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Conference Call Transcript

Uflex

Q4FY18 Results

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Corporate Participants

Mr Rajesh Bhatia
Group CFO

Mr Rajesh Agrawal
Vice President – Investor Relations

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Uflex Q4 FY2018 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. Thank you and over to you!

Shradha Sheth: Thank you Aniket. On behalf of Edelweiss let me welcome you all to the Q4 FY2018 earnings call of Uflex Limited. From the management today, we have Mr. Rajesh Bhatia, Group CFO and Mr. Rajesh Agrawal, Vice President Investor Relations of Uflex so without any further ado I will hand over the call to Mr. Rajesh Agrawal for his initial comments. Thank you and over to you Sir!

Rajesh Agrawal: Thank you Shradha. Good day everyone and welcome to all of you who are participating in Q4 FY2018 earnings call of Uflex Limited. We have with us Mr. Rajesh Bhatia, Group CFO along with the other members of the team. We would like to mention before we begin that some statements made in today's discussion may be forward-looking in nature and statement of this effect has been included in the conference call invite, which was e-mailed to everybody earlier. I would also like to emphasize that while this call is open to all invitees, which may not be broadcasted or reproduced any form of manner. We would like to start this call with opening remarks from the CFO followed by an interactive Q&A session wherein you can discuss the viewpoints on the key issue. I would now like to invite Mr. Bhatia to share some perspective with you with regard to the company's operation and result for the quarter and year under review. Over to you Mr. Bhatia!

Rajesh Bhatia: Thank you. I really welcome everybody on the call. I think we have been holding this call after probably a very long gap, but as we go in the future, we will make it regular feature. It is always good to have lot of questions and fair assessment coming from some of the key participants like you and which is helpful to us also in many respects and we really would sort of ensure that we have this practice of quarterly earnings call as we go along.

To give you an overall perspective, I think the year has been pretty descent. The year marks quite few highs like on a consolidated and standalone basis the highest ever turnover achieved. When I say turnover because of the impact of GST, the net of all the taxes whether excise or VAT or GST now so net of all taxes and duty is probably highest ever turnover we achieved on a consolidation standalone basis. The year also marked highest ever production and sales level for our packaging business as well as holography, which is subset of our packaging business.

On the film side also out of the six locations, we have 5 overseas and one in India, in four locations 3 overseas and one India, we also have highest ever production of films and sales. Accordingly, we have for the year, the total production volume on a consolidated basis about 8.5%, the film production volume is up 8% and packaging volumes are up about 11%. The sales volume on consolidated basis is up by 8.6% in the current year. The revenue is up 9% in the current year, net of taxes and duty. EBITDA consolidated remains almost the same and this is largely because of the impact of though we had a higher numbers of production and sales, but we had Sanand plant, which went into the capitalization on September 30, 2018 and it is in the ramp up phase and accordingly it is operating costs and interest as well as depreciation have resulted in consolidated EBITDA being muted.

On a standalone basis, there is EBITDA fall of about 6.7% that has been made up by about 10% growth in the overseas EBITDA number and again I said that the lower EBITDA in the standalone operation is largely because of the impact of the operating cost of the Sanand facility, which had to be absorbed because as it ramps up the capacity.

The depreciation for the year was also higher because of the same reason and the tax was sort of almost the same, but the two base things, which contributed through all lower EBIT and PAT was higher interest outgo as well as higher depreciation due to capitalization of the Sanand facility.

The Sanand facility is ramping up well it is world class facility, we have been participating in the various trade shows so the endeavour is not only to capture the market in India, but also to get some of the market overseas given that we are the only ones who given our overall experience in the printing and lamination and the holography we have been able to give some of the clients solution, which are out of the box. The packs that parcel so on the shelf space, they look different. If you see the success of paperboard packaging though it is a leverage, but it got hit because of its innovative packaging and I am very proud that Uflex has developed that and given that it has a solution for that the leverage and it is doing wonderfully well.

Similarly while it is growing market the aseptic packaging going at about 18% to 20%, but our endeavor is not to be in a kind of any price war or the market share war with anybody because once you have that kind of growth rate in the industry, I think you will obviously pick up the volumes or even emanating from the growth and on the existing side, we only want customers to give the value added products, which have holographic features, glittering packs and all that which obviously ultimately the customer also realizes that it is the packaging differentiation that helps them to grow their volumes also and that is whole endeavour is.

Packaging business in India still has some headroom to grow but we can grow at about, we are projecting about 8% to 10% volume as well as the revenue growth coming out of the packaging business in the current financial year also.

The films business, we have much higher level of capacity utilizations or in certain cases even exceeding the rated capacity at a plant and four locations, two locations in Dubai and Mexico, we still have some headroom and hopefully this year we have already ramped up the volumes there in the month of March and April and we will shortly in these two businesses, ensure we have a much better performance in the current financial year.

The holography business is kind of growing every year and more and more governments are also realizing that this by using these purity features, they can improve their packs tax collections for the excise for the liquor industry and this has already proved the success in three states where we are working, UP as well as Andhra and Telangana and Madhya Pradesh. It is spilling over to some of the other states also who are also equally seem to now explore this because some of these states have really shown much higher tax collection after they have implemented these holographic security features from the liquor industry and we obviously are pioneers in that and the margins are definitely better than the conventional flexible packaging things what we do with the likes of PNG or Netflix so we are looking to grow that volumes and we had taken up an expansion project in our existing at Jammu, which will get completed in Q2 of this year and in fact last year we were struggling with some of our capacity availability for some of specialized products bagged, we had in mind for the holographic solutions to the customers and all that and with the commissioning of these this facility in Q2 obviously there will be a separate bouquet of products, which can be offered to the customers as well as increase your throughput because we were really struggling with the capacity availability for our holographic business.

That is in nutshell the business perspective, but the capex for the year has been under Rs.500 Crores must less than what we incurred in 2016-2017. I think partially because Sanand got completed this year and the larger impact of that would have been there in the last year. This apart presently we do not have any capex announcements as of now. We can only sort of Rs.150 odd Crores or so which is kind of sustenance capex for our kind of company, the scale of operations and we are only having that but in the same breath I would like to say that we would like to digest the Sanand and the holographic expansion and at some stage we have already a very high capacity utilizations and all that we will have to look at either a Brownfield expansion or a Greenfield one depending upon what makes business sense.

The debt position overall has also sort of remained at the same level. We borrowed in this year, we have repaid some of our debt in this year and net debt position is almost the same as was there in the last year, which actually means that the new capacity has been added but there is no debt, added so against about Rs.470 Crores capex this year there has been no additional borrowings on the balance sheet this year. That largely sort of sums up my briefing to you in terms of how the year has been, how is the operational performance and I think I am open to any questions that you may have and I may not have all the answers for you for which where we do not have we will note it down and get back to you on an individual basis.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from AM Lodha from Sanmati Consultant. Please go ahead.

AM Lodha: Good afternoon Bhatia Sir. I have two questions; one pertaining to one extraordinary items, which you debited in the December quarter of Rs.20 Crores something. Some note has been given in your December quarter because since the conference call is being held at for the time if you would have been held after the December quarter, we would have certainly asked the question in the December quarter itself?

Rajesh Bhatia: That perfectly understandable so that was.

AM Lodha: This is the first time we got opportunity to get clarification from the company. I wanted to know Rs.20 Crores something has been debited in other expenses in the last quarter for product development expenses?

Rajesh Bhatia: Mr. Lodha you have two questions, one is this and if you can tell me the other question also I will reply both.

AM Lodha: Other questions relating to this quarter Sir, the other question is regarding dividend. First is extraordinary item of Rs.20 Crores product development expenses you are debited. I think it is the first time in the history of the company this amount has been debited in the books of accounts. Bhatia Sir company is developing the products every two or three days, every week company is filing some product development, every week, we are having new products, new development, new packaging, new system everything is coming, but this type of expense was never debited in a single year Rs.20 Crores, which you have debited in the December in a single quarter, not single year so in my opinion Bhatia Sir this should have been debited over the lifecycle of the product, which have been developed number one, number two instead of debiting the entire amount in the quarter, if should have been fairly on either four quarters, six quarters, what have been so the impact on the profit would not helped in seriously withheld in the last quarter number one. This is the one question Sir? Bhatia Sir second question is company is earning Rs.700 Crores, Rs.898 Crores PBDT this year. Have you added interest depreciation and profit before tax? It is Rs.890 Crores and if I exclude the interest, which is expenses so it is Rs.700 Crores Sir. So out of the company's Rs.700 Crores, the company bond has dividend policy they have reduced the dividend from last year, they only paid Rs.2 dividend against the last year I think last year it was Rs.3.50 or Rs.3? If you can clarify?

Rajesh Bhatia: Rs.3.50 paise.

AM Lodha: Rs.3.50 paise. Now you have made it around Rs.2.

Rajesh Bhatia: Mr. Lodha, your questions are very clear to me. So the write off you are talking about is relating to some product development, which ultimately we had to write off because we did not have commercial success there, and that is why we decided to write it off rather than if there are products whose lifecycle is what we are expecting larger, but in this case we were not expecting this sort of lifecycle and we had to abort this so that is why we wrote off the whole thing, we could have written it off in a few quarters but then we thought that actually if it is a write off the season has come in particular quarter let us write off fully in that quarter itself and obviously then you start with the clean slate in the rest of the year. So on the dividend policy yes you can say that we have so much of profits and all that but if you look at the standalone operations in India the PAT has gone down from about Rs.193 Crores to about Rs.100 odd Crores. I explained that that has impact of higher operating cost for the Sanand facility, higher interest and depreciation for Sanand facility so the standalone operations have an impact of the Sanand capitalization and that is why we are confident that while Sanand facility is ramping up and will also contribute in a much larger way, but the dividend if you see last year versus this year because dividend money is largely from Indian operations only. So the payout has almost seen the same if you take it in Indian operations.

AM Lodha: Okay Sir. I will join in the queue again if any queries.

Moderator: Thank you. The next question is form the line of Mohit Agarwal from India Capital. Please go ahead.

Mohit Agarwal: Sir my question is regarding one of the interviews you had given I think two or three months earlier to a news channel where you said you have been talking to lot of equity investors and you considering equity raise and the due diligence process is in the process. Can you just update me on where you stand on that because in the last three months we know that the share price has equally fallen 40%, 50% so is it still the bid is still on or you are still talking to the investors, what is the update there?

Rajesh Bhatia: No, I think there seems to be some gap because what we meant by that is that is the promoter will look at sort of putting in more capital at this stage when we have the business is growing, but not a third party sort of capital so currently we are already through with that process and I think over the next few days, we will go to the shareholders to seek their approval for some preferential offer to the promoters and so that is process is on.

Mohit Agarwal: Sir actually that was kind of my follow-up question because I was thinking why not the promoter because I think the promoters stands roughly around 44%, 45% and we see a huge potential such high cash flow generating company why would you go and dilute yourself to the existing shareholders promoter putting in money obviously brings in more confidence in the equity shareholder that was my followup question. Sir one question with respect to ASEPTO to which is I read in the presentation you have added some 12 customers and you are talking to some bigger clients so can you tell us a little bit about the profile of these 12 customers, which you have added and they contribute in Q4 numbers or we can expect something in the Q1?

Rajesh Bhatia: These customers, about 15 customers we are currently serving for aseptic packaging and these are not that top ranked category the likes of, they are not the kinds of Amul or Parle or Dabur and all that. There are the second rank, I cannot name them but I can only tell you that we in today through these 15 customers, we will be there all the category. There are three major category for the aseptic packaging business about 50% of this is used by juice industry, about 30% goes to the liquor and about 20%, 22% goes to the dairy. So on the biggies one because they are slightly more rigid, in terms of their quality requirement, in terms of testing and other procedures as well as the commercial negotiations so I can only tell you that all these things with the big clients or also at a very advance stage and not in Q1 but in Q2 you will see major breakthrough coming with the large sort of customer also.

Mohit Agarwal: Sure. One last question we can see exceptional tax rate of the company be very low, can you explain us the cause of tax rate for the company and historically it has been all most like negligible?

Rajesh Bhatia: So we are MAT company and that it is and impact of higher depreciation, in terms of deferred tax benefits or liabilities is there for the India operation, but globally in some of our facilities like Dubai, like Poland and Egypt this year we came in fact and Mexico, we currently have some tax advantages in all these jurisdiction that is why if you see on the consolidated basis the tax ratio will be sort of very low. But if you see India where there is MAT and I think you will find that the tax to PBT is normalized distribution, but Poland we have a tax holiday, Dubai is not a tax jurisdiction at all and Mexico again we do not have tax. US and Egypt, Egypt also started paying tax only recently.

Mohit Agarwal: I want to know Sir you said you had done about Rs.500 Crores of capex in the last financial year and this was mainly on part of your holographic expansion so can you give us breakdown of about how much of this was in the holography and I mean Rs.500 Crores and what was the capacity added in holographic so we can just get us of idea in how much does the holography capex cost?

Rajesh Bhatia: Holography expansion we are doing currently fast as about Rs.150 Crores and then there was Sanand which cost as about Rs.580 Crores, which got spread over year 2016-2017 and 2017-2018 and this apart we added some new metallising facility this year which were adding not to the overall film capacity but value additions to the metalized film is more value added films so obviously you do not gain on the volume, but you definitely gain on the profitability side and then as part of normal sustaining capex and all that would be about Rs.125 Crores to Rs.150 Crores so that is the broad distribution for sort of capex.

Mohit Agarwal: Sir one add-on, how much was the holography capacity added for this Rs.150 Crores you had spent?

Rajesh Bhatia: I will have to get back to you for this.

Mohit Agarwal: I will wait for that.

Rajesh Bhatia: So that has still not completed. I can only tell you that holography expansion is still not complete, is getting completed in Q2.

Mohit Agarwal: Okay that is it. I will come back.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Good afternoon Sir. My question is relating to Bopet business I think recently I have attended two to three concall of Ester Industries, SRF and Cosmo Films they were saying that overcapacity in the Bopet business is over now and demand supply is very much balance and margin in the Bopet has increased by around Rs.10 per kg so what is the situation with the company and in the industry Sir?

Rajesh Bhatia: I think the Bopet segment continues to be very robust performance. In the Q2 of FY2017-2018 we have seen the much better prices, we have seen the much better margin expansion in the Bopet side also and currently the Bopet prices are still lower in India by about Rs.20 a kg and there is headroom for the companies to increase the Bopet prices given that the imports parity prices today are much higher. Rupee depreciation also helps because a lot of companies do export films to the other parts of the world so I think overall next two years to me looks very good for the Bopet and only after that when some new capacity addition comes up and all that you can see that again that may dampen the pricing a bit but currently each successive month, we are seeing that the price is increasing driven by also the raw material price increase but it is not only the raw material, there is margin expansion happening in the Bopet side also.

Aman Sonthalia: Sir most of the capacity is located outside in India as far as Bopet is concerned so what was the realization in margins per kg in 2017-2018 and what is the current margin Sir?

Rajesh Bhatia: I will have to share that later with you as to what are the margins, but I can only tell you that overall performance for the Bopet plants was much better and that could be seen in the EBITDA for the overseas business also which was up by about 10% during the year.

Aman Sonthalia: Right now it is even better than the Q4 of 2017-2018?

Rajesh Bhatia: Yes you can say so it is better than Q4 FY2018.

Aman Sonthalia: Sir my other question is regarding the why there is fall in engineering turnover and margin?

Rajesh Bhatia: Engineering is a very customer specific industry and all that and there is some impact of GST because some of the people who we serve in this segment and all that they are currently affected by the GST particularly the industry, which is your mouth fresheners and Gutka and all that they are heavy customers of this packaging machine. They have the packaging machinery and all that and even within Uflex also we are currently not adding much of the new machines and all that because now endeavour is to sweat your existing assets fully and then look at expansion. So being a different business and we are very specialized in a particular industry as such. So there could be ups and down there.

Aman Sonthalia: Sir why there is increase in receivables in the balance sheet?

Rajesh Bhatia: There are in line with the increase in turnover and increased in the volumes so there is nothing abnormal about this and we have seen that the crude prices have gone up the raw material costing has gone up, so it affects things at all the levels and that is while you see that the BOPETprices which were about Rs.100 a kg till about six months back they are now about Rs.130 a kg, so that Rs.30 a kg extra is not all margins, it is also may be Rs.25 out of that is an extra cost, so the higher cost of the raw material what we have to sort of share. There is nothing out of thing this they are all in sync with the increase in the volumes, value as well as the cost of the raw materials.

Aman Sonthalia: Thank you.

Moderator: Thank you. The next question is from the line of Mahek Sethi from Almondz Global. Please go ahead.

Mahek Sethi: I just joined late on the call, so I just wanted to understand two things. What is happening at aseptic plant right now and what are our plans for debt repayment for next year FY2019 and FY2020 respectively?

Rajesh Bhatia: Can you repeat your question again, what is happening at the plant?

Mahek Sethi: Aseptic packaging plant what utilization you are looking out in FY2019?

Rajesh Bhatia: FY2019 we are looking at anywhere between 1.5 and 2 billion packs a year.

Mahek Sethi: And what is the plan for debt repayment Sir?

Rajesh Bhatia: FY2019, our debt repayment is about Rs.150 Crores not much.

Mahek Sethi: And FY2020?

Rajesh Bhatia: FY2020 is about Rs.250 Crores.

Mahek Sethi: Okay, one more question Sir. I am looking out just in the rising input price scenario as the crude is moving up right now, how we are placed against our peers, being backward integration player do we have any advantage over our peers or how effectively we are placed against our competitors in this environment?

Rajesh Bhatia: I think you have to look at this business-by-business. In the film business there is a fortnightly pricing announcement by the refineries. So depending on those prices you immediately correct your market price and so that there is no impact, in any case if there is an impact that the positive impact because rising market whatever is the work in progress (WIP) and the stocks you have for the raw material as well as the finished books. It impacts you positively because the price increase is all these refineries work on first 1 to 15th and 16th to 30th. So, for a 16th to 30th period they will give me a price on 15th, which is based on some previous calculations and all that, but we do not go because that is the price, which is announced by the IOC, BPC and HPC by most of our the PET and MET come, so the movement that that price is announced the finished goods prices are adjusted in the bill. On the packaging it is not immediate where there are spot contracts which is immediate, but there, there are long-term contracts then depending on the contracts it has a lag of about 30 days, maximum case is about 90 days, so there it really hits you on a upcycle, but on a down cycle it gives you the same impact on a positive side.

Mahek Sethi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ameya Mahurkar from Emkay Global. Please go ahead.

Ameya Mahurkar: Sir, can you tell me what is geographical performance in UAE, USA and Europe?

Rajesh Bhatia: I think I can share their volumes with you. So, India production was up by about 8% this year, Dubai was 10%, Mexico was 7%, Egypt was 4%, Polland was about 6.5%, and US was about 16.5% and overall it 8% for the film.

Ameya Mahurkar: Sir, in your segmental revenue like flexible packaging activities in that there are two subsections, like film business and other business, so how are they performing?

Rajesh Bhatia: There are three grouping in that segment, one is the flexible packaging, which includes films, the second is the engineering, and the third is other. Film I just talk you about packaging again this year we had a production volume increase in the packaging of about 11%, sales volume up by 12% and the sales value up by 10% for packaging business. When there is an engineering business, which we just spoke about and then the third is others, which is basically the corporate office, which is sort of a cost centre, so we do not allocate the corporate expenses to the businesses and all that, so in the other category you will find that negative, which basically comprise of some of the overheads and the cost, which we have at the corporate level.

Ameya Mahurkar: Sir, lastly in FY2019 you are going to do capex of 150 Crores, right?

Rajesh Bhatia: FY2019?

Ameya Mahurkar: Yes.

Rajesh Bhatia: So, I am saying that is the normal sustenance capex that a company of our size and scale would normally do.

Ameya Mahurkar: And for the FY2020?

Rajesh Bhatia: I think that number pretty much remains the same, your sustaining capex over the year that could 20 Crores or 25 Crores plus and minus in a year it could be 125 Crores and other year it could be 150 Crores and that is only talking about some of the new technology is coming, so that is not really the capacity expansion that may be some modernization, that may be some debottlenecking somewhere or some of the new technology that you have to keep on embracing in this business that is only pertaining to that. There is no capacity expansion happening because of that sustaining capex.

Ameya Mahurkar: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir, you gave the growths rates in film as well as packaging business, can you give the actual volumes and revenue breakup between the two segments for the full year?

Rajesh Bhatia: No.

Dikshit Mittal: At least revenue breakup can you give out of that total revenue for the full year, how much is from film and how much through packaging?

Rajesh Bhatia: So, I can give you the volume, which should give you, this year the total production was about 79% of the volume is from the films and the packaging is the rest, which is 21% of the sales volume bifurcation for the current year and totally we have produced and sold about 371000 tonnes.

Dikshit Mittal: So, packaging we are running at almost full utilization?

Rajesh Bhatia: No, in packaging we are running at full capacity.

Dikshit Mittal: In film business I mean to say.

Rajesh Bhatia: Yes, I said that out of the six locations we have, at four locations we are running at the full capacity, so Dubai and Mexico, we have some headroom there and in April and May, I think there the volume performances have gone up or much better than what they had been in the last year in these two territories. Other territories were already operating at a near peak capacity, so depending on the plant availability and all that and if you have a planned shutdown or you doing some modernization and all that I think there they are doing almost their capacity or may be in some cases they are higher than their installed capacity.

Dikshit Mittal: Sir, you mentioned that volume growth for next year will be around 10% in both the segments, so do we have capacity to grow in film at around 10% next year?

Rajesh Bhatia: I think the volume growth for the films may not be 10%, may be lesser around 6% to 7%, but in the packaging, I think, because of the full effects coming in this year of aseptic packaging also, so there the volume growth we are expecting it to be higher than that.

Dikshit Mittal: So, are we planning any expansion in film business, capex index in one to two years?

Rajesh Bhatia: I think we will have to look at, but today there is nothing on the table.

Dikshit Mittal: If I see cash profits are around 400 Crores to 500 Crores in your company and maintenance capex is 150 Crores and you are planning raise equity as well from promoters, so is there any big capex plan on the horizon I just wanted to understand in that?

Rajesh Bhatia: There is nothing as of now, which is there. As of now we are happy digesting our Sanand facility expansion, Sanand facility Greenfield, which happened, which we spend about little over 500 Crores, 150 Crores is holographic business that we have invested and that will get commissioned in Q2. I think depending on this year as to how these two businesses will perform, holographic is an existing sustainable business, so I do not have much concerns here, but aseptic packaging is one business where we not been there earlier, so it is a new customer segment for us and all that, so that will be the key performance of that would be the key to deciding as to when do you plan your next round of the capex, but I can tell you currently there is no such plans, but we keep on evaluating the opportunity, we keep our eyes and ears open as to lastly we have missed out on the films capacity expansion in India. After 2004 actually we have not had any expansion happening on the film capacity while other players who very marginal at that that stage had become much bigger than us in India. Globally, yes on an overall basis we still are the number three or number four worldwide in the thin polyester films, but in India we have seeded a lot of market share to the other players over the years because we largely concentrated on the packaging business, which is more sustainable and more sticky.

Dikshit Mittal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nikhil Marfatia from Marfatia Stock Broking. Please go ahead.

Nikhil Marfatia: Very good afternoon, Sir. Congratulations for the successful launch of aseptic packaging. Sir, can you throw light on some of questions. What is the expected business from aseptic packaging with the number of clients presently and increase client base the margin from the aseptic business?

Rajesh Bhatia: Aseptic packaging currently we have a capacity of 3.5 billion pack. We have deliberately not installed another printing line, which costs about 50 Crores and will take the capacity to about 7 billion packs a year, which we will take a call on that I think a year later depending on the performance this year and the next year because we can setup that line in six months' time and all, so at a full capacity of 7 billion packs, it should give us a topline of about 1200 Crores. The normal margins in the business, the EBITDA margins in the business is about 18% to 20% and the volume growth in the aseptic packaging is about 20%, so given that dynamics and given that there is only one single supplier in the market, predominant supplier I think we will surely get insight into the big plants in the current year, so the current year as I said that we are looking at 1.5 to 2 billion packs range, so next year if we are able to go up to 3 billion packs and all that that is the visibility we have and that is the time we will take a call to install the another line for which there is already infrastructure in place to increase the capacity to 7 billion packs.

Nikhil Marfatia: Sir, which will be the focus area for increase in margins and the growth opportunities going forward the current business and expected margin for the current year?

Rajesh Bhatia: I did not get your question at all.

Nikhil Marfatia: Sir, what will be focus area for increase in the margins in the business?

Rajesh Bhatia: So, the focus area for increasing the margin business is only one thing, which can happen, and which can give you increased margin is the value added products and there is a huge emphasis in the company for the value added products. If you see our margins are consistently better than many of the peers because there are two reasons; one because we are fully integrated, so we make our own films, we make our inks, we make our own adhesives, we make our own cylinders, we make our own printing machines, we make our own filling lines, so everything is done in-house more or less and the second reason is because in this holographic value added, you will not find that many competitors are there in that space and that space is growing very rapidly, people are realizing that counterfeiting is the main issue. It affects the brand value also for them and it affect the sales for them also, so as I said the governments have also realized that looking at the success of the three, four states where we are already and they are seeing a huge increase in the tax revenues coming out of the liquor industry, so other states are today looking at following the same model and going ahead with the holographic security features for the current industry where we are clear market leaders, so I think the value, the margin enhancement will actually come from some of these products. This apart in the current year we have been working on big clients like PepsiCo and Tilda for the last couple of year, so Tilda we have already started supplies in Q4 of this year and PepsiCo we are already approved and hopefully this year we are expecting a huge breakthrough in that category and then we can be crediting.

Nikhil Marfatia: Sir, any plans to demerge the flexible packaging division and the film division?

Rajesh Bhatia: Nothing on the anvil currently.

Nikhil Marfatia: Sir, Vision 2020 for the company?

Rajesh Bhatia: Vision 2021?

Nikhil Marfatia: Yes.

Rajesh Bhatia: To sell 7 billion packs on the aseptic packaging plant and to pick the capacity utilization of the existing packaging facility close to about 90%.

Moderator: Thank you. The next question is from the line of Sagar Shah from KSA. Please go ahead.

Sagar Shah: Sir, good evening. My first question was regarding to something like in margin front as I see something like even though you have achieved 12% revenue growth on the consolidated basis, but on the EBITDA margins there was a shortfall of 100 BPS, so can we attribute this to basically more of on a crude oil prices and we have not been able to pass on the prices to our customers?

Rajesh Bhatia: I think I have already answered that question that in the packaging business there may be a bit of a lag, so that could be the reason, but I think the larger reason for the EBITDA being stagnant or being lower in the

Indian operations is because of the impact of Sanand facility, which got capitalized and that is where their operating cost has added on to the cost and that is what even despite the higher volumes in the films as well as the packaging business, so EBITDA could not improve.

Sagar Shah: Sir, my second question was regarding to as you are saying Bopet margins are quite higher, so my question was that do we make the basic commodity Bopet films or are we to the specialty films of Bopet in case of films business?

Rajesh Bhatia: We are not very much into specialized products currently, but we are looking at that specialization. Right now the market is quite robust so you are able to sell what you produce, but hand over it is to be more on the value added size, yes we do make some thinner microns in our existing plants and all that and that is what limited value addition we are doing, but we have a full PMP program across the organization, which is working purely on the value added films over the year.

Sagar Shah: Sir, you have already give an breakup of the sectors of other Sanand facility that you will be catering to, but I want something like breakup of the sectors for your flexible packaging as well as your engineering is being catering to which sectors basically?

Rajesh Bhatia: Flexible packaging you do not need to because the flexible packaging may if you see the 90% of the segment is the foods, is always the food for the flexible packaging.

Sagar Shah: FMCG you are referring to?

Rajesh Bhatia: No, I am talking about particularly food only.

Sagar Shah: Food only?

Rajesh Bhatia: Food packing.

Sagar Shah: Food packaging?

Rajesh Bhatia: The snacks something which is ready to eat and that is where we use more product also because let us say if you buy a shampoo you will use that same pouch in that shampoo for over a three or four months, but if you buy a chips packet you will consume that in five minutes and then next day you will need the new one, so they are the largest consumers of the flexible packaging in the food industry where the consumption levels are so high.

Sagar Shah: And your volumes also go up because of that?

Rajesh Bhatia: Yes.

Moderator: Thank you. We take the next question from the line of Akshay Badjate from Rubicon Capital. Please go ahead.

Akshay Badjate: Thanks for taking my question. Sir, I would be very appreciative if you can highlight what is the opportunity in the aseptic packaging industry, what is the industry size, what is the market share of the number one there in that particular industry, so we can get a sense as how we are looking to build out?

Rajesh Bhatia: Flexible packaging industry till the end of FY2018 is largely a 10 billion pack industry, growing at about 20% each year and the industry is 90% is tetra pack and 10% is the C-grade players who operate in the rural or small cities, which import these low end packs from China and as I said 50% is juice, 30% is about alcohol and alcohol is growing in a big way and that is where we come in because it is only the alcohol people who can pay value added price for a product, which is differentiated on the shelf. The milk players are very value conscious players. The juice players are new ones, those who have already established brands and all that so they are also bit sensitive to the price, but the new ones who are introducing they want their product to look different on their shelves so they are likely to spend more on the packaging of that product and runs their product stands out on the shelf that is where they will be able to get better volumes and the visibility. On the alcohol side it is working out to be a very good because it comes in as small as 100 ml packs also and today because we have that specialized ability of sparkled packs or some different kind of feel good you have on the pack and in liquor industry it works much better because their contents in the pack are the costliest in the liquor business and they have definitely than the pocket to pay for a value add on the packaging, which we are targeting. So that is largely the industry as well as to how it is going, so the juice and the packaging are the key. The milk in India in the tetra packs is still a very, very specialized milk because otherwise the milk is sold in the poly packs what you and me get at their houses that Amul pouch and all that, but it is only some lassi or other drinks on the dairy side, which are only sold on that and their volume has relatively less so that is why despite the fact that dairy apparently looks to be a larger consumer, largest customer, but they are only at the third place in the consumption.

Akshay Badjate: Understood, Sir my second question is you mentioned that 90% of our flexible packaging capacity is catering to the food industry right, basically chips, etc., my question is what is the possibility of a regulatory change happening that what we have seen with the banning of plastic bags across the state Maharashtra, if such a change here to come about, how deeply will it impact us?

Rajesh Bhatia: I think whatever is the change in the Maharashtra that is on the poly thing it is not on the flexible packaging because poly things like the poly handbags that we carry to carry our goods or the poly bags, which are today used in the milk distribution and all that they are the largest users of that. The flexible is different. Flexible has a very little substitute, yes there are substitutes for rigid, but how cost effective they are and ultimately one has to see their carbon footprints also, so tomorrow if you do not pack chips in this wrapper, you pack in any rigid packaging, a cardboard or a tin and all that so your overall transportation cost goes up, your overall cost even otherwise goes up, so even on a carbon footprint point of view they are not very conducive, so I think the flexible packaging is not to have any concerns about this, but yes there will be added responsibility on them as to you can do more on recycling this or converting a part of this into fuel and all that so all those pressures will come, but nothing to say that tomorrow you will have to have the Lays chips only in the cardboard pack that would not happen.

Akshay Badjate: Sir, I have one last question if I may, you mentioned that our packaging production is up 11%, sales volume is up 12% and I think the sales value for the year is up 10%, so there is a big difference between the sales volume and the sales value of 200 basis points, so I want to understand that realizations are under pressure this year?

Rajesh Bhatia: Actually sometimes it depends on the composition of your sales also and production also, so you are doing more on pouching, yes your value will also be up, but if you are doing less on the pouching and more on the soft roll, which are more sort of volume, but low in value, so it is a derivative of how is your sales and production composition is. Overall basis, yes you can say that there may a bit of pressure on the products, which are made by anybody and they do not differentiate, but again looking at the overall picture, I think the margins are pretty sustainable.

Akshay Badjate: Sir, do we expect our margin should crop back up again to what they were in FY2017. I believe that the product mix is going to remain more or less how it has been in FY2018 as well?

Rajesh Bhatia: I think from a product size we are giving a lot of emphasis to the pouching thing rather than the soft rolls part of it, so as the pouching production and the volumes will pick, so pouching is that we make the pouch in our factory only and we give it to the customer for filling and all that. Our soft roll is where you just giving a rolled film to the customer and he is doing everything at his place, so obviously the margins are much better in the pouching and we have surplus capacity currently on the pouching side and as I told you we got Tilda this year so we are looking to expand that product, that application and largely for a lot of thing for the export markets because that is where we can bring value to them both in terms of the cost and the quality and that is what will, even if on certain products, which can be manufactured by anybody and anybody there will a margin pressure, so you will offset that by increasing the volumes of some of the specialized packs like pouching.

Akshay Badjate: Understood, thank you.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir, my question is regarding what is the long-term sustainable margin for the company, EBITDA margin?

Rajesh Bhatia: I think overall basis, we should look at about 15% EBITDA margins for our business.

Aman Sonthalia: Sir, what was the per kg margin in the Bopet last year and the currently per kg?

Rajesh Bhatia: I can give you the prices only. I cannot give you the margins of that. So the Bopet price is currently are about Rs.130 a kg and the last quarter Q4 the average Bopet prices were Rs.119 and currently they are Rs.129, last quarter raw material was Rs.75 a kg and this quarter it is Rs.81 a kg.

Aman Sonthalia: There is a net increase of around Rs.4.

Rajesh Bhatia: There is an increase in margin.

Aman Sonthalia: Do we hope it is going to sustain for the next two, three years?

Rajesh Bhatia: I think two years I can see that the polyester outlook seems okay, but this is one such industry where the moment the particular segment is doing well everybody starts investing in that and that is again pressure on the margin, but for the polyester at least I think we have visibility for the next two years how that is going.

Aman Sonthalia: Thank you.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rajesh Agrawal for closing comments. Over to you!

Rajesh Agrawal: Thank you everyone for joining us today. We will look forward to staying in touch in the coming quarters. Have a nice day. Take care. Thank you Mr. Bhatia.

Moderator: Thank you. On behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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