

Conference Call Transcript

Uflex Limited Q1FY19 Results

August 14, 2018 | 3:35 p.m. IST

Corporate Participants

Mr. Rajesh Bhatia
Group CFO

Mr. Rajesh Agarwal
Vice President – Investor Relations

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Uflex Limited Q1 FY2019 Earnings conference call, hosted by Edelweiss 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 "*" then "0" on your touchtone phone. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you madam!

Shradha Sheth: Thank you Bikram. On behalf of Edelweiss let me welcome you all to the Q1 FY2019 earnings call of Uflex. From the management today, we have Mr. Rajesh Bhatia, the Group CFO and Mr. Rajesh Agrawal, VP, Investor Relations of Uflex so without any further ado I will hand over the call to Mr. Rajesh Agrawal. Thank you and over to you Mr. Agrawal!

Rajesh Agrawal: Thank you Shradha. I would like to welcome all of you to the Q1 FY2019 earnings call of Uflex Limited. We have with us on the call today Group CFO, Mr. Rajesh Bhatia along with the other members of the senior management team. Unfortunately due to some exigency, Vice Chairman Mr. Anantshree Chaturvedi could not make it for the call.

Before we begin, I would like to mention that some statements made in today's decision may include predictions, estimates or other information that might be considered forward-looking and a statement of this affect has been included in the conference call invite, which was emailed to everybody earlier and it is also available on our website.

I would also like to emphasis that while this call is open to all invitees, it might not broadcast or reproduced in any form or manner. We would like to start this call with the open remarks from the management followed by interactive Q&A session wherein you can discuss your viewpoints on the key issues. I would now like to invite Mr. Bhatia to discuss the company's operations and result for the quarter under review. Over to you Sir!

Rajesh Bhatia: Thank you. Thank you Rajesh and welcome all the participants. This is our second call. We took an initiative in Q4 and FY2018 call we did last time and I think I am happy to inform all of you that this quarter was the highest ever topline both on a consolidated as well as on our standalone basis.

This is the quarter where we touched our six digit tonnes both in volumes, production volumes as well as the sales volume the highest ever quarterly operating revenues, the highest ever standalone as well as on a consolidated basis and some of the businesses like packaging films in India, they did their highest every production volumes and sales volume. Poland did their highest ever production volume in a quarter and Mexico also did its highest every production as well as the sales volume in this quarter.

Overall basis, as I said this has been the highest every quarterly total production and highest every quarterly, the sales volume and some of the businesses, which stand out and contributed immensely to that are packaging films India, Poland as well as Mexico.

The production volume overall for the year grew up by 11.6% on a year-on-year basis, and 3% on quarter-to-quarter basis. The packaging films volumes are up 11.6% year-on-year and 3.9% on a quarter-to-quarter basis. The packaging volumes are up by 11.6% on a year to year basis and constant on a QoQ basis, so that is on the production volumes.

The sales volume for the quarter is up 14.9% year-on-year and 2.5% quarter-on-quarter. The revenue is up 17.5% year-on-year and 5.2% on a quarter-to-quarter base and QoQ basis. EBITDA for the quarter is up 7.9% year-on-year and 11.3% on QoQ basis and PAT is up 1.1% year-on-year and 32.3% on a quarter-to-quarter basis.

In this quarter and last quarter I had mentioned that the packaging films is definitely showing a better margin expansion and I am happy to report that in India, we have the packaging films business is doing better and last quarter FY2017, we had the gap between the selling and the raw material cost was about Rs.32 while in Q1 now it is up about Rs.50.

In BOPET Q1 last year, the gap between the selling price and the raw material cost was about Rs.47.50, but this quarter it is down to Rs.36, but I think that the BOPP the margin adjustment is more or less taken care of and we are already seeing a better value added margins in the month of July.

I will not hazard a guess as to how this will behave in the next quarter or so given that some of the production capacities, which got recently commissioned are yet to show their impact on these numbers, but yes as we have been saying that the BOPP margins are sort of impacted a bit and there is room for improvement over there. Though we are not a very large BOPP player, but nevertheless I thought for the consumption of all of you, let me sort of make those numbers to you, so overall basis a very satisfying quarter.

On the liquid packaging side, yes we had a higher production and higher revenue this quarter and we now are currently serving about 20 customers as compared to 12 customers, which we were serving in the last quarter, but the big ones are still eluding us, but we are much closer to closing them what we were in the last quarter so that business we are expecting that business to contribute significantly as we add on more customers and particularly the large ones.

I think that in nutshell is what the performance for this quarter is all about. A few product updates we have got the recognition from ISRO for some of the specialized films that they require for their various programs and all that and earlier they were importing these films and we have now been selected. Our films have finally approved by them for supply to them and that will throw up not a very big sort of volume for us, but yes it is a recognition that even a very sensitive application like ISRO requirements and all that we have the capability

to produce as per their quality requirements and as per their standards.

We have also been as a Certified Security Printer by IBA and that is part of our holography division business and we are looking to expand that and these are some of the few things, which may not ultimately be a huge business volume, but they really showcase your capabilities in terms of meeting some of the stringent control and quality requirements and that is what we are known for and that is what keep on giving the value add to the customers. I cannot name, but I can tell you that there have been some customer's commitments that we have received during this quarter, which are going to give us substantial business in the rest of the year in the Q3 and Q4 as well as in the years to come by and we expect a substantial export revenue from some of the customers that we have added during this quarter.

While the work has been going on for many years, I would say, but this is finally culminating into a relationship where we will start supplying to them on a commercial basis globally and thereafter we will look to expand this relationship because some of these contracts some of the world's largest consumer of liquid packaging and that augers very well for Uflex as we go forward.

There have been some other product updates also. We have a specialized formulation that we are packing for edible oil reprocessible. We have a new solventless white adhesive, which is a huge cheer to the converters because that brings down their costs substantially and the packaging films business in USA they launched wet metalized surface inspection system, which places it on the state of our optical surface inspect technology and defect classification system that reveals and quantifies the defects and the system checks the entire web and allows for rapid and accurate detection of defects in a film, which will ultimately help us to have a more stringent quality control and this particular thing is located in a strategic part of the slitting process just near to the winding roll, so the lines and cameras that can analysis 100% for the defects in real time, so obviously this will address hugely any defect relating to metal deposition and help us improve our production efficiency and the product quality and will in turn help the customer also with the lesser wastage as well as the downtime.

We have also added a new OPTIKA Transparent Flexi-Tubes on the global cosmetic brands and we are expecting increased business volumes from our tubes division. We had to do some small capex to increase our capacity of the tubes division given that it got filled fully in the last quarter and we are looking for more volumes coming from the lami tube division where the value ad will be in terms of the holography and the counterfeiting solutions business.

We have also in our chemicals division received ISO 21000 and I think we are today one of the top manufactures of the chemicals in the country and that business is also doing well and we are apart from meeting its internal capital requirements that business is also now serving in a much better way the third party customers also. In fact all our intermediate business be it the inks and adhesives or the cylinders or our engineering business, I think we are surely making more strides there to ensure that we not only we cater to the in-house

customers, but we are servicing the third party customers and each quarter and each year, the ratio of the third party to the internal is on an increasing trend only.

I think that in a nutshell is what I had to tell you about the business performance during this quarter. I am glad that we have a double-digit volume growth in the production and almost a 16% volume growth in the sales side and as we are seeing that a lot of FMCG companies this quarter they have shown tremendous improvements in their volumes as well as in the profits driven by some GST cuts and all that and we will be the direct beneficiary of that and we are looking for a substantial business volumes in Q2 and Q3 there when the festive season really comes on board. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from line of Satish Ramanathan from Tattva Capital. Please go ahead.

Satish Ramanathan: Good afternoon Sir. Just wanted to understand a couple of things. There is the volume growth that we have seen in Q1 is because of demonetization last year and whether this volume growth momentum will continue into the Q2 and Q3? The second question is this decline in gross margins whether it is because of our fluid packaging and liquid packaging coming on, which is impacting margins so is there a lot of wastage or something of that sort, which is impacting margins or is it just raw material cost push and do we expect the gross margins to improve back to about raw mat to sales was 60%? It has dropped to around 55% to 60% again, so will we see improvement in margins or what is the driver?

Rajesh Bhatia: Coming back to your first question, yes. Last year would have bit of a very small impact of the GST, but I would not really give a lot of credence to that. I think I will give a lot of credence that the way our films business in particularly the packaging films business has been able to drive up their volumes. Polyester is the BOPET films has clearly there is a demand supply equilibrium happening on the side of demand and that is why I find that the healthy order book and with that thing we have been able to do much better production numbers at all our films division and that is where the volume has been growing. Generally in India, if we are doing about 6.5% to 7% kind of a GDP thing, I think we will look at double-digit volume growth irrespective of any disruptions like GST or demonetization and all and we believe that a double-digit growth is the way to go.

On your second question about the reduction in the margins if I see the EBITDA margins this quarter versus FY2018 I think we are at the same number, but yes it has an impact of the aseptic packaging because that business unless the volumes grows substantially is not adding to the profitability rather it is adding to some of the costs, which are not being recovered. Really today we not recovering the interest and depreciation cost of that business unless we ramp it up substantially and at an operating level also while it adds to the turnover if it is not providing any value added margins, so on an overall basis it covers a little

bit of a drag. The third thing, which is important is that the last quarter we have seen that the crude prices going up by about 17% Q4 versus the Q1. While in the films business it is passed on day one in the packaging depending on your contracts, it is passed on normally between one to three months lag and if the prices are stable going forward, I think that lag effect we will capture in the current quarter, but if the prices keep on going that lag effect will continue to affect us till the time the prices do really stabilize.

Satish Ramanathan: Have you been able to get price increases given that actually three months have passed since the oil price has moved up?

RajeshBhatia: That is automatic, so the contract will normally provide for and in the current quarter your last three months on a rolling basis average pricing will apply for the crude, so if the prices have been rising so in that quarter you do not get benefit, but in the subsequent quarter you get that benefit.

Satish Ramanathan: How much do you reckon the aseptic packaging has actually impacted our EBITDA margins in the sense that if we do not have aseptic packaging what would be the kind of margins for the rest of the company?

Rajesh -Bhatia: I think for aseptic packaging I can tell you that on an operating level we are not now more or less close to a breakeven situation may be a marginal small under recovery and all that given that some of the costs are fixed, but largely we are able to take care of our cost even at small, but yes that is not giving me the margins so when I see that in reference to the overall sales, so that brings the margin down a bit, but I would assume that will be not more than sort of 0.3% to 0.5% that is the kind of a range I believe on an overall basis it will impact my margins.

Satish Ramanathan: What would be the capacity utilization of the aseptic plant?

RajeshBhatia: We are at about 20% to 25% currently.

Satish Ramanathan: The reason for the interest expense going up what is the total debt? Has debt increased YoY and whether this is going to start coming down once the cash flows improve?

RajeshBhatia: On a year-on-year basis, the impact in the higher interest cost as well as the depreciation is only because last quarter Q1 of FY2018 you did not have the impact of the interest and depreciation coming from the capitalization of the aseptic packaging unit, but this quarter you have that, so that is the only impact.

Satish Ramanathan: That is fully done or will be there any further impact?

RajeshBhatia: That is fully done now. The debt has not increased on a year-to-year or a quarter-to-quarter basis it remains at the same level, so the increase is not on account of debt increase. Increase is only on account of that this cost was being earlier capitalized and now it is reflecting in the profit and loss.

Satish Ramanathan: Thank you Sir. I will come back in the queue.

Moderator: Thank you. We have the next question from the line of Parthiv Jhonsa from NVS Brokerage. Please go ahead.

Parthiv Jhonsa: Sir my first question is pertaining to the production and sales can I just like have an idea on what were the exact production and the sales volume for the quarter?

Rajesh Bhatia: I can give you the overall.

Parthiv Jhonsa: That is fine. I do not need the bifurcation overall just to understand the industry that is it?

Rajesh Bhatia: Overall, we have done the production of about 101000 tonnes and sales of 102000, but that is it.

Parthiv Jhonsa: Understand and Sir the second question is to do more towards the industry front and to the company so we are into packaging and all so how do you perceive it going forward now?

Rajesh Bhatia: I think the industry has a great future and as couple of sectors in our country that one is very low penetration currently in the foods business, in the ready food the where the packaging is used the most, but as there is a shift in urbanization as the food habits of people are changing and they want to pickup any packed food and ready to eat snack food and all that, so I think we are in for good times. Also there is a lot of diversion happening from rigid plastic packaging or rigid packaging to the flexible packaging given that it is cost effective. It is easy to transport and easy to handle and the weight to the packaging ratio is much less, so if you see some of the things, which were earlier being packed in the rigid plastic containers, now you will find them the shower gels, shampoos and lot of stuff coming in the flexible packaging, so I think flexible is the way to go because generally speaking on a global basis, if you see something, which is packed in a flexible packaging can be transported in one truck vis-à-vis if you put that in a rigid container, packaging and all that you will need 20 trucks for the transportation of the same material. Similarly the business phase is for the flexible packaging and even if you find that all this noise about the plastic should be banned and all that so what has been only affected is some of the things for which there is a clear replacement market exists like your carry bags or your spoons or your plastic plates an all that, but if you see on the packaging side the Maharashtra Government has put in Re.0.25 paisa per pack as a levy, which the brand owners like Nestle, P&G and all that have to pay for and use that money ultimately for collection and disposal and recycling of that waste, so overall the emphasis is there is no substitute for the flexible packaging, so you have to find ways as we have all done in the past for paper, for steel scrap or for glass scrap, and bottles and all that, there is a value that you can get for that scrap so the idea is here also you create that value for the scrap so that people have the tendency to monetize that scrap and then when it comes to me, Uflex is probably the only company in the flexible packaging space, which already has the proven setup at all the plants for reprocessing and recycling all the waste whether it is a single polymer or whether it is a multiple polymer or printed or laminated in whatever form it is

and all the large brand owners are currently in touch with us as to we get over this problem because it is only about paying Re.0.25 paisa per unit for the waste management, it is also ultimately ensuring that all the waste collected is either used as a fuel somewhere or it is recycled and all that and we strongly believe that given that we have an edge over the entire competition in this space this will itself culminate into a very large business opportunity for us.

Parthiv Jhonsa: Because my next question was supposed to be on the ban only but you have already clarified that Sir and thank you so much for that. I have got a small question. How has the pricing the end product pricing moved over the last couple of years and how do you expect it to move going forward? Basically if I see a film so how the price of the film or flexi packaging has moved in the last two, three, and four years and how do you foresee it for the next 12 to 24 months?

Rajesh Agrawal: If you take the packaging films the polyester films I gave you a flavor so a price is also a function of as to what is the raw material cost. So that is why I gave you the differential between the price and the cost of the raw material, which was Rs.32 in Q1, but in Q1 this year it is Rs.50, so obviously there has been a margin expansion.

Parthiv Jhonsa: So this is the difference between the raw material and end product pricing?

Rajesh Bhatia: And the product pricing, so the product pricing in isolation actually does not make any sense and in the BOPP films the difference was Rs.47 in the Q1 last year and it is Rs.36 in this quarter.

Parthiv Jhonsa: So there it has reduced basically?

Rajesh Bhatia: There it has reduced.

Parthiv Jhonsa: But however in the regular films that has increased in the flexible packing?

Rajesh Bhatia: Yes, the polyester films it has increased and given our capacity overall worldwide we are the third largest manufacturer of the polyesters and that give us definitely an advantage and while BOPP we are a marginal player.

Parthiv Jhonsa: Okay, so that basically does not affect much to the bottomline for the company?

Rajesh Bhatia: It does.

Parthiv Jhonsa: Not to a great extent?

Rajesh Bhatia: Yes.

Parthiv Jhonsa: Okay. Thank you so much. If any doubt I will come back in the queue.

Moderator: Thank you Sir. We have next question from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: Good afternoon. Congratulations on a good set of results. I have a few questions basically first on is pertaining to Asepto, now from my channel

checks on what I am getting is the issue is coming is basically related to machinery, so basically is there a constraint on Uflex for the machinery they can produce for packaging of this liquid packs?

Rajesh Bhatia: There are both kind of customers, so there are customers who already have own their already the filling lines and where there are no issues, but then there are customers who have the lines provided by the competition and the pay per use – the per pack manufactured, filled on that line, so those lines clearly we will not be able to put through because the competition will not allow us to do that. We have capability at our engineering division to do this to make the machines, we have already made three machines and supplied three machines, but we can probably do about six machines in a year and we are in the process of tying up with some third party vendors who would sort of make these machines and provide service for these machines.

Jiten Parmar: So that would be from some place like China or something right?

Rajesh Bhatia: It could be China, Japan, Korea, so they all have capability, so I think the challenge is there on the machining side because that is where you have to take care of. There are customers who want that, we want per pack filled model whereby like the competition does you bring your machine, you install your machine at their premises and they do not pay the price of the machine, but they are ready to pay per pack filled on that machine on that basis, so all the models with the different customers will work, there will be customers who will buy out the machines, there will be customers who will, but I see a lot of trend now going forward because earlier the competition there was monopoly, so there could be a situation where the customers were asked to sort of take the machines on a per fill basis, which really binds the customer to the lamination provider, but now that the customer has a choice, so I feel going forward this market will be more oriented towards where the customer will have a machine and depending on the quality - depending on the pricing of the product it will decide that which brands it wants to operate on its own machine.

Jiten Parmar: Our packs let us say the customer has a machine and may be his contract period is over, our packs would run on the competitors machine?

Rajesh Bhatia: Yes exactly, no issues on that.

Jiten Parmar: No issues, okay, another thing is the guidance for Asepto was Rs.350 Crores, do you think we can achieve that or we will fall short of that?

Rajesh Bhatia: I think we will fall short of this in this year, but I think in another quarter or so let me give you more precise guidance on that because if one or two large accounts happen in this quarter and all that and may be we will be able to give you more formal guidance and all that, but I can only tell one thing that if there is a delay it is a delay of few months or few quarters, nothing more than that because the product is very well received by the market. There are more aspirants who want to take this product and they really appreciate that we have now the option to dictate terms in this market, which they did not have that possibility earlier on, so I think overall basis we do not have a doubt and some of you if you are based at Mumbai you can go to our office and see

some of the product offering, which are absolutely different from what you see today in the market.

Jiten Parmar: Absolutely I must congratulate the company for doing something like this that is all definitely there.

Rajesh Bhatia: We are also participating in a very large way in some of the international exhibition because again some of the products, which we are able to make with a holography and with added features in terms of their look and feel and all that the holographic, the foil stamping, all that even in the country like China you do not see those packs very often, so we participated in the Shanghai exhibition and we have got some enquiries from there, so I think a lot of value add if we get business then your margins will be much better as compared to the conventional packs margin and India or China given that the way their consume business is increasing particularly for the companies who are new into this and they want their packs to look different on the shelf, I think there the buy-in is 100%, so they do appreciate that, they need to look differently on the shelf life and one typical example of how a differentiated packaging can actually make a success to the product is what we see that Paper Boat, they differentiated only on their packaging and obviously ultimately the inside contents also have to be good and all that, but the first time first you look at the packaging and you say okay let me taste this and that is the same differentiation we are offering in this product category too.

Jiten Parmar: Great and my final question is basically again coming to the uncertainty regarding the ban and all that, now BOPET being non-recyclable, do you see it coming under a ban, I mean lot of countries which has banned already, do you see a challenge for BOPET over a period and what are the companies plans to mitigate over there?

Rajesh Bhatia: As I said that if we look at the trends now, there is no ban because there is no substitute for this, so the whole endeavor has been to put up a waste management program thereby the users will be incentivised to return to preserve those packs and given those packs back to the rag pickers and they get some money, so when the entire ecosystem will work on that like we sell our old newspaper or our old steel scrap or our old glass bottle scrap and we get value for that, if tomorrow we all start get to value for a biscuit wrapper or Lays wrappers and all that and somebody comes to our home to pick them up or we return it to the vendor and get some money back I think that ecosystem when it gets generated you will have all of that collected and then you can actually recycle, because recycling is not an issue. So the problem is not that they cannot be recycled or they cannot be reprocessed, the problem is only today the collection and that is what the government is doing. If you see Maharashtra order what are they said, they said that the brand owners will pay Re.25 paise per pack, so whatever number of packs they produce so they will have to pay that and ultimately who pays the customer will pay for that and once that is collected and comes to my premises, so today in my premises we generate a lot of reject also something which is bad in quality, something which is printed badly, the adhesive issue is not joining properly, so whatever is the

waste generated at our plants we recycle all of them and convert that into chips, so once I get those material in my plant I will be able to or we can set up specific plants for our clients requirement wherever they want because the technology we have, in fact way back in 1995 at Geneva we have been given the Best Paper Award for presenting a solution on as to how do we recycle the multilayer packaging base so that solution exists today, the collection mechanism needs to be in placed and then you see a new line of business emerging within the flexible packaging, which Uflex is being a market leader will not find it letting in any respects to grab on to that opportunity.

Moderator: Thank you very much Sir. We have a next question from the line of Mohit Agarwal from India Capital. Please go ahead. We have a next question from the line of Sagar Shah from KSA Securities. Please go ahead.

Sagar Shah: Good evening Sir. My first question is regarding to Sanand plant Sir actually, almost like, if I am not wrong you plant was almost commissioned last year only and it is almost a year actually you have been trying to something like do tie ups with the FMCG giants as stated in your press releases actually, so something like what I want to know about, as you had said almost 20% to 25% capacity utilization is there in Sanand actually, so in spite of something like you have such as good tie up actually with the FMCG distributor, something like I wanted to know the reason why are we facing the shortfall in the capacity utilization in this front?

Rajesh Bhatia: I think the only reason because some of the large customers are taking more time in doing their repeated trials, so the very fact that they are engaged with us, they are taking our products on trial - multiple trails, twice and thrice and all, so that itself augers that they are keen to do it, but they want to be doubly sure that they should be going wrong because ultimately if you pack a product and then that does not meet the product lifecycle criteria, they may have the huge issues at their level and obviously when a situation like this emerges the competition also plays its part and tries to project their products better, so I think it is just a matter of time that we will get through, you may be right that we may have missed a few targets even internally and all that, but if you say that if we are overly concerned about that the answer is no.

Sagar Shah: You are not concerned about the demand basically, you are quite confident you are saying?

Rajesh Bhatia: Yes absolutely, so as I said earlier it is a question being delayed by a couple of quarters and we will surely be there on this.

Sagar Shah: So the basic concept behind this aseptic packaging is that you explained before like that, it is something like you are producing the machines that you will manufacturing the end products of the client by using that machines in the client's premises basically?

Rajesh Bhatia: No, so we do not, so these are the only the filling lines, so what we provide to the client is the machines to fill the contents in the packs, which we supply them separately, the product is made by them, we do not make the product.

Sagar Shah: Okay, it is just a packaging difference basically? My last question is regarding to just, it is about the debt as well as the tubes contribution as you said actually that the contribution from the tubes business will increase in the quarters going ahead, so I just want to know how much can we garner more from that business and secondly is the debt guidance actually, we are something like planning to reduce the debt in this following financial year or we would not be able to, that is it?

Rajesh Bhatia: I think the tube business is still very, very initial stage with us, I do not have the sort of the readymade number to give you immediately, I only know with my interaction with a CEO of that business is that they were running short on the capacity because they were trying to pitch for many orders and all of sudden their trial runs with a lot of manufacturers got through and they had more orders they could fill and that is where we have to order a few new machines and all that, so we were not there in that business till about a year, year-and-a-half ago and it is a very small business as of now to begin with to be really contributing any significant topline at the current time.

Sagar Shah: And about the debt Sir?

Rajesh Bhatia: On the debt part, I think we will see by the end of the year overall net debt reduction of about Rs.150 to Rs.200 Crores.

Sagar Shah: Net debt reduction. Thank you.

Moderator: Thank you Sir. We have a next question from the line of Dnyanada Vaidya from Nirmal Bang Securities. Please go ahead.

Dnyanada Vaidya: Thank you so much. I have a few question Sir, actually in the last concall you had given a guidance of overall volumes of about 10% plus in the packaging including the aseptic and 6% to 7% in the film business, so this guidance remain intact or is there any revision?

Rajesh Bhatia: In fact in the current quarter as I said that on a volume sales guidance this quarter we have achieved 14.9%, so I think we have been able to better than the guidance on an overall number.

Dnyanada Vaidya: Sir the next question was on the other expenses side, so if we the consolidated and standalone separately, Sir the other expenses for the subsidiary has generally been in the range of Rs.110 Crores to Rs.120 Crores if I see in the last four or five previous quarters, so except for Q3 FY2018 where there was a one-off expenses, which was a product related expense of about Rs.20 Crores, so if I see in this quarter it is about Rs.150 Crores, so is there any one off that is there in the other expenses?

Rajesh Bhatia: So I have Rakesh with me, so I will give it him to answer this question.

Rakesh: Early on account of the conversion of overseas operation because it is in a dollar versus rupees that is the main reasons, there is an increase in the average rate because the amount is shown on a higher side?

Dnyanada Vaidya: Basically a forex transaction?

Rakesh: For forex and then there is a certain amount of normal increases, which is due to the increase in the volumes that is the operational cost like freights and other cost will increase.

Dnyanada Vaidya: Okay, next question is on the aseptic plant, so you have guided for about 60% capacity utilization by end of FY2019, so that is about 2 billion packs by end of 2019, you just mentioned that about Rs.350 Crores would not be possible of sales, so is there any change in the pricing that you are seeing or?

Rajesh Bhatia: No, so pricing we are not changing the pricing for that. If we are a bit sluggish in terms of pushing the volumes we are not trying to push the price game, so the volumes will come, as I said that we may be two quarters of our target, but that is not sounding any alarm bells and all that because I think the kind of traction we are having, we are absolutely sure of doing that, yes there will be some lag.

Dnyanada Vaidya: Okay. That is all from side. Thank you.

Moderator: Thank you. We have a next question from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Good afternoon Sir. Sir, in case of packaging segment can you help us with the capacity utilization and within this segment we were trying to sell more of the value addition that is pouch and all versus soft roll sale, so what is the current percentage as far as value addition is concerned and whether this percentage can increase substantially by FY2019 and/or FY2020, it is number one and Sir on this film side as I could gather that we are running at more or less the full capacity utilization, so any plans for the further capex, if I remember you are planning to do something in Poland? These are my two initial questions?

Rajesh Bhatia: So the first question the packaging business I think we should be at about 70% capacity utilization. Yes, from our side we are wanting the retorts and the pouches to increase in throughput for that and Tilda was one account, which we started in the last quarter, so that will grow in volumes and those are all the big pouches and we are looking at largely export markets for the pouches because the price differential we are able to offer to them in those markets is quite substantial and that is where we are and I just said one another account that we bagged this year, so I would not name it, but there also we are exporting the packaging in a reasonable way to start with this year, but given that situation we have still about 20%, 25% the capacity, which we need to fill up at our packaging business. I think between next two to three years looking at say 10% volume growth we should be able to do that in about two year's time when we think of any further capacity expansions and all that. In the films business, yes we are doing 100% at Poland, we are doing 100% in America, we are doing 100% in India, we are doing 100% polyester in Egypt, but there are some capacities, which are available in Mexico. There are some capacities, which are available in Dubai, so as a combined from an existing capacity we can still about 1000 tonnes more per month, so that is about

120000 tonnes a year from the existing capacity, so yes at Poland we had said that we will look at the capacity expansion, but I think the endeavour currently is to increase the throughput from the Mexico and the Dubai unit and once that happens, so we can push another 1000 tonnes a month from these two businesses, let us do that and in the meanwhile keep on working as to what expansion we need to do.

Siddharth Mohta: Sir in case of packaging Sir what would be our contribution margins that you have mentioned 40 BOPET and BOPP film that is number one and Sir with this couple of client coming and our focus is on the value addition and on the higher capacity utilization?

Rajesh Bhatia: Packaging, we will see about 15% overall margin, so today may be about 13% or so, but we are looking to ramp up to about 15% with all the value added products.

Siddharth Mohta: Sir this 10% growth is not on the lower side because the segment overall it is growing and we have bagged a couple of clients, so do you think that it has got a capacity to increase or to grow by 13% to 15% on a consistent basis?

Rajesh Bhatia: I think let us keep the number conservative a double-digit number and we are able to spring up surprises as we have done in this quarter. I will be more happy to talk to you on this line.

Siddharth Mohta: Sir on this holography Sir what I could understand that we have put one plant in FY2018 and another one plant is coming by Q2 FY2019 and definitely it is more of a value addition thing, so what impact it can have on our revenue as well as on our margin?

Rajesh Bhatia: So it can give us about another Rs.200 Crores topline with about 25% to 30% margin.

Siddharth Mohta: The new plant, which is going to come in Q2 end or it has already has come in last year?

Rajesh Bhatia: No the new plant.

Siddharth Mohta: Which is going to come in Jammu?

Rajesh Bhatia: Yes, which is currently under construction in Jammu.

Siddharth Mohta: And Sir one more, I was just reading an article whereby you have develop some product, which can enhance the shelf life of the cooked food package side, so how bit that particular segment it can be because it look quite an interesting product by the shelf life of a food product, it is extended to 8 to 10 days' time?

Rajesh Bhatia: I would not have answer ready for you for that and you have to come back offline on this.

Siddharth Mohta: Correct and Sir nothing on the Poland you said, as of now we have not decided to go ahead with the capex and all?

Rajesh Bhatia: Yes.

Siddharth Mohta: Thank you Sir. All the best.

Moderator: Thank you Sir. We have next question from the line of Mohit Agarwal from India Capital. Please go ahead.

Mohit Agarwal: Basically you answered most of the question I have already, just I wanted to understand BOPET price in this quarter was about Rs.135 or something is that correct?

Rajesh Bhatia: Yes.

Mohit Agarwal: And if I compare it to last year the same quarter it was about Rs.100?

Rajesh Bhatia: Yes.

Mohit Agarwal: So intuitively I would say that the topline of the company should grow by 35% even I do not consider volume increase? Can you explain us how the price increase in BOPET gets reflected in the revenue?

Rajesh Bhatia: So the price increase in BOPET, you are seeing the India business, so the India business is where you consume about 40%, 45% of the produce in-house and rest is what you sell to the market, so what gets reflected is only what you sell in the market and in the overall context India may be doing a relatively the film lines must be doing a relatively smaller part of the business that is the thing, now if you are wanting me to provide you a full reconciliation probably I would not have that.

Mohit Agarwal: That is fine because intuitively, it look like that the prices move into the revenue without even volume increase?

Rajesh Bhatia: Yes.

Mohit Agarwal: I think most of the questions answered.

Moderator: Thank you Sir. We have next question from the line of Aman Sonthalia from AK Securities. Please go ahead. Sir we lost the line, we take the next follow on question from the line of Dnyanada Vaidya from Nirmal Bang Securities. Please go ahead.

Dnyanada Vaidya: Sir if I see the standalone business margins it has been flat on QOQ basis, but it has declined given even though there is an increase in the margins of BOPET, why is that Sir?

Rajesh Bhatia: As I said that the packaging business margins are impacted because the packaging business increase in the raw material prices normally you recover that with a certain lag so that is the reason and this quarter we had a 17% price increase over the last quarter, so which we in the packaging business we have not been able to recover that in the last quarter.

Dnyanada Vaidya: Okay Sir, that is all. Thank you.

Moderator: Thank you. We have the last question from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Thank you Sir. In case of packaging Sir you have clearly mentioned that a growth of 10% volume is very much possible, Sir in case of

packaging film based upon this 100 tonnes per month, Sir so can I say that 10% to 12% growth for the coming two to three years is possible?

Rajesh Bhatia: Yes, I think we can say safely assume that 10% to 12% growth one can look at.

Siddharth Mohta: Okay, from the existing capacity, so both packaging and films we can give 10%?

Rajesh Bhatia: The films as I said that the maximum that we can do currently is about 1000 tonnes a month and the best case scenario we can do about 1300 tonnes a month, but I think that is like stretching too far, so I would put my number at about 1000 tonnes additional per month volumes of our the packaging film business, I think we can achieve that as early as in Q3 and Q4 and thereafter once we achieve that we pretty much done on the packaging films side, thereafter we will have to look at a capacity expansion to increase the volumes or what you will do is you will leave some of the low margins products and make only the higher value added margin, so that your volumes may remain the same, but the value add may be more.

Moderator: Thank you very much Sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments, Sir over to you!

Rajesh Agrawal: Thank you Bikram. With that I would like to thank all for joining us today. This concludes first quarter 2019 conference call. We will look forward to staying in touch in the coming quarters. Have a nice day. Thank you everyone.

Rajesh Bhatia: Thank you everybody.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining with us. You may now disconnect your lines.

Aditya Narain, Head of Research, aditya.narain@edelweissfin.com

DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.