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Conference Call Transcript

Uflex Limited

Q1FY20 Results

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Corporate Participants

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Group CFO

Mr. Rajesh Agrawal
Vice President

Questions and Answers

Moderator: Ladies and gentlemen, good day. And welcome to the Q1 FY20 Conference Call of Uflex 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 entering '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Miss Shradha Sheth from Edelweiss Securities. Thank you and over to you, ma'am.

Shradha Sheth: Thank you, Melissa. Let me welcome you all to the Q1 FY20 Earnings Call of Uflex Limited. From the management today we have Mr. Rajesh Bhatia – the group CFO; and Mr. Rajesh Agrawal – the VP (Investor Relations). So, without any further ado, I will hand over the call to Mr. Agrawal who will take the call over from here. Thank you and over to you, Rajesh.

Rajesh Agrawal: Thank you, Shradha. I would like to welcome all of you to Q1 FY20 Earnings Call of Uflex Limited. On the call today we have with us our group CFO – Mr. Rajesh Bhatia, along with other members of the senior management team.

Before we begin, I would like to mention that some statements made in today's discussion may include predictions, estimates or other information that might be considered forward-looking, and a statement of this effect has been included in the invite which was emailed to everybody earlier, and also available on our website. I would also like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner.

We would like to start this call with opening remarks from the management, followed by an 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 results for the quarter under review. Over to you, Mr. Bhatia.

Rajesh Bhatia: Thank you, Rajesh, for giving the intro. And welcome all of you to this First Quarter Earnings Call for FY19-20. I think a steady quarter overall. We have seen the packaging business volumes grew by about 5% in the quarter; while on the packaging film side, the volumes have been rather sort of static during this quarter. But overall, still we could manage consolidated revenue increase of close to about 4% and EBITDA increase of about 8.6% Y-o-Y on a consolidated basis and the EBITDA increase of about 12% on a standalone basis. But because we had a rather subdued quarter for our engineering division, which is obviously we are seeing that the economic situation around us where the CAPEX cycle is put on hold by many companies. So, we are also feeling the brunt of this and consequently that division has not done so well.

But just to give you a flavor of the things excluding that. So, excluding that if we see EBITDA Y-o-Y growth consolidated is about 18% and standalone EBITDA growth is about 35%. So, that really goes to tell us that the core business where we are flexible packaging films and packaging has done reasonably well. And we have at a PAT level still a slightly lesser number because of the higher incidence of taxation in the in the current quarter. But overall, things are quite steady in this quarter and we are looking to have EBITDA margin of about 14% what we have achieved in this quarter. But if we take out the engineering number, we are close to about almost at 15% EBITDA margin on a consolidated basis. So, I think the margins in the packaging side can still be better. And that's what we are all pushing for the value-added products like pouches and giving a lot of thrust to the exports. So, we expect that the volumes, both on the packaging business and the films business in the subsequent quarters of the current financial year will be better.

Overall, on a packaging side for the year as a whole, our target is to achieve about 7% to 8% growth. And on the film side, though I have been saying that we have capacity utilization levels almost at the capacity levels in some of the plants but we are still looking at as to where we can do a better job. So, obviously, Mexico is one place where we can do a better job.

As we go along in the subsequent quarters, we will also have to live with slightly lesser production volume numbers on the films side because we have decided to shift two of our facilities in Dubai to Russia, in the Moscow region. And we are expecting that we will be able to commission that facility by January or February. And in the meanwhile, we will also make up those volumes, we will retain those customers by having some of the volumes done on a trading basis. And also see if some of our other facilities can produce more to fill up that gap.

The idea was, in Russia also as the market grows to be closer to the customer, and in our experience that is what has helped in being in Kentucky or in Poland or in Egypt. So, that's what the whole idea is, apart from savings in the freight cost, because this plant was already dedicated to Russia and other CIS countries. A very large part of its output was being sold in these territories itself. So, shifting it would help us save on the transportation cost, the import duties in those countries as well as the energy costs in Russia are going to be much lower as compared to what they are in Dubai. And the closer to customer will obviously, we have seen in other jurisdictions that helps you to get better margins because the customer need not keep it long, customer can then keep shorter inventories which helps in a better working capital cash flow cycle and that's what our endeavor is.

Our projects in Hungary as well as Nigeria are on course and we have placed orders for the main plant and machinery. We are also close to achieving our financial closures for Nigeria, for Hungary we have already achieved. Nigeria is also more or less done, but we will sign on the dotted line in a couple of weeks from here on and we are on course as per our schedules to commission those facilities.

So, that in nutshell is the summary for the quarter which has just ended.

On the on the margins, on the BOPET as well as on the BOPP side – the BOPP margin this quarter have been better and we had seen in Q2 of last year the BOPP margins had gone to the rock below levels, but thereafter we have been improving on those margins every quarter, and Q1 definitely we have seen the better BOPP margins in India.

The BOPET film margins are also slightly better in this quarter as compared to sequential as well as the same period last year. And the BOPET films continue to do good overall basis, in India as well as globally you would have seen some of the other competition results also who are largely in the BOPET and everybody is riding up phase in the cycle. And all our competitors, whether it is PolyPlex or SRF, Jindal Poly, so everybody has shown better results.

And so that's broadly sums up the Q1 and I would open the house to any questions that you may have. And we will try to answer as best we can on this call but if there are certain things we cannot, then we can take it offline and reply accordingly. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Devansh Negotia from SIMPL. Please go ahead.

Devansh Negotia: I just had a question regarding to the BOPET film industry. I mean, how are we really looking at the demand/supply dynamics going forward for the next three years? And similar question for BOPP films, I mean, are both the products, really their cyclicality correlates to each other or the demand and supply dynamics are completely different? If you can just throw some light on that.

Rajesh Bhatia: Okay. So, BOPET had a good run for the last year, year and a half. And while we are seeing some of the capacity additions in this financial year, but I think given the demand side is pretty robust and growing at about 9% to 10% annually, that impact will be felt in a very limited way as these capacities come up. And we are seeing that a 9% to 10% demand growth. There is at times new bunching of capacities, one or two come together, and that's what brings down the realization temporarily. But Overall, we are seeing that the BOPET side the margins will continue to be stable.

The BOPP films, obviously, there was an overhang of excess capacity in the BOPP. And to that extent we saw that there was a substantial capacity added which has kept the prices low for almost a year now. But Q1 we had seen about 8% price increase, margin increase I would say, in the BOPP films category. And there we will expect that the margins will still be better in the quarters to come.

Devansh Negotia: If you can help us understand it, I mean, when we look at BOPET films, is it a regional commodity or I mean it's a global commodity? As in, any significant capacity addition in Europe, will that affect the pricing in India, I mean, is the freight costs that high to really disrupt the demand and supply dynamics in India?

Rajesh Bhatia: So, I think overall what we expect is that the Europe, which is a net importer today for the BOPET films, and with the new capacities coming up there slowly we will move into a situation where the imports will reduce and all that, and some of the Indian companies who are already exporting there, like SRF is exporting to Europe, but they are setting up the plant in Hungary also now, so they will substitute their Indian exports to Europe with a local suppliers from there, and these exports may be channelized to some other place, or as demand in India is growing so there will be a readjustment of the overall numbers. But I think everybody is working on a formula that being closer to the customer helps. And that's what the things look like as of now. So, there will be some readjustment of the demand supply, if there is a demand which is there in Europe and which is met by Indian companies, so that may be redirected to some of the other territories or to India itself over a period of time.

Moderator: Thank you. We have the next question from the line of Runjhun Jain from Nirmal Bang. Please go ahead.

Runjhun Jain: Sir, first questions is, engineering division I just want to understand, what kind of margins does this division enjoys? Because I was under impression that the margins are not very high, but the impact during this quarter looks like the margins in the division are really high.

Rajesh Bhatia: So, in Q1 last year we had engineering EBITDA of close to about Rs. 25 crores, while in this quarter it's about Rs. 5 crores. So, there is a substantial impact of that in this quarter vis-à-vis engineering.

Runjhun Jain: And what is the outlook going forward for this?

Rajesh Bhatia:I think engineering we will have some challenge unless the investment cycle in India gathers pace again. So, next couple of quarters there may be impact of overhang of that on the performance of the engineering division.

Runjhun Jain: Second questions is, sir, in the films we have seen where we said that because of the capacity constraints really we are not able to gain any volume growth. And that is evident from the numbers what you shown in the press release also. So, are we planning any CAPEX in that or are we likely to continue with the same kind of flat volume? Because it's somewhere restricting our overall growth.

Rajesh Bhatia: No. So, keeping that in mind itself, last quarter we had announced the Greenfields in Nigeria as well as Hungary. So, that is what our plan is currently. And one line as I said earlier, it's being shifted to Russia because it caters to that market itself. So, we will do our best in terms of squeezing out the last two kilograms from our existing facilities. And that's what we have been doing over the years. There is still some scope in Mexico and a little bit in Dubai, but largely I think we are done with our existing capacities and any fresh uptake in the volume, substantial uptake in the volume growth will come from the new capacities.

Runjhun Jain: And these new facilities would be commencing from when, sir?

Rajesh Bhatia: This will take about, I would say, I think from the FY21 beginning.

Runjhun Jain: Sir, this facility would be shifting from UAE or Dubai to Russia. So, this Dubai facility has been closed down or it will be towards the end of December or January when the new facility would start, then we will kind of close down. How this would go on?

Rajesh Bhatia: So, the same plant and machinery, so Dubai we have two plants, so we are keeping one plant in Dubai and we are shifting one to Russia. So, this existing line which was producing in Dubai has already been in the process of dismantling now, so it's not producing anymore. And by January or February we will start producing at Russia.

Runjhun Jain: And sir you have also talked about the various benefits of shifting the facility to Russia. Is it possible to give it some range in terms of saving we can see overall once this line is starting for F21?

Rajesh Bhatia:I think we will see some margin expansion; how much it comes through we will have to really see on the ground. But the key idea is to protect the market, because once the market develops beyond a particular point, and if somebody else locally starts producing then they can then go to the government and say that, you know, put more duties to protect the local industry and all that. So, I think we are trying to preempt that situation so that nobody comes in that particular region. So, that's why we are… And if this line would have been catering to some other jurisdiction, probably the answer would have been to have a new facility here, like we have done in Nigeria. But because this line was already dedicated to this region, so it makes natural sense not to incur a new CAPEX, rather to shift the line itself over there. But overall, I think we feel that there will be margin expansion of about 15 cents or so per kg.

Runjhun Jain: That's very helpful. Sir one last question from my side. During this quarter we have not seen any update on the Aseptic packaging. So, would be helpful if you can give some light on that also, how is it growing, what is the current number of customers?

Rajesh Bhatia: So, currently we have 43 juice customers, six dairy customers, and 16 liquor customers. The utilization of levels is better in the current quarter. But again, I would say that the large customers which we are targeting, I think that hasn't happened as yet. And in the absence of that, I think we will not be in a position to give you a very detailed guidance on as to how the things will pan out in this. So, let's wait for the next quarter to see as to how do we perform on the large customers account, before we make any meaningful statement or any meaningful guidance to the to the various investors say as to how this performs.

Runjhun Jain: So, as of now we are not even catering or adhering to our earlier guidance of 50%, 55% kind of capacity utilization for this year?

Rajesh Bhatia: That will happen if we have the large customers coming in. So, obviously all those guidance was based on some of the customers, we are signing some of the new large customers, the top five or six. But I think that has still not happened in this quarter.

Runjhun Jain: Okay. Sir, just last two things, sometime back we have also released a press release saying that there is a stake sale of Utech Developers, so can give some details about it, which company is it, is it some real-estate company of the Uflex, I mean, what is it?

Rajesh Bhatia: So, Uflex has a subsidiary called Utech Developers what had some Rs. 100-odd crores of investments into some real-estate assets. So, we are divesting that business. And there is due diligence process which is currently sort of going on. So, I think in current quarter we will have either more clarity on the whole contours of that deal or it may in the worse situation it may get spill over to the Q3. I think largely what we are doing is that that is a non-core activity and the real-estate sector as a whole has been languishing for a while. So, let's get rid of that and concentrate on the core things.

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

Aman Sonthalia: Sir, today I have attended the con-call of Easter Industries, they were saying that the spread was around Rs. 55 in Q1 and now it comes down to around Rs. 45. So, whether we are seeing the same pressure in India and overseas also?

Rajesh Bhatia: No, come again, I couldn't hear properly.

Aman Sonthalia: Easter Industries has told me that the spread in Q1 was around Rs. 55 rupees in BOPET, now it has come down to Rs. 45 in India. So, we are seeing the same situation and internationally also the situation is very much the same?

Rajesh Bhatia: No, to my knowledge as of now there is there is no such situation in India or overseas. And the business is as usual.

Aman Sonthalia: So, margins are better in the international market compared to India?

Rajesh Bhatia: So, they have always been as we see. If we look at our international business, obviously, we find that margins for has been a bit better there as compared to what we have in India. Because one of the main reasons for that is also because we have not invested in any new plants after 2003. So, some of our energy requirements or efficiencies of these plants are not in line with what the new facilities are. So, obviously as compared to a new facility, the efficiency and on the energy side or on the production side, because today you have lines which produce about 4,000 tonnes, 4,500 tonnes a month. The earlier line is lessor but to run the machine is the same, so you run the same machine with the same set of people as well as the other the maintenance costs. It's not that the machine is big, so the maintenance costs would go higher. And the energy efficiency also comes into play. So, for us, definitely the margins in the overseas businesses have been definitely better.

Aman Sonthalia: And sir, what is the reason for higher interest and depreciation for the quarter?

Rajesh Bhatia: So, I think higher interest could be, we had the facility for our expansion of our holographic in Jammu, which was getting delayed for many months now. So, with that capitalization, I think that little bit impact is there for that capitalization on interest as well as the depreciation.

Aman Sonthalia: And sir, whether we have debited any exceptional charges in this quarter?

Rajesh Bhatia: No, we have not.

Aman Sonthalia: And whether the holographic business it has stabilized or whether it will take some time?

Rajesh Bhatia: No, it has just commenced things in the Q1. So, obviously that new product range which is there, so we are now telling our customers that this is what our new range is. So, we are looking to utilize that facility.

Aman Sonthalia: And sir what is this current status of this Asclepius brand which we are making in USA I think, the recycled plastic. So, what is the current position and what is the future prospect of this business?

Rajesh Bhatia: See, I think that PCR thing has a has a great future because with the sustainability coming to the forefront the customer wants a recycled film made not from the virgin material, and obviously he is ready to pay a premium for that. So, it's still initial days for those kinds of experiments and for those kind of demand and supply situations. But yes, there is I think a huge demand today, and probably not enough supply side today. So, even the cost of that raw material is much higher than a virgin raw material. But as people look at this and put more investment into plastic waste management, I think things will evolve on their own in the next couple of years. But clearly, as we are seeing in the energy world that the renewables is the way to go, obviously in this field also to that extent you stop or to the extent less you use the virgin materials as less as possible and recycle the plastic waste, I think that would be the way to go in the future. Still early days for us, but we have achieved 90% when we make the films in USA that has a 90% recycled PET bottles, recycled resin content today, that's what we have been able to deliver to our customers as of now.

Aman Sonthalia: Sir, how is the margin outlook for the packaging business going forward?

Rajesh Bhatia: So, packaging business margins have improved in this quarter slightly because of a slightly higher capacity utilization also. I think they bottomed out last year the packaging industry margins. So, we can now look at a much better performance in the next couple of years. The industry is also getting consolidated, they were few small plants which got acquired and obviously that consolidation helps in price stabilization because these are the small people then who want to somehow penetrate into a customer and play on the price part. But they are not able to sustain for a very long period of time. And that's where eventually they sell out. And that's what has happened in the industry over the last couple of years. I see that trend continuing or other becoming, you know, there will be small units which will either close or get acquired by the large businesses. And there is a movement towards a better pricing power for the large players in this business.

Aman Sonthalia: And sir one last questions, seeing the current environment do you think that the packaging business will increase, because the economy is not doing well, so ultimately the consumption will be hurt. So, do you think that packaging business will do well in India?

Rajesh Bhatia: See, I will tell you the flexible packaging is largely targeted towards the food segment. And that segment is probably the one which is absolutely recession proof or the down-cycle proof and all that. There will be some segments which will get affected like FMCG, consumption and all that. But because a very large part of the flexible packaging is oriented towards packaging food, which is growing as the people are growing, as the consumption on the food side will keep on sort of growing.

Moderator: Thank you. We have the next question from the line of Kunal Bhakta from First Water Fund. Please go ahead.

Kunal Bhakta: You mentioned that earlier FY21 is when you are expecting some revenues from the new capacities in Hungary and Nigeria. Are both of these expected around the same time or you expect one them to come earlier?

Rajesh Bhatia: I think around the same time both of them will come.

Kunal Bhakta: So, early FY21?

Rajesh Bhatia: I think we can give you that offline, more precise details about the commissioning and all that.

Kunal Bhakta: Okay. And are these supposed to be in a phased manner where we are going to add more lines or is it going to be, as of now whatever has been planned is coming on-stream all at once?

Rajesh Bhatia: No, I didn't get your questions. So, these are the only two line which are currently ordered.

Kunal Bhakta: Okay. Now, with regard to Asepto, while you said that there is still some amount of uncertainty, if you could tell us the worst case scenario from a current financial year point of view, assuming that there is not much traction with regard to the large customers, then what is the kind of burn rate that we should look at in terms of cash burn?

Rajesh Bhatia: So, there is no burn as of now at an EBITDA level. Yes, there will be under recovery in the interest as well as the depreciation cost, but even in the current quarter there is no burn on the EBITDA.

Kunal Bhakta: So, we are already breaking even at the EBITDA level?

Rajesh Bhatia: Yes.

Kunal Bhakta: Okay. And with regard to the employee costs, if I look at it year-on-year there is almost a 16% increase, so what could be the reason for that?

Rajesh Bhatia: I think some of these new businesses with the capacities we have set up, like Aseptic or holographic or even the packaging, we have had expansion happening in the packaging side also in the last couple of years or so. So, while the capacity utilization remains low, but you still have to man and train people and put them to the factories and all that. So, it's not that if the plant is being underutilized you can you can ask people to leave today and come when they join. So, it's a special skill, you have to carry the people along. Apart from that, there is some general increase in the manpower cost which happens over the years because of the increments and other cycles. But largely, I would say…

Kunal Bhakta: So, there is nothing exceptional in the first quarter. So, you are saying 16% can be taken as the increase expected on a full year basis also?

Rajesh Bhatia: Yes.

Kunal Bhakta: And with regard to the tax rate, it is very high for this quarter, especially in the standalone and little bit higher on the consol. So, is there any reason for that? And what kind of effective tax rate should we budget for the current quarter?

Rajesh Bhatia: So, I think this quarter fairly well sums up. While India we will continue to remain under MAT for the next couple of years, for our projects in Egypt and Mexico where we are now starting to pay a higher amount of tax as we have absorbed or consumed most of the tax free regime, either because of the depreciation incentives available or some of the other incentives available, so there are also the tax liabilities have been hired in the quarter when compared to the same period last year. So, overall tax impact as we see in the current financial year is definitely about Rs. 27 crores in this quarter, which was about Rs. 15 crores in the last quarter same period last year.

Kunal Bhakta: Right. Okay, with regard to the BOPET, you mentioned obviously that other peers have also seen a certain amount of jump in their margins. So, has that been more of a India phenomenon?

Rajesh Bhatia: No, it is a global phenomenon.

Kunal Bhakta: Its global, right because in our case the delta is not as significant as it is in the peers as far as the…

Rajesh Bhatia: So, that is what I said that if we see the EBITDA excluding the engineering business, the Y-o-Y growth rate on a consolidated basis is 18% and on a standalone basis it is 35%.

Kunal Bhakta: And in terms of the capacities which are getting added at the industry level, is it only on the BOPET side where two lines are getting added, one in India and one in Thailand?

Rajesh Bhatia: India one line will get added in the last quarter, and then there is Thailand is what there is one line getting added there itself also and then there is another line coming up in Europe also.

Kunal Bhakta: Okay. And on the BOPP side?

Rajesh Bhatia: BOPP side I don't have, I will not be able to tell you right now.

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

Mohit Agarwal: Sir, this is like a follow-up question on the last conversation you were having regarding the delta we see in the rest of the competitors in this last six, seven quarters, when we have seen the margin cycle improve for BOPET. But we haven't seen that effect in Uflex. I understand that you are saying that there have been under recoveries of packaging and there have been one-offs. But we are seeing these one-offs and under recoveries for a while now, you know, like six, seven quarters. And virtually our bottom-line is actually stagnant for the last six, seven quarters. And at the same time, you see the other competitors, they have literally doubled their bottom-line. So, when do you see this bottom-line increase, which has been enduring us for a while now? When do you see, could you give us a guidance that finally we can see a growth there?

Rajesh Bhatia: See, I think what has happened is with the other people that you are comparing us with, they are only in the packaging films business. We are not only in that business but we are in some of the other businesses also, while packaging is there but within the packaging also you have sub-segments of flexible packaging, you have Aseptic packaging. And then we are the ones who do our own cylinders also, engineering also, chemicals also. So, for us the businesses is far more complex rather than just a film player who is doing only the films and reporting his numbers accordingly. But when I compare myself just on a film-to-film basis, and some of the players are only BOPET, they don't have BOPP, while some of the players like Cosmo are only BOPP players. But I have both, I have all the three, BOPP, CPP, as well as BOPET, as well as some of the other complexities of some of the other businesses. But while we don't report those numbers, because there's a lot of in-house consumption also, which is the same plant, it gets reflected at the cost itself in those numbers. But when we compare our third-party vis-à-vis our competitors, I can assure you that we are fairly competitive in all those, if we compare ourselves BOPET with say an X player with our capacity utilization or our efficiencies, inefficiencies or our margins or our spreads, you know they are fairly compatible, But it's not possible to do a full dissection, as I told you, it depends on the age of the plant and all those factors. But lastly, when we do that in-house for our own consumption, I think we are fairly competitive with some of the large industry players in this segment.

Mohit Agarwal: Okay. So, I will just take this question one step forward. So, I understand you are saying the business is more complex and you have packaging and a lot of other things which the other competitors are not doing. But shouldn't that be advantaged? For example, all of these players are paying very high dividends, which we are not doing. At the same time, our interest cost is going high, our depreciation keeps going high, I mean, we have not expanded capacities after Asepto, I mean, not any major capacities we have expanded but still our depreciation just keeps going up, which is eating into the post-EBITDA accruals that we are having.

So, my question is that, while all these other players they are able to get the cash flow generating from the film business redistributed in the form of dividends, what are we doing with this free-cash-flow generation? Because it's not helping us in reducing our interest costs, it is not helping us reduce our overall absorb our other costs. So, is there a strategy on that?

Rajesh Bhatia: So, I think there also if it is only a films business, probably your sustenance CAPEX is not too high enough in a film line. But in a packaging business where the machines change, the customer requirements change and all that, so there is always kind of a sustaining CAPEX, which in our case all the business put together should be at least about Rs. 200 crores a year. Now, that CAPEX would largely be there because of the packaging business, engineering business, chemicals business, the packaging group business. Not a very less in a pure packaging film business. So, obviously that would entail additional depreciation that would, if you borrow to do that, to that extent you have spent money either by borrowing or not borrowing, so that in a way affects your ability to give that cash back to the shareholders.

So, it's a combined effect of that. If it is only a film play, I agree that the cycle is good, so there can be a lot of cash return to the shareholders. But in a combined business like us, it is difficult. And it may also so happen that while we are riding up-cycling in one of our businesses or the other business may still have issues of overcapacity where the pricing power is not with you, so obviously your margins are probably lesser in that. And in the meanwhile, you still have to do your sustenance CAPEX, you are looking to keep your leadership position there also. So, a lot of money is then going into business. Now, tomorrow a couple of years down the line it may so happen that the packaging films business is not doing so well, and the packaging business is doing better, because by the time the issues which are plaguing this sector are solved now.

So, I think there are no easy answers for what you are asking for. I think the business dynamics only demands that you invest in upgrading yourself or you know adding the recyclability, all these factors as we are seeing in this packaging business will come to the forefront, if not today in another year down the line there may be more governmental regulations coming to play as to what you need to do about the recycling or biodegradability and all that. So, you will have to keep on investing in those businesses.

Mohit Agarwal: Okay. Sir, can you give us a guidance, when do you think all this reinvestment we are doing, I understand completely that company is investing in recyclable products, biodegradable products, you are doing packaging and a whole lot of other things at the same time, which is obviously having an impact on the standalone films business. Do you see any, can you give us any guidance in terms of when you think this consolidate or the synergies of this consolidated business will start showing? Because it's been a while now, it's been three years we are having the absolutely constant bottom-line. So, can you give us some guidance on that?

Rajesh Bhatia: So, nobody can give you guidance on that. I can only tell you that learning from my experience of working in different industries, being present in the different segments helps you not having, you know, you may have a down-cycle in one of your segments, and you may have an up-cycle in your segments. But it's not that you are either totally out or you are totally at the high. While for the only film companies, they are typically, particularly the BOPET ones they are typically riding a good cycle currently. But look at BOPP, they are not doing so well. Yes, Q1 has been better, but if you see whole of FY19 that's not been good. The packaging companies, that have not been very good margins in the FY19. So, when you are in multiple businesses there will always be one plus two minus, two plus one minus. That the way it plays out. You know, for anybody, including me, it's difficult to say when will you have all the businesses optimizing and doing fully well. I think that's an ideal situation, that never happens in a business as such.

Mohit Agarwal: Okay, fair enough. Sir, one question on Asepto. I just want to understand that you have been talking to the big clients for a while now, you said you have been testing their products and all this has been happening. So, can you tell me what is really hampering the conversion of these customers? I mean, is it because they are still testing it or is it because of slowdown in the demand? Or is it because of branding or pricing of your competitor, what is that is the missing part of the puzzle?

Rajesh Bhatia: So, missing part of the puzzle is that we have still not signed on the dotted line. The reasons could be as fold as what you have told, but clearly one of the large reason is that they probably also wanted to test out for a certain period of time that it should not happen that because there they have been dealing with a monopoly situation for the last so many years where there was one supplier. So, if they move on and I am not able to come up to their expectations in terms of delivery and all that, because any initial plant would have some teething issues to begin with. So, I think probably they were playing a waiting game, keeping us engaged, and ensuring that let them mature a bit and that's where we deal with them. So, to my mind that is what may be playing on their mind. But, again, as I said that while I know that we have been telling you certain things and it's not been happened so far, but I think let's see next quarter if we are able to give you some good news on signing up of some of the large customer base.

Mohit Agarwal: Okay. Sir, one last question and this is regarding your recycling and biodegradable products, in the filings you have been, even the Chairman keeps coming out with different ideas Uflex has been working upon different kinds of biodegradable products that you have been researching upon in your US subsidiary. So, can you give us some idea of what kind of work you are doing and what can we expect in the coming quarters, on the biodegradable products?

Rajesh Bhatia: So, very difficult for me to say anything on this call. Because of the regulations I shouldn't be stating it to only one set of people. But because it's still a work-in-progress all of this, and few things what we are doing on the biodegradable will still take some time for us. So, we just don't want to go to either to the regulators announcing something where we today do not have all the boxes ticked. But I think the moment we will have all the boxes ticked, we will come and announce that. But I can only give you a general guidance today that look the orientation and efforts is to ensure that this big disruption which is going to come, which is going to happen in the flexible packaging, the plastic packaging industry, we are up to the mark on addressing all the issues, keeping ourselves prepared for any eventualities on the regulation side tomorrow. And that's what we can tell for the time being.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would like to hand the conference over to Mr. Rajesh Agrawal for closing comments. Please go ahead, sir.

Rajesh Agrawal: So, with that, I would like to thank all for joining us today. This concludes our first quarter 2020 conference call. We look forward to staying in touch in the coming quarters.

Rajesh Bhatia: Thank you, everybody.

Moderator: Thank you, gentlemen. Ladies and gentlemen, on behalf of Uflex Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your line.

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