshi:** My last question is also you have mentioned in last call that you are keeping eye on company shifting the manufacturing base to India from China, have added any new customers in that?
- Manish Dedhia:** We have added I think around the 50 plus customers in last quarter, so we are also evaluating lot of things some new customers are coming, some customers are going so things are going, but yes, the 50 new customer, which have added they have already started a very good business with us.
- Ravi Joshi:** Thank you very much, Sir.
- Moderator:** Thank you. The next question is from the line of Arjun Mehta an Individual Investor. Please go ahead.
- Arjun Mehta:** Good afternoon. Sir, my question is what automotive component making is it for both commercial and personal vehicles?
- Manish Dedhia:** We are just making only for commercial.
- Arjun Mehta:** My second question is to which OEM are supplying?
- Manish Dedhia:** Tata and Ashok Leyland.
- Arjun Mehta:** Thank you very much, Sir.
- Moderator:** Thank you. The next question is from the line of Nilesh Karani from Magnum Equity. Please go ahead.
- Nilesh Karani:** Manish, Sir, just one question, one thing is like how far these capacities will expand going forward in automobile and how big would be your hospital related business going forward I am talking about down the line one year, after one year?
- Manish Dedhia:** We are also again seeing a degrowth of automotive and here hospital furniture business are growing, so we have a capacity in the packaging, we a capacity of automotive, we are already utilizing automotive right now in packaging so we can definitely migrate that capacity to hospital bed furniture.



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**Nilesh Karani:** Basically you mean to say that auto will degrow with this kind of model and then we will switch it to more to the hospital base?

**Manish Dedhia:** Yes, time being yes, but if demand increase right now I am not seeing too robust demand in the automotive, so automotive whatever the demand is coming we can fulfil it into 6 to 7 days right now, we are doing that auto, but demands are very less so the other days are empty right now, so that we can utilize in those days, but if it required we can definitely added the machines.

**Nilesh Karani:** How can we calculate here you know capacity utilization if I say if we are not using it for automobile and we are using it for hospital purpose or any other purpose, so how will you calculate our capacity utilization, how it could look like along?

**Manish Dedhia:** We calculate capacity utilization all over, across all products totally. We can calculate how many drums, how many because that will be replaced in drum where we make a packaging material we can replace that with the hospital furniture too, so we calculate overall capacities.

**Nilesh Karani:** So, what would be your overall capacity and how much are we utilizing it?

**Manish Dedhia:** Right now our utilization capacity is around 75% right now.

**Nilesh Karani:** We can further add or we want to expand to add or what would be like?

**Manish Dedhia:** Demand comes right, for example, unlike the demand will come up so we can definitely achieve 85%, which is a very good also 10% we can achieve if the demand come plus if the demand comes we can definitely go for a new machineries, that is not a regular expansion because we do not have to buy a new factory from that, so I think that one or two machines adding is not a big deal if the business is good.

**Nilesh Karani:** So, again one more thing is now how do we foresee our business going forward if I say only next two quarters if I want to see and look at a company what could be the growth?



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- Manish Dedhia:** Yes, so growth is like you are talking about the turnover point of view or how if you can explain?
- Nilesh Karani:** I am talking about the whole prospect how will be the margins as well as your topline as well as your bottomline or whatever?
- Manish Dedhia:** Both will on an increasing trend so whatever the capacity we are utilizing right now still it will be added and also we are increasing our share, we are converting that from packaging to hospital furniture so the profitability also will increase, the turnover also will increase, so I think you see within fourth quarter and quarter one it come to a lot may new things.
- Nilesh Karani:** Can we expect the growth of more than 25% or what?
- Manish Dedhia:** It is already there, so I think year-on-year may be minimum 30% growth will be there in both the year, so I can say 2019-2020 to 2020-2021 will be around 30%.
- Nilesh Karani:** No, I was talking about quarter-on-quarter vis-à-vis quarter-on-quarter can we grow 25% or no?
- Manish Dedhia:** Quarter-on-quarter, 20% to 25%, yes, so what we are talking from Q1.
- Nilesh Karani:** We do quarter four and first quarter?
- Manish Dedhia:** Quarter three to quarter four nobody will get immediately, so it may be in first quarter, lot of effect will come.
- Nilesh Karani:** We can expect the double-digit growth correct?
- Manish Dedhia:** Definitely double-digit growth. It will be definitely 25% to 30% next few year's growth.
- Nilesh Karani:** I got it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vidhi Mishra an Individual Investor. Please go ahead.





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- Vidhi Mishra:** Thank you so much, Sir for giving me another chance. My question is regarding the overall business, so what is product category wise revenue breakup if can you tell me that?
- Manish Dedhia:** So, packaging is around 87% to 88%, and 12% of hospital furniture and 1% and may be the balance percentage goes for infrastructure and automotive.
- Vidhi Mishra:** Thank you so much, Sir.
- Moderator:** Thank you. The next question is from the line of Ujjwal Shah from Quest Investments. Please go ahead.
- Ujjwal Shah:** Thank you for taking my question, Sir. Just wanted to understand based on your guidance, do we have confirmed orders in hand, do we have long-term contracts with our customers on the hospital side you are guiding quite strongly so what leads to this guidance? Have we already tied up with hospitals, which are adding beds currently and that is way we have roped therefore this confidence also in terms of margins how can we control the margin volatility? Is it simply pass through arrangement with the customers or do we book contracts or if you can just throw light on this two, three aspects, please?
- Manish Dedhia:** I will go point by point, so like what you said how many order you have, so generally in our type of industry we do not have a long-term orders because the prices changes every fortnight or weekly, so we generally do not prefer to keep long-term orders, not more than one month order we used to keep in. If the market is really robust and I can see the futures are very good in the packaging and both the things. About the second question was, hospital furniture part, so we generally are modus operandi in the hospital furniture party which supply to hospital bed manufacturer, we do not supply to hospitals directly so they supply to hospitals directly, so we are into B2B not in B2C.
- Ujjwal Shah:** Sure, in terms of what you just explained through has those hospital bed manufacturers giving you some leeway as to what kind of growth expectations are there or you have say for example, there are 100 such hospital bed manufacturers previously you are tied to only 10 now you have added some 20, 30 and that is



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why this confidence comes in where you are seeing traction in your hospital furniture business?

**Manish Dedhia:** Yes, we are adding customers I think very month-to-month basis we are adding our new customer and yes, the confidence is coming from them only and obviously some of the market report we used to come to know and major benefit comes from when the Indo-China tension comes, so people are now more willing to go for Indian material rather than Chinese.

**Ujjwal Shah:** Sir, currently what percentage of this would be from China or is it totally from China as of now?

**Manish Dedhia:** Cannot be totally because I am also supplying.

**Ujjwal Shah:** Yes, apart from you I meant are there other players?

**Manish Dedhia:** No, there are two, three countries, Taiwan, China and Germany and I think Germany is very, very less now, so most of the people are stuck in China and I cannot tell you the exact numbers. Sorry, the numbers are not with us right now, but yes, a very less percentage, people are buying from Chinese.

**Ujjwal Shah:** Sir, in terms of margins how do we manage our raw material volatility and secondly you did mention that once the product mix changes in favor of hospital furniture margins will expand so what is the margin differential between our packaging and hospital business say for example, packaging is X, how much X would be hospital furniture?

**Manish Dedhia:** So, X plus 5% to 10%.

**Ujjwal Shah:** Great and on raw material volatility, Sir?

**Manish Dedhia:** Raw material volatility that is what I said the first question was the same how much orders you have. So that is what I said because of the price volatility we cannot take a long-term orders so we take a short-term orders only, so whatever the time of despite the prices are and we have to pass it on the prices and



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obviously it is a global scenario so customer has so accepted that there is not choice.

**Ujjwal Shah:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Vastupal Shah for closing comments.

**Vastupal Shah:** Thank you everyone for joining the conference call of Mitsu Chem Plast Limited. If you have any queries, you can write us at [vastupal@kirinadvisors.com](mailto:vastupal@kirinadvisors.com) and once more thank you everyone for joining the conference.

**Moderator:** Thank you. On behalf of Kirin Advisors that concludes this conference. Thank you all for joining. You may now disconnect your lines.

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