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<b>The Manager</b> Corporate Relationship Department BSE Limited 1 <sup>st</sup> Floor, New Trading Wing, Rotunda Building, P J Towers, Dalal Street, Fort, Mumbai - 400001	<b>The Manager</b> Listing Department National Stock Exchange of India Limited Exchange Plaza, 5 <sup>th</sup> Floor, Plot No. C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051
BSE Security Code: 539400	NSE Symbol: MALLCOM

Dear Sir/Madam,

**Sub: Earnings Call Transcript**

Pursuant to Regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the audio call recording of the Company's Investor / Analyst Call held on 11<sup>th</sup> November, 2022, on the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended 30<sup>th</sup> September, 2022 is attached herewith. It is hereby confirmed that no unpublished price sensitive information was shared / discussed in the call. The transcript of recording can also be accessed on the Company's website, from the attached link: [https://www.mallcom.in/shareholder-information#Earnings\\_Call\\_2022-2023](https://www.mallcom.in/shareholder-information#Earnings_Call_2022-2023).

This is for your kind information and record.

Thanking you

Yours faithfully,

For MALLCOM (INDIA) LTD.

**ANUSHREE BISWAS**

*Company Secretary & Compliance Officer*





# **MALLCOM (INDIA) LIMITED**

**Q2 - FY23 Earnings Conference Call**

*Friday, November 11<sup>th</sup>, 2022*

## **MANAGEMENT PARTICIPANTS**

**Mr. Ajay Kumar Mall : Managing Director**

**Mr. Shyam Sundar Agrawal : Chief Financial Officer**



**Moderator:** Ladies and gentlemen. Good day and welcome to the Mallcom (India) Limited Q2 FY23 earnings conference call. As a reminder all participants' 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 '\*' and '0' on your touchtone telephone. I now hand the conference over to Purvangi Jain from Valorem Advisors. Thank you and over to you ma'am.

**Purvangi Jain:** Good morning everyone and a warm welcome to you all. My name is Purvangi Jain, AVP of Valorem Advisors. We represent Investor Relations of Mallcom (India) Limited. I hope you all are doing very well and on behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the first half and second quarter of the financial year 2023. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's concall may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and the financial quarter under review. Now I would like to introduce you to the management participating in today's earnings conference call and give it over to them for their opening remarks. We have with us Mr. Ajay Kumar Mall - Managing Director and Mr. Shyam Sundar Agrawal - Chief Financial Officer. Without any further delay, I request Mr. Ajay Kumar Mall to give his opening remarks. Thank you and over to you sir.

**Ajay Kumar Mall:** Thank you for Purvangi. Good morning everybody. It is a pleasure to welcome you to our earning conference call for the first half and second quarter of the financial year 2023. In the interest of some of the people who are new to the company, let me first start by giving a brief overview of the company. Mallcom (India) Limited is a four-decade old company and India's largest manufacturer and distributor of personal protective equipment products. It provides a one stop solution for manufacturing one of the widest ranges of head toe PPE products. The company is also one of the largest exporters of PPE from India, exporting to more than 55 countries over six continents. We have expensive manufacturing footprints with 13 production facilities spread across India. Over the years, we have focused on backward integrity whenever and wherever it's possible resulting in significant cost saving and gradual margin expansion. Our integrated manufacturing facilities are used to module, assemble, customize and package the different head, body, hand and feet production products. Each of our facilities have in-house lab that perform product safety testing and ensure compliances of international standard right throughout the production cycle. Now, I would request Mr. Shyam Sundar Agarwal, our CFO to brief you on the financial performance of the company after which I will brief you on the operational highlights. Thank you.

**Shyam Sundar Agrawal:** Thank you and good morning everyone. Let me brief you on the consolidated financial performance of the second quarter of financial year 2023. On a consolidated basis, operating

income for the quarter was around Rs. 111 crores an increase of 13% year-on-year and 27% quarter-on-quarter. EBITDA was reported at around Rs. 15 crores which was an increase of about 4% year-on-year and 29% quarter-on-quarter. EBITDA margins stood at 13.9% and net profit after tax was reported about Rs. 10 crores which declined marginally by 1% year-on-year and increased by about 38% quarter-on-quarter, while debt margins were reported at 8.58%. For the first half of the financial year 2023 on a consolidated basis, operating income increased by 25% year-on-year to around Rs. 198 crores. EBITDA grew by 20% year-on-year to around Rs. 27 crores with EBITDA margins reported at 13.84%. Net profit grew by 12% year-on-year to about Rs. 16 crores while PAT margins were 88.28%. Now, I hand over the call back to Ajay to explain the personal highlights for the quarter and first half.

**Ajay Kumar Mall:**

Thank you Shyam. I'm happy to inform you that the company achieved the highest ever quarterly consolidated turnover and profit before tax in Q2 of FY23. This growth is our top-line and our top-line was driven by an equal growth contribution from our entire product segment but was laid by body protection range achieving a highest worth of 38% against the previous quarter. The improvement in EBITDA margin versus the previous quarter was mainly on account of raw material and administrative costs going down. Our turnover ratio between branded sales versus private level sales have further improved during this year for the year from 34 is to 66 to 37.66 for the first half of FY23, with branded sales registering a growth of 35% year-on-year versus 19% growth for private level sales on first half of the year 2023 signifying better brand recall and acceptance of the company's product in the local market. The relatively lower consolidated EBITDA margin of 13.8% in the first quarter first half of year 2023 has been due to the higher operational cost for the subsidies namely Mallcom Safety Private Limited and Base Safety Private Limited both SEZ units where we expect to ramp up the productivity and operations further in second half of FY23. During the quarter, the Ghtakpukur Calcutta Phase-1 of the unit for safety comment was made operational with manufacturing facility further ramped up. We expect additional contribution from this unit in the second half of the year 2023. With this we can now open the floor to the question-and-answer session. Thank you.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rahul Jain from Credits Wealth. Please go ahead.

**Rahul Jain:**

Sir, with regards to the international markets more so with regards to Europe, which is almost about 40% of our supplying. Given the current environment, you have done exceptionally well and going ahead, what is your take with regards to our sales in the global markets? That is question number one. Secondly, what kind of incremental sales are we doing now from Ghatakpukur and what is the expectation from Ghatakpukur and Ahmedabad units in the second half. Thirdly, in the previous call you had mentioned that current year you had given a target of about Rs. 400-410 crores of sales and we have already done very well in the first half clocking around Rs. 200 crores of sales. Do we see the targets being up for the current year? And lastly, with regards to our margins with better utilization of Ahmedabad unit branded sales which are slightly higher margin compared to your private sales going up and we have aspiration to move the branded sales to almost 50%. For FY24, can we see a decent margin

improvement along with a good growth on the top-line given the expansions which are completed?

**Ajay Kumar Mall:** These are the three questions.

**Rahul Jain:** Yes sir.

**Ajay Kumar Mall:** So, the first question about the European sales and our 40% of the top-line. Let me say that 40% of the top-line is not the sales to European market. Of course, we have 67% of the sales which are export sales out of which 40% of that is definitely going to Europe which is correct, but not the total value sales 40% of that is going to Europe, that's not correct. So that's number one. Number two: the market in Europe in its present situation is not very good but we are trying our best. We are still hopeful of achieving what we had projected despite of the turmoil in the European market because of the fact that we have some long-term contracts with our customers who are although having problems but still able to sustain with that kind of volume which they have committed to us. So, hopefully we'll be able to reach the target which we had mentioned right in the beginning of the year. As I said, the market situation in Europe is not very good and especially with the Ukraine and Russia war lot of markets are getting affected and luckily we are not so badly hit by that region of the market because our presence in that market was not so big. About the third point of your branded sales versus private sales: that's our target to improve on the branded sales because that is where we are trying to invest a lot of energy and advertisement and publicity on our brand recall so that we can be more prevalent and with a new OSH safety rules coming in the Indian scenario, we are very hopeful that this is going to propel further about the usage of PPE in the industrial environment of India. And adding on the turnover from Ghatakpukur and Ahmedabad units, the infrastructure are ready. The whole idea is to get more volume and fill this facility for the production and outperform there. How much they will be able to feed that all will depend on how much order we are able to secure and execute out of these units. With this increased turnover which is also coming from both these units are also going to add on in the total turnover which we have forecast. I have been able to answer all of your points.

**Rahul Jain:** Typically some quantitative guidance kind of stuff for the next year FY24, can we see better growth in top-line to the extent of around 18-20% and say around 14-15% EBITDA margins?

**Ajay Kumar Mall:** I cannot comment on this right now. Lot of situation on inflation as well as the currency movement as well as the market scenario internationally is still not so visible for such a distance. But, in the nearby couple of quarters we are very confident of achieving what we have projected but beyond that we have to be a little bit patient and have to wait for the market to the activity as we go.

**Rahul Jain:** Just one clarification because in our previous presentations, we have always mentioned the geographical mix like even for FY22 the presentation mentions Europe to be 41%, India to be 39%, South America to be 14% and even in the current presentation for the first half of 2023,

the geographical mix which has been given is 42% is Europe and Asia is 41% and South America is 13%. So those are the three major markets. So, I was a bit confused.

**Ajay Kumar Mall:** Exactly. On the export market, when we talk about the export front, out of the total export that much is definitely going to Europe. We have let's say 67% going for export and 33% roughly for the domestic branded sales. Out of 67% majority is going to Europe which you rightly mentioned. We have America, South America and also Australasia and little bit of Middle East also.

**Moderator:** The next question is from the line of Prawjal Desai from Turtle Capital. Please go ahead.

**Prawjal Desai:** The first question is on Ahmedabad facility ramp up. So, I was under the impression that there is some soft commitment from customers of take off that capacity at least a part of that. So, if that understanding correct or is it like we'll be kind of now looking for customer and things are customer visits are happening and it will take some time for ramp up. How does it work?

**Ajay Kumar Mall:** That's true that we have a commitment from the customer about the capacity which we are building up there. The only problem in Ahmedabad is that we have to first create the skill set with the people. It's not a normal garment when anybody can go and stitch. There are very skillful labors which we need to make that kind of garment and we are at the moment building up the skill set with our people whom we have hired. We have got more than now 250 odd people who are working. That's where the challenges are. But, we are still on it. Commitments are there. Unfortunately, we are not able to ramp up our productivity to that level to fill in the market which we have. That is taking a little while. Once we are able to do that threshold is reached then I am sure of more volume coming up there. At the moment, it is the other way around. The customer is having orders that we are not able to fulfill it so quickly. That's the challenge which we are facing.

**Prawjal Desai:** Second question sir. If you can give some update on why we are able to do so well in the domestic market, I assume that all the branded sales that is increasing its: is primarily through domestic market. What is it that is driving this growth in domestic market?

**Ajay Kumar Mall:** I give you a very small answer. We are working very hard. So we are all doing our best. We are just trying to do whatever best we can do because we are at old brand in the market and it is having a recall value and our product quality is also superior to what is available in the market. These are various factors and for which we have invested of time, money and energy on that and now it's paying off. That's what I will say.

**Prawjal Desai:** Because one of the key constraints that we had mentioned about growing fast in Indian market was that some of our products were pretty premium and Indian customers were not willing to pay. Is that scenario changing or are we making more value for money products?

**Ajay Kumar Mall:** No, scenario not changing so quickly. It takes a number of years or maybe some decades before the mindset of the people change. Definitely there are lot of number of People who

started buying lot of good products when they realize that buying a product which they have been paying, let's Say X price, and with X plus 5% or 10%, they can get a better product which has a better value of another 50% of the lifecycle of that product. They will definitely like to buy that and that comes slowly after they start using and trying to believe the mindset of the people do change when they start using those kind of products which are a better value and usability. That's how it is happening.

**Prawjal Desai:** And last question is on rainwear. Are we kind of meeting up to the requirements and how is the ramp up, how that product is catching up and any new products that we introduced in last three-four months?

**Ajay Kumar Mall:** No, we have not been able to do very successfully the rainwear which we wanted to do for Indian market because this kind of rainwear is still very expensive for the Indian market, but we are still trying to find a better and alternate substitute for the high end to mid level range which we have launched. But it takes time. The mindset in India is still to use something which is low priced which we don't want to get into because that has a very low usability. Every one season or maximum two it is gone, whereas the rainwear which we want to launch and offer to the market is durable and also comfortable. It is having a breathability which at the moment I would say neither of the local suppliers or the operators are able to offer.

**Moderator:** The next question is from the line of Devesh Mali from DS Investment. Please go ahead.

**Devesh Mali:** Could you help understand the competitive intensity either our market share or anything around the industry landscape and how we position ourselves in different products segment?

**Ajay Kumar Mall:** Sorry, I couldn't get your question. What exactly do you want to know?

**Devesh Mali:** Basically who are our key competitors, how much is our market share, how do we differentiate ourselves from the others? Is there any import that sort of we need to compete with just competitive intensity in the industry?

**Ajay Kumar Mall:** Basically in the local side or in the domestic market we have many competitors and only advantage or the one which differentiates us is we have a whole basket of product. So, when we say many competitors, there are competitors like it could be Liberty or Bata who are only selling let us say safety shoes and there could be some company in random in North India which is making garment and selling. So, that is something which we are able to offer to our customer is a whole range of products which we manufacture with the superior skill set and very specific to the product category. So, when we talk about the category of shoes Bata could be one of the very large operators who make all variety of shoes and safety could be one of the items which they have. Whereas we concentrate only on safety gears and safety shoes is something which we specialize and we make and we stand by that. This is what we are offering. This is the differentiation so far as the market operator in local market is concerned. And when we offer the whole range of basket of product as a safety gear to the industries or to occupational safety, then the performance level of every product has to be superior then only

we have a better recall value as well as the better positioning for our market which we are selling our own brand. This is the situation so far as the local or the branded products are concerned ways within India. Outside, the biggest competition comes from China. On the whole global scenario, China still leads the market with almost more than 80% of the total safety equipment or the industrial PPE supplier to the world, India would be holding hardly 7-8%. And that's how the competition is. There are other operators from Asia, could be even Europe, Pakistan, Bangladesh or even Indonesia and Malaysia. Now, coming to that there are large operators under their brand who really buys these kinds of products from various manufacturers under their brand and they sell in advanced world maybe in Europe or in America or whatever. We definitely have a lot of very important customers who are big brand owners in the world and then they are our customers and we are regularly supplying them for many years. That's our forte on our expertise on our product category which we are offering and we are having a very successful kind of relationship with our customers there.

**Devesh Mali:**

Would you be able to comment about 3-5 years growth if you were to look ahead? Will it come from wallet share increase or you think industry itself is growing and product segment and geography will drive our growth? Just wanted to get your idea if you see your company going next 3-5 years and you have to call out which are the key drivers for that growth, what would be those?

**Ajay Kumar Mall:**

For India, definitely the size of market itself will grow and that will grow quite rapidly in our opinion because with more and more infra and industrialization happening India, such kind of product will become a kind of a necessity for the people if they have to abide by the local rules and things like that. Still large market in India goes untapped because I would say awareness as well as enforceability of the law within those kind of segments, for example construction could be one of the largest segments which still we don't have much of the safety gates applicability or enforceability. Internationally, definitely our stake would become a little bit more obviously because many of the countries are now in a position to look for alternate to China plus one policy kind of stuff where we are very confident that market will come to country like India and definitely all the Indian operators will get benefited out of that come from market safety which is happening.

**Devesh Mali:**

Database question. If we look at our margins over the last 1-2 years, we have done very wonderful job in managing margins, even though we have a sizable export share. I just want to understand how the contracts are structured. How do we protect our margin, which we've done so nicely so far? How do you see the margin playing out now that costs are coming down and things like that over the next 1-2 years?

**Ajay Kumar Mall:**

The biggest is the financial discipline, because we are in a market where we have two kind of volatility about the raw material pricing as well as the currency. That is where we have to judge properly and do the right kind of assessment and block ourselves in a position where we don't bleed on certain things which we anticipated already. So that is what we do. We try to hedge everything possible and that's the reason that we are able to get a better kind of margins. Market has been in our favor rather we could move or tilt it to our favor and that's how we



have been able to achieve hopefully. For the future also, we would like to continue with our disciplinary approach towards the pricing as well as the competitiveness of our product. Because the moment you try to price yourself on a push thing for your pricing, you may lose the market. That's also something very interesting to know in the market cycle like what we are, because it's a very competitive market when you have to compete with especially like China, we have to be very careful on those scores also. That's I would say quite an intense approach on the pricing part as well as on the raw material control by hedging the risk of raw material pricing.

- Moderator:** The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Our export to European countries, Asian countries and South American countries, what is our currency of billing? Do we bill them in dollars or it is the respective area's currency?
- Ajay Kumar Mall:** European, I would say 40-50% is in Europe, rest all other countries are in dollar only. The European market whatever we have maybe 50% of that is going in Europe and rest whole of the world is in dollar.
- Ankit Gupta:** In our CAPEX plan, in Ghatakpur we have completed the Phase-1. We also have plans for Phase-2 and Phase-3 as well. What are the CAPEX plans for second half of this year and FY24?
- Ajay Kumar Mall:** We don't have any plan for second half of this year so far as Ghatakpur is concerned, we are just consolidating the whole thing because we will wait till this gets into good shape and then only maybe next year we will start planning the next phase of expansion. At the moment we have to first fill it up with the capabilities whatever we have created.
- Ankit Gupta:** This existing facility we are able to clock Rs. 110 crores revenue run rate on a quarterly basis without Ahmedabad contributing much to our top-line. So, when Ahmedabad and Ghatakpur new facility reaches optimal capacity utilization around 80-90%, how much revenue can our company do on a consolidated basis?
- Ajay Kumar Mall:** If you really look at our business model, we have an order driven kind of a situation. We have created a capacity; we have to bring in the business. Business in our head, we can execute it, for that we have to build up the capacity. If not, building up the capacity will bring the revenue.
- Ankit Gupta:** You also bring in new customers and existing customers also give you more business. With this existing facility set up including Ahmedabad facility and Ghatakpur Phase-1 facility, how much revenue can our company do, let's say we get the orders?
- Ajay Kumar Mall:** These two capabilities, we will be able to generate more than Rs. 200 crores, for example. But, this is a capability built-up; it's not revenue built-up which will happen based on this. Any built-up has to be done on the situation where we get more customers and of course their orders positions with us also and we are able execute because we have the capability.

**Ankit Gupta:** Around Rs. 400 crores kind of annual revenue run rate we can touch Rs. 600 crores. I'm not talking about the timeline but whenever 2-3 years when they ramp up we can touch Rs. 600 crores kind of revenues.

**Ajay Kumar Mall:** Yes. Very much I. Wonderful idea.

**Moderator:** The next question is from the line of Ankit Agarwal an individual Investor. Please go ahead.

**Ankit Agarwal:** I just wanted to understand that in the export market side, what would be the total market share of safety equipment? Like safety whatever we do like in that basket, what would be India's export share and what would be our market share in that? Also one question sir, you mentioned that in one news article that in the next 6-7 years you want touch Rs. 1,000 crores of revenue. For that to happen, do you think it will happen mainly from the export side or will that be more driven by the domestic side of the business also?

**Ajay Kumar Mall:** So, the first question is about the market share. The market share as I said, India's market share and the global PPE market would be hardly around 7%. That's something; it's very meniscal kind of thing. From India's share, our share would be hardly 2% even not even 2% because it depends on the product category. There are like the leather product or the garment or the shoes. So, every category like only the three kind of categories where we are able to maximize or maybe dip products, or the fourth category where we are generating the revenue. In case of dipped, we are perhaps the largest because there are not too many of them operating out of India. In case of shoes, we could be hardly having a share of less than 1% even because there are many operators. Because, shoe doesn't go in a category of safety shoe, it goes in a category of shoes. So it's a large category. Similarly if our case of leather gloves, we could be having the India's total revenues market which could be Rs. 1,500 crores out of which we could be doing maybe 6% or around 7%. That is our market share. In that scenario, you cannot see category like PPE and how much is the share that is not happening because every product has a different category. This is about the first question of yours, the second about Rs. 1,000 crores in 5-6 years: that's our target. That's what exactly we are aiming and we are working towards that. And our ideal idea would be 50-50%. That is 50% coming out of the local market, that's a branded product. And, 50% out of our export turnover. That's our main objective and we are trying to work and working towards that.

**Ankit Agarwal:** Just one last question. I also saw that some of your products are available on Amazon. So, is the company also trying to sell like online sales or something through that channel also?

**Ajay Kumar Mall:** We are. So e-market is also becoming a little bit relevant now in India although it is very small at the moment but we want to be present there also. We have started a few of our product categories being sold out of these channels as well.

**Moderator:** The next question is from the line of Namit Mehta from KC Capital. Please go ahead.

**Namit Mehta:** I just had a couple of basic questions. First, would it be possible to just walk us through what the cost differentials would be for you versus maybe some of the Chinese competitors? If you can go into detail around where there would be cost advantages versus disadvantages?

**Ajay Kumar Mall:** Very broad question, really. China versus India if you're talking about now, the advantage with India would be at the moment would be labor cost which is an advantage of India. Chinese are becoming very expensive so far labor is concerned. Depending on the product category, the raw material cost which is largely from anything between 60-80% that is where China has an advantage. And it is an advantage I would say in political terms because even they do not have advantage, they would make it advantageous because the government has got lot of channels by which they can make it very competitive from China. That's the only reason that we are not able to compete with them so rigorously. But, having said that China has been in this subject for more than 50 years now, India has started maybe 15-20 years in a very-very small way. Our share in the global market is also very-very small with the big scope and also with the situation where China plus one policy, where a lot of international brand owners as well operators in the PPE domain would like to take India as the second sourcing hub. That's where even though we may not be very competitive with the Chinese but also we'll be able to provide them a better solution or an ultimate solution to hedge the risk. That's where we play an important role.

**Namit Mehta:** Just, if I was to hypothetically assume that China plus one trend was not happening and just assuming in the absence of any geopolitical reasons to shift manufacturers, what is sort of our reason to win in the global market then? Is it that sort of a niche market within the larger market that we play in? Is there some sort of difference in turnaround times or quality of product? Where do we have a sort of right to win in the market in the absence of geopolitical context?

**Ajay Kumar Mall:** So, all these while last two years we have been talking about this geopolitical problem or the China plus policy, before that it was all our niche kind of a marketing , we have a smaller lot size which we can handle a lot of customerization of the product which Chinese are not able to. These are the niche kind of things which we have been doing and we will continue doing it.

**Moderator:** Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management of Mallcom (India) Limited for the closing comments, over to you sir.

**Ajay Kumar Mall:** Thank you very much everyone for joining us on this call. We are open for such kind of discussion any time when we are coming back with our new earnings from the next quarter. Thank you very much everybody.

**Moderator:** Thank you members of the management, ladies and gentlemen on behalf of Mallcom (India) Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.