"UFlex Limited Q3 FY22 Earnings Conference Call"

February 12, 2022

MANAGEMENT: **MR. RAJESH BHATIA – GROUP CFO, UFLEX LIMITED**
MR. YUSUF NASRULLA – INVESTOR RELATIONS, UFLEX LIMITED

MODERATOR: **MR. PRASHANT SHARMA – QUANTUM SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY22 earnings conference call of UFlex Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*'then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Sharma from Quantum Securities. Thank you and over to you, sir.

Prashant Sharma: Thank you, ma'am. On behalf of Quantum Securities, we welcome you all to Quarter 3 FY22 results conference call of UFlex Limited. We thank the management for giving us the opportunity to host this call. The management is represented by Mr. Rajesh Bhatia – Group CFO and Mr. Yusuf Nasrulla – Investor Relations.

I now hand over the call to Mr. Yusuf Nasrulla. Over to you, Yusuf.

Yusuf Nasrulla: Thank you Mr. Prashant Sharma. Good evening, everyone. I would like to welcome you to the third quarter FY'22 Earnings Call of UFlex Limited. On the call today, we have our Group CFO – Mr. Rajesh Bhatia.

Our discussions may include predictions, estimates, or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds. They are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned, not to place undue reliance on these forward-looking statements, which reflects our opinion only as on the date of this presentation. Please keep in mind that we are not obligating ourselves to revise the publicly released results of any revision to these forward-looking statements in the light of new information of future events. 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.

Let me highlight a few achievements of this quarter:

UFlex net profits jumps by 96%YoY to Rs. 313.2 crores. Net revenue rises by 64.6% to Rs.3,474.3 crores EBIDTA rose by 48.5% YoY to Rs. 618.7 crores. We have the highest ever quarterly production and sales volume.

I would now like to invite Mr. Rajesh Bhatia, Group CFO, over to you Sir.

Rajesh Bhatia: Thank you. Thank you, gentlemen, for taking your time out on the weekend to be on this call. I'm sorry that, we should have planned so that we could have this call on weekday just to get a better audience and we will take care of this definitely in the times to come, but sometimes, this becomes inevitable. So please excuse us for that.

I think all of you would have already gone through the results. It's a fairly decent, financial performance, notably is 38% volume growth, which has actually meant that, all the overseas and Indian packaging films capacities, except for Nigeria, which was at about 60%, all of them are above 95% utilization levels, including the enhanced capacities, which came on scene in the last financial year and this financial year. I think the scope for any increase in the volumes now will come from, de-bottlenecking from existing plants, which we normally do because, once the warranty periods are over, we are able to increase the throughput by changing, by running the plants at a much higher speeds and also future implementation of our project in Dharwad, CPP line in Dubai and our Sanand plant expansion, doubling the capacity of Aseptic Packaging plant through 7 billion packs per year.

So, we also had during this quarter, the raw material prices continued to increase and on a year-on-year basis depending on the territory we are in and depending on our contractual commitments from the suppliers in terms of the prices. The continuous pressures on the raw material pricing side is there in this quarter itself, of course, on a year-on-year basis, it is as high as 80% in certain territories and in India if I were to say it's about 50% increase in raw material prices for the PET films and about 26% increase for the BOPP raw material prices. Overall, as I said that this, we even had a similar impact in the last quarter, but we changed our strategy where in last quarter we were always happy about that. We have order book position, which is one month, two months. We changed that strategy to book for the shorter duration as the raw material prices are rising. We suffered in the last quarter because of this, because even though the volumes were higher and the selling prices also were higher, just because, we were carrying a higher order book. We couldn't convert that buoyancy into our higher profitability margin, but that position we corrected. We started the booking for shorter durations, our order book position and that's what coupled with if I see on a quarter-to-quarter basis, the raw material pricing piece is still manageable, maybe about 3% to 6% range generally and driven by a larger volume, which led to a higher, a much better absorption of the overheads. EBITDA for the quarter is higher at about Rs.619 crores, roughly about 18% of the top line. But if I were to negate the impact of the raw material price rise and just take the volumes, I think EBITDA is close to about 20% or so, on a constant raw material pricing basis. Working capital, the liquidity position of the company continues to be very good. As we improved our production, obviously the working capital requirements go up because of the higher prices, higher production levels and we have hardly borrowed from the markets from the banks to fund those and largely all of that we tried to ensure that, we use our liquidity for the enhanced working capital requirements both for the extra volumes and extra pricing that we have to pay. Crude oil already we have seen that it continues to spurt. Brent as we speak is above $95. So, the pressure on the raw material prices is continuing, but I think equally notable is that all of that is being passed on rather, there has been a margin expansion in this quarter just because we changed the policy to not to have a very large order book and move to a smaller size of the book.

The demand levels in BOPP and the PET industry continues to be good. In fact, in the packaging space also this quarter, we had higher volumes marginally, but there also, the prices went up dramatically, but in the packaging space the EBITDA margins still continue to be under pressure though a bit better than the last year, but still not a happy situation. It's only the packaging films and the aseptic packaging films category which is continuing to give us the desired operating and EBITDA margins. That's what has led to almost about 50% increase in EBITDA on a year-on-year basis. Even on a quarter-to-quarter basis if we see EBITDA increase is about 46%. The PAT is up about 96% on a year-on-year basis, and about 84% even on a quarter-to-quarter basis. Overall, again, a very decent performance set of numbers, 38% volume growth overall all across. I think the next round of larger growth will now come from, the balance we have in Nigeria, where we are still operating at about, for the quarter we operated at about 60% capacity. We have scope there, rest of the plants, as I said, that, almost are at above 95%. Between 95 we can take it to about 105, 110 when we fully debottleneck the machines. There is a bit of an upside there, but as I said, the next round of upside will now come from these expansion projects, which are getting completed in FY23, Aseptic Packaging is going to be getting commissioned in, probably we'll try for this quarter, but if not this quarter, the first quarter for sure, Dharwad will happen in Q3 and the Dubai CPP will happen probably in Q1 that's what we will try to keep on it. But if there are slippages in terms of the travel restrictions and all that probably another one quarter as a fallback.

That's basically, the highlights for the, for this quarter. I'm happy to take any questions you may have on our financial performance or on our performance in this quarter.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Yash Dantewadia from Dante Equity Research, please go ahead.

Yash Dantewadia: My first question is with the rising crude oil prices, this quarter we have seen some passage of rising input cost, I want to understand, will we able to continue this trend of passing on the input cost?

Rajesh Bhatia: As I said, ever since pandemic has happened the demand momentum continues to be very strong, and that's where till date we've been able to pass on the costs and also improve the margins on an overall basis. Because typically you may find that, EBITDA margins may still on a year-on-year basis. You may still find a bit lesser because if the top line is growing by 65%, while the volume growth is only 38%, the rest of it has come from the price increases which is basically driven by the higher raw material cost. Your ratio of EBITDA to turnover will always look a bit skewed. That's why I explained that, if I were to take it at a cost and prices, EBITDA margin is about 20%, which is fairly decent. Based on the present demand dynamics today, passing on the higher raw material prices does not seem to be much of a concern.

Yash Dantewadia: Also, you said that you have reduced the order book or timeline, before you used to take orders, I think around the one or two months, can I understand how you have reduced it and by how much?

Rajesh Bhatia: Depending on the territories in certain places, now we are doing only a weekly order book position. In certain cases, we still do a fortnight. We still do in certain territories for one month. Also, depending on where the demand concentration is, the deciding as to how do we do that. But where, we have a much larger demands coming in, in those jurisdictions we largely reduce it to week or 10 days kind of time as against to 30 to 60 days, 30, 45, 60 days going as much as we've been going earlier.

Yash Dantewadia: The raw material pricing how it is updated for your company, is it per week or monthly?

Rajesh Bhatia: Raw materials prices are linked to the index for a month, mostly it is that. In case of Homo-Polymer, which is used in BOPET, they are more or less spot, you can say. Spot means every time I give an order, suppose I give an order for the next 15 days. The price benefit is for the next 15 days. Then, when the prices are going up continuously from that side also you have to be cautious that you don't have stocking at a much higher cost because so long as you are able to pass on that extra cost to the customer so that risk, at least you don't want to keep it to yourself that, you commit yourself for a quarter or for a larger duration. The spot raw material prices fall, and you still committed at a higher level which erode your margins. So, because the demand momentum is there, and the market is able to absorb the higher prices as the higher prices are declared by our suppliers. Even on our side for our raw material sourcing also, we are not committing for very long.

Yash Dantewadia: I have a hypothetical question if that is okay. My question is if crude oil crosses let's say a $100 per barrel, as per the present demand situation, do you think we'll be able to continue the operating profit margin of let's say around

17% to 18%, and if you could give a guidance in this way, it would be very great because right now, the way crude oil is moving it really looks like ready, obviously the inflation crisis, or I don't know how to put it, but whatever is happening in the crude oil market and how inflation is increasing day by day, do you think these operating margins, I think there are 17.55% this quarter, do you think they're sustainable and you'll be able to sustain these margins, even if crude oil crosses $100 per barrel?

Rajesh Bhatia: So, as I said that, the price today I have to look at the margins in the absolute terms now. If from here the raw material price rises say another 20% and that 20% gets added up to my revenue, my EBITDA margins will look a bit skewed, but, in our industry, the margin per se is less of monitoring factor. What we look at in fact, per kg or per tonne what is our EBITDA. So long as that number is being maintained despite the higher prices, while the EBITDA to turnover ratio you may find it a bit skewed, but I'm looking at maintaining my EBITDA per kg or EBITDA per tonne margin and where our concentration is rather than looking at 18% EBITDA margin or so. The raw material prices from here go on say by another 50%, which I have to pass it on. I know for sure that my EBITDA margin at that stage would not be surely not be 18% or so would be lesser. But if I see my overall quantum of that EBITDA, I think that's where our concentration is. That's where we are, that's what we want to maintain.

Yash Dantewadia: One last question. I'm sorry for taking so many questions, but my last question is regarding the debt, I think the CAPEX is going to get finished this financial year hopefully

Rajesh Bhatia: Not this financial year, it will go to next financial year let’s say Q2, Q3 also, it will go to.

Yash Dantewadia: But this financial year Q2 or next financial year Q2 you are telling me?

Rajesh Bhatia: Next financial year.

Yash Dantewadia: Which expansion?

Rajesh Bhatia: Dharwad.

Yash Dantewadia: Do you think we hit the debt ceiling, or do you think there's more on that line to comment, the debt?

Rajesh Bhatia: I see the long-term debt as on the 31st of December is about Rs.2,500 odd crores. I think if I look at long-term debt and another Rs. 1,000 crores is a short-term debt, which is basically all of the working capital. So, I see that, probably a ceiling of say, long-term debt ceiling of about Rs. 3000 crores.

Yash Dantewadia: When can you give guidance which quarter do you…?

Rajesh Bhatia: I think Q3.

Yash Dantewadia: Q3 of next year?

Rajesh Bhatia: Q3 of next year where we complete the Dharwad expansion.

Yash Dantewadia: Thank you so much. I would like to congratulate you and the whole team again, really a stellar performance, and I hope the stock starts reflecting the performance in terms of its price.

Moderator: The next question is from the line of Prashant Sharma from Quantum Security. Please go ahead.

Prashant Sharma: Basically, I want to know about your pricing power. Let's say, the raw material prices start decreasing, price of these raw materials start decreasing. Now, since you have shorter contracts, can your customer demand lower pricing? What I mean to say is, do we have some pricing power to offset it for some time?

Rajesh Bhatia: Difficult thing because whatever our contractual commitment from our customers are also, we've not seen that people backing out from there. So, it suited us to move from a higher number of days to lesser number of days given that the raw material prices are rising, but rarely, rarely seen any customer or supplier not meeting their commitments with respect to the committed off takes by them. So, if we are taking a lower order position book, as of now, when the prices continue to fall, I think we may change our strategy to look at a higher period book again, but yes, you will have to assess that situation and it might so happen that, you may have a lag of one month before you actually get to see whatever is now the fall in prices, is that for real or that is just transitory. The same thing what's happening in the stock market. We always see that the market comes down by 5% or so and then again it gets back. Similar thing we are witnessing in our raw material levels also. As of now, we are happy having a shorter book, but that strategy will always be live to the situation in terms of our reaction.

Prashant Sharma: My next question is regarding your capacity utilization. What I want to know is how much of, more sales, extra volume can be generated from our existing capacity, given that we already have a 38% jump in volume numbers?

Rajesh Bhatia: As I said that, this quarter we have, other than Nigeria, we almost hit the ceiling. The new capacity whenever you set up the plant initially for a year or maybe a little longer period, you operate the plant as per supplier's specifications and then beyond that period, then your warranty is over, when you tested the machines fully, you can increase the speed of the machine, because all the machines whatever in our industry they are all European machines. So, normally they will have an extra built-in for about another 10% to 15% or so. So that's optimization you can do once you hit the ceiling as per the designated capacity by the supplier. So, in the areas where we are already 95% probably, another 10% we can go over and above our designated capacity as of now.

Moderator: The next question is from the line of Jatin Kumar from Alpha Capital, please go ahead.

Jatin Kumar: My first question is on the current spread in this quarter, the Q4 quarter, half of quarter is already over, any guidance on how the spreads are is putting up in this quarter versus how they were in the previous quarter?

Rajesh Bhatia: This quarter, as of now continues to be extremely good.

Jatin Kumar: Similar to last quarter or even better than the last quarter?

Rajesh Bhatia: Very difficult to say but as of now, I can say slightly better than the last one.

Jatin Kumar: Any long-term color on, say 2-3 years color on how much spreads do we expect? Do we expect to hold the current spreads stay or do we expect them to normalize little bit going forward?

Rajesh Bhatia: They should normalize a bit. As of now, the whole world is living on higher prices, higher inflation, higher profitability, whichever sector you take it. Even in the sectors where the demand is constraining, like automobile and all that still they are riding on higher prices and still delivering good numbers. So, today the situation continues across the world to be higher prices, higher inflation, and higher margin than I think I saw one presentation where they said that this is probably the first time the corporate India, the top companies have a net profit margin of above 10%, which probably hasn't happened so far. I think, this concept of shortages, this concept of supply chain disruptions, higher freight, which clearly seems to be a case of not so much of a capacity constraint, but the freight prices going up by a factor of 10x since pandemic, while the other commodity prices may have only gone up by 30%, 40%. I think in the next couple of years they'll return to normalcy. This does not seem to be sustainable for a very long run. Whenever in any industry, if the margins continue to be very high, obviously the new investments flow in there and the extra capacity which gets built up during the high times always helps in normalizing the situation. Yes, next two years or so, definitely the normal time should return, whether it is because of the new capacity that is created, even today the new capacity that gets created has raw material sourcing issues because of the free flow of raw materials from one geography to another geography is possible. But then, the cost at which you are now going to do it is ridiculous. Sometimes, you're better off buying locally rather than, getting supplies from countries like China or Indonesia or Thailand. I think those new realities are setting in for the new capacity and that has to be seen. Having said that, today the raw material, people also are making a much higher margin than what they were pre-pandemic. There'll be capacities that may come up in that space itself, which will again, rationalize the prices. But, if the freight prices remain so high, that disequilibrium, where the capacities are and where the consumption are will remain a challenging issue.

Jatin Kumar: We are saying that we have reduced our contract duration, clients we have moved to shorter duration, any impact on volumes due to the change in policy or volumes you expect to stay strong?

Rajesh Bhatia: No, so long as demand is robust all that I do is now, if there is a customer X and he comes to me, so I will tell him and he wants 200 tonnes, I will tell him that, as of now you book 70 tonnes only which I will supply you in the next 10 days or so and we will have another 70 tonnes, which you can book after or even if you want to book that way fully then the pricing will always be subject to change. So, as I said that demand side is there, so that's where the 38% volume growth has been achieved. As of now on the demand side, not much of pressures are seen.

Moderator: The next question is from the line of Kamaljeet and an individual investor. Please go ahead.

Kamaljeet: My question is what is the R&D expenditure to the sales ratio?

Rajesh Bhatia: We can give you offline.

Kamaljeet: A few months back there is a patent UFlex has filed. What is the opportunity size for this particular patent and when it can be materialized?

Rajesh Bhatia: I don't know which patent you're talking about.

Kamaljeet: The chemical one 340937 something.

Rajesh Bhatia: That has a very limited opportunity at this point in time, that's what we see.

Kamaljeet: Recently I think you are supplying some packaging solution to the ISRO as well. So, what will be the opportunity size in that particular area?

Rajesh Bhatia: All these are niche products, but the market size continues to be less. You're showcasing of your capabilities in terms of, some of the very smooth CBS stringent requirements for some of these organizations that you may need. So, it's not a bulk consumer of these, but then even if you sell small quantity for some of the specialized products, the margins will always be better because of these small quantities. Whenever you create Ascetic as per their requirements obviously you will drive higher pricing as well, but as I said that there is no volume game here. It's more of a showcasing of your technical capabilities as to what you can deliver.

Kamaljeet: In last call, you mentioned about some delay in supply chain mechanism, whether it has been improved significantly or it is still that pressure is there?

Rajesh Bhatia: No, the supply chain issues continue to be there, they are much better as compared to Q1 and Q2 where the raw material availability itself was becoming a challenge. The availability is no longer any challenge. Now, the challenge has shifted to the landed cost of these raw materials depending on your jurisdiction from where you were sourcing these and the landed prices and in some of the territories like Mexico or USA or Europe, where we were importing some of these items. The focus is now more on the landed cost of these price inputs rather than any availability issues.

Kamaljeet: Whether our payment receivable will be improving in forthcoming quarters or the receivable versus the payment mechanism will be in a balanced state?

Rajesh Bhatia: Payment mechanism continues to be the same. Payment mechanism it has not got any effects of that. Because your customer profiling is almost the same.

Kamaljeet: In this particular financial year how many patents we have received, or we have filed, or we are getting some patents?

Rajesh Bhatia: I don't think so any patents we have received. If there are any filings, I will have to get back to you offline.

Moderator: The next question is from the line of Saurav Sharma, an individual investor. Please go ahead.

Saurav Sharma: Congratulations on the numbers, especially the bottom line that the company has delivered. It is quite heartening to see in excess of 20% margins on the overseas operations, overseas packaging films operations, and that brings it more in line with our peers. So, that is really heartening to see. And congratulations to the entire team and you as well for accomplishing this feat.

My first question is about the gross and net debt as on December 2021. Could you please share that number if you have it handy?

Rajesh Bhatia: So, the long-term debt as on 31st December is 2,500 odd crores and long term and short term put together is 3,500 odd crores.

Saurav Sharma: Is that the gross and net number, are they the same?

Rajesh Bhatia: Cash on hand that is the net number, 3,540 crores, about 700 crores is the cash in hand.

Saurav Sharma: Considering the cash generation that is going to happen and things, of course, are looking fairly all right now, are there any plans to distribute the cash to shareholders yet?

Rajesh Bhatia: As of now we are looking at completing those projects, and as I said, even during this quarter the cash in hand has improved by close to about 100 crores. We have not borrowed much from our working capital bankers, rather **used** the cash available in the system to fund your higher working capital requirements driven by the higher raw material prices and higher receivable level, because both of them get affected. We have not looked at any substantial borrowings in this quarter. If you say, on a net basis the increase in the net borrowings between the last quarter and this quarter is only about 125 crores and we are almost close to finishing our expansion projects.

Saurav Sharma: The reason I ask about cash distributions is from a technical perspective, from the market perspective of the stock price what happens usually is that…

Rajesh Bhatia: It is difficult to comment on this call about any management policy matter on the distribution…

Saurav Sharma: My only limited point will be about the kind of shareholders that the stock attracts, there are different kinds of investors, there are people looking for capital gain, there are people looking for distribution in terms of dividends also, and there are many institutions, long-term players, you can take your insurance company, long-term institutional investors, mutual fund as well for that matter, there are several dividend yield schemes also like you would know. That kind of increases the marketability of the stock. So, that was my only limited point.

Rajesh Bhatia: I think that is a good point. We will definitely take that into account, to your thought process we will definitely keep that in mind.

Saurav Sharma: My second question is about Nigeria plant. You said that it's operating at around 60%-65% of nameplate capacity right now. Are there any reasons for not complete utilization? Because as I understand Nigeria is not short of raw materials, right? And demand is not a problem really.

Rajesh Bhatia: The raw material is short in Nigeria. So, Nigeria raw material also we have to get from rest of the world because the raw material refinery, which was coming up over there, it will take another year or year and a half to come up. So, in Nigeria raw material also has to be sourced from outside.

Saurav Sharma: So, is that the constraint in Nigeria or are there any political considerations?

Rajesh Bhatia: No there is no political constraints as such. To begin with, we had constraints on the port capacity limitations which was resolved. Then we got into the factor of higher freights because we knew in Nigeria the demand is going to be, which will take about 50% of the plant capacity and rest of the 50% you will look to export and that was also considered natural because that would take care of your Dollar requirements in Nigeria as well. But the higher freight costs are limiting the exports. From there you have to export to America or any other jurisdictions. So, that viability as of now is a bit of a concern.

Saurav Sharma: Exports in general, if you look at export-oriented firms that are operating in India, they are doing quite well in terms of exporting their product all across the globe. This is a Nigeria specific problem, exports, because otherwise exports do not seem to be too much of a problem globally.

Rajesh Bhatia: Exports have not grown. Because even the Indian companies who are looking at exports are also constrained by higher availability and the freight costs as well.

Saurav Sharma: In terms of export, do you see a difference between BOPP and BOPET films? Are BOPP doing better in volumetric terms? In quantitative terms is BOPP doing better than BOPET? My understanding is that in volumetric terms BOPP export from India are doing much better than BOPET. So, is that something that that you have observed?

Rajesh Bhatia: What had happened in BOPP was, as I said, whatever supply constraints I spoke about, which were there in the last couple of quarters, they were more on the BOPP raw material availability rather than the PET raw material availability. So, probably that has led to a higher export of BOPP. Some of the plants in the Western world and Europe probably didn't have enough raw material to operate at their peak capacities, so they had to curtail their production. While India had availability so there was obviously export potential from here itself which has happened.

Saurav Sharma: So, India is better in terms of raw material availability right now?

Rajesh Bhatia: Yes.

Saurav Sharma: For both BOPP and BOPET?

Rajesh Bhatia: BOPET is not an issue across, whether in India or elsewhere.

Saurav Sharma: One more question I had about the exchangeability of let's say BOPET and BOPP. It is a technical question that I have no idea about in terms of can the same machines be used to produce both kinds of films? Its only raw material?

Rajesh Bhatia: no

Saurav Sharma: They cannot be remodeled or reconfigured to produce?

Rajesh Bhatia: No.

Moderator: The next question is from the line of Shubham Agarwal from Aequitas India. Please go ahead.

Shubham Agarwal: My first question was relating to the industry. I just wanted to understand over the next 18 to 24 months what kind of capacities that we are expected in BOPT and BOPP to come up globally? And how would it impact the demand scenario and margin, if any?

Rajesh Bhatia: I think in India we are likely to see a higher capacity expansion over the next two years in BOPP and BOPET. Globally, the capacity increase does not seem to be a challenge given the announcements made so far. In India, as I said, India can absorb additional because now the plant sizes are larger. So, if the growth rate in India is 10%-11% so India can absorb one plant each year for this and another plant for export purposes. But if there are more than two plants of BOPP and BOPET coming on stream, obviously the pressure will increase in India. But such kind of a capacity expansion is not there for the overseas which can sort of dampen the industry position.

Shubham Agarwal: So basically, you are saying for each BOPP and BOPET, two lines are more than enough as of now in India per year? That is total four lines. More than that will be a challenge.

Rajesh Bhatia: Yes.

Shubham Agarwal: Secondly, I just wanted to understand, given the demand scenario currently is very robust. I wanted to understand which are the key sectors where you are looking at very good demand coming from?

Rajesh Bhatia: I am told it’s across all the segments, but basically because our things mostly go into the food packaging. So, there are e-commerce activities which is increasing and pandemic has really fueled the e-commerce business which actually consumes, so apart from the primary packaging, the secondary packaging consumption, like if you have something, a shampoo, which you have ordered, the shampoo first the plastic bottle or the pouch in which shampoo or that liquid is, then on the top of it they will pack it in a bubble wrap or any other similar material and then there is a cardboard box on the outside. So, it's not only your polyester or BOPP which goes into the plastic, but also the secondary packaging, which is Poly, again another subset of the polymer chain. So, all this is really helping the demand side. Also, on fruits, vegetables, and all that even when you order on e-commerce, each piece now you find is wrapped. I have seen at least in my house even when I order a papaya, it's packed outside either in a white poly coating or a net sort of a nylon and all that material. So, I think we have seen because our consumption is largely for the food packaging. So, I see that the demand is growing bigger, the demand is growing in the e-commerce market, all across. Even we don't make those PET bottles but when I look at some of the PET bottles supplier companies, they also happen to be sometimes our raw material suppliers also, they are doing exceedingly well. There's so much of demand for the PET bottles today, much more than it was pre-pandemic. So, everything which is PET is more in demand now.

Shubham Agarwal: If I take this question slightly ahead, currently we are looking at a situation where substitute of packaging, whether it is aluminum or whether it is tin or whether it is paper, everything is on fire. So, do you see a situation where some of the products which, let's say are packed in aluminum or tin gets transferred to BOPET or BOPP and if there are cases that has happened?

Rajesh Bhatia: I think it depends on the product. The flexible packaging is innovating enough to at least migrate from the rigid plastics to like your shampoos, your hand wash, and some of the other liquids, the standup pouches, all that migration is where we see is happening. And on the other hand, there is migration also happening from the PET bottles to glass bottles also, at least in the restaurant space. When you are dining outside, nowadays you find that, you go to the restaurant so they will bring the water in a glass bottle, unless you order a PET bottle. On a can to plastics, I think the requirements are very-very different, very-very specific and there are products like cold drinks or beer which comes in can and which comes in PET bottles, or it comes in tetra packs also. But the consumer preference there in terms of whether he wants to drink this in a can or a bottle or a tetra pack is driving that consumption. So obviously, the higher paying consumers can afford a can, and the others would drink from a PET bottle. But on an overall basis, I only see that migration happening from a higher cost packaging to a lower cost packaging for the products the MRP is not very high.

Shubham Agarwal: Coming to the CAPEX part, you mentioned we currently have three projects in line which is expected to get completed by the end of FY23. I wanted to know what is the exact amount of CAPEX that is left to be done on all these three projects, if you have the number?

Rajesh Bhatia: Total to my mind, I think say about 400 odd crores or so.

Shubham Agarwal: But earlier in the call you mentioned that the long-term debt can hit a ceiling of 3000 crores which is a 500 crores addition.

Rajesh Bhatia: 2582 crores is the net debt. That is why I said around 3000 crores it can be.

Shubham Agarwal: But all in all, we have just 400 crores of CAPEX left, right?

Rajesh Bhatia: I don't think so there is anything other than this. Anything other than this is only normal, your sustaining CAPEX which you keep on doing on a year-to-year basis.

Shubham Agarwal: Earlier in the call you also mentioned that the way you track the EBITDA is, EBITDA per kg or EBITDA per tonne. So, would it be possible for you to tell us what the average EBITDA per kg was for BOPP and BOPET respectively? It would be really helpful.

Rajesh Bhatia: No, we are not sharing that number.

Shubham Agarwal: I understand. Lastly, on the revenue potential, given that you have already shared the utilization level, so given a situation where we can reach up to 105 and then Nigeria also picks up, what is that additional volume from the Q3 level that we can expect?

Rajesh Bhatia: I think from Q3 whatever is there now we can expect maximum 10% on an overall basis and then the additional volumes will come from these enhanced, these new capacities on aseptic, Dharwad and Dubai CPP. Then we will have the volumes coming in, setting in from this starting from the Q1 of this year to Q3. So, FY24 will be the first full year where we will see the impact of these additional capacities coming into play.

Shubham Agarwal: Would it be possible to give the revenue potential for all these three projects based on current prices?

Rajesh Bhatia: I think Dharwad should be about 800 crores. Aseptic should be about 500 crores odd and Dubai should be about 150 crores.

Shubham Agarwal: So, we still have around 1200 Crores of additional plus 10% volume growth for next two years.

Rajesh Bhatia: Yes.

Moderator: The next question is from the line of Chirag Singhal from First Water Capital. Please go ahead.

Chirag Singhal: Most of the questions have been answered. Just one more question. When can we see the ramp up beyond an increased capacity? You mentioned that there is a warranty period and after that you can undertake debottlenecking and there will some sort of…

Rajesh Bhatia: Next one year it will happen. By FY23 this ramp up will be there.

Moderator: The next question is from the line of Ayush Jalan, an individual investor. Please go ahead.

Ayush Jalan: I had a couple of quick questions. On the last concall you had mentioned that our credit ratings have been upgraded. So, have you seen any improvement in our interest costs because of that?

Rajesh Bhatia: We are still working with the banks to make that happen. State Bank has reduced it by a couple of percentage points already. And I think with all other banks also this will happen. But this will happen largely on the Rupee side because there is a local rating. And as of now, the long-term debt on India balance sheet is only about 1000 Crores. Working capital also is likely to be impacted, but that will come up in their respective renewal also. While the long-term part, with a few banks we have already worked it out and other banks are work-in-progress.

Ayush Jalan: My next question is on the recycled films. Are you seeing any increase in enquiries or demand for that given the increase in raw materials for the BOPET and BOPP? Are they similar now in costing or is there still a very big difference?

Rajesh Bhatia: I think the difference in costing is not much, but the difference in the realization is definitely much. I think broadly what we see is that post the pandemic, the focus will be again back on the recycling and basically for the plastics industry as such. Currently, while Europe may have about 40% of their plastics being recycled and America 25%, but still the recycling in the packaging business in the plastics still continues to be at quite a low level. And we have seen that the authorities across the world are putting up a need for more recycling of the plastics and all that. So, I think that is going to be gaining momentum and not only gaining momentum from a point of view of players like us or many others in the industry. Because we are in packaging space itself also where the real challenge is that how do you recycle something which has multiple layers and all that. So, those solutions will continue to be showcased to the world and to the respective authorities that, look, there is a solution to this. Yes, this solution has not been implemented because the differential probably does not justify that. But if the regulatory pressure is there to do these, like today the way it happens in India. While the government says that the plastic waste has to be used in the boilers by the cement industry and all that, but actually it's happening only on the paper. So, there are truck movements shown. There are collections shown by some of the agents. But if I look at the price which they are charging or which they are being paid, they do not even cover the 100-kilometer distance, forget about the cost of picking those, packing those, and sending to those cement companies and then the cement companies using them there. So, I think even in India we will definitely see a new EPR guidelines coming in very shortly. All the developed countries are already looking at expanding scope of recycling. So, the plastic bottles recycling into yarn and now even for the PET chips which is used in the manufacturing of the PET films is already gaining momentum. We have that plant now in India already. We are setting up that plant in Mexico and in Egypt also where the PET bottles are collected, and then you recycle them, make the PET chips from there which you use in Polyester film making, which commands a better pricing. So, two factors are achieved, one your raw material sourcing become local partially and for these conversions you are able to get a better pricing. Today they are not mandatory, but I think the way the regulations will come, they will become mandatory, or it will so happen that when they become mandatory, even outsiders will come and set up those capacities to take advantage of the business opportunities created by the regulatory changes that are coming our way. So, I think the whole focus around the plastics recycling increasing that recycling levels. Because if you ask me in other substrates whether it is can or it is cardboard or it is glass, I think the recycling levels are pretty high, they are as high as 80%. So, plastic is fairly well behind that. But the advantage in favor of plastics is that on an overall, the carbon basis, it is still the lowest. So, there is one deficiency today that it is not being recycled, but on a carbon footprint across can or glass or other things, it has the lowest carbon emissions. So that's the plus. Now the packaging, once you have more focus coming on recycling of the packaging plastics, I think, the plastic will no longer a villain role than the way it is being reflected today. But if we don't have the plastics, the food wastages are going to be humongous. Even today across the world 50% of the food is still being wasted, despite the use of the plastics as a primary source of packaging food. Now, whether it is in the developed countries, that wastage is on account of your supply chain or other issues, and in the developed countries, etc., the consumption level and all that is different. But the point is, if plastics is not there, then at a farm level, would you be able to pack those vegetables in a glass or aluminum container, will it increase the cost so-so much and the carbon footprint so-so much that we can't even imagine. So, that this world is not deprived of food, I think the plastic usage will only keep on increasing. Rather the United Nation Agency for Food and Agricultural Organization, FAO, they suggest that to reduce the food loss, waste, and loss, you must use more packaging than what is being used today. So, there they are advocating that please increase the use of the packaging to reduce the good wastages which are as high as 50% of the production levels and the only way to do this is you pack as much as possible.

Ayush Jalan: Thank you so much, sir, for a very detailed answer.

Rajesh Bhatia: I may have spoken too much.

Ayush Jalan: No sir. It's very good to know that this is what the thought is. There's always a fear that plastics would be banned and what would happen to the industry. So, it's very reassuring.

Rajesh Bhatia: Let me tell you something, in this world whether it is China or India or Europe or America, all of them together can ban just four things. One is plastic carry bags, plastic straws, plastic cutlery and thermocol. Apart from these four things, there is no country in this world who has been able to go beyond these and ban anything. Because other than these four things, whatever is the use of the plastic that is there for food preservation and dispatch, logistics and till it reaches the consumer. Now there is no alternative to that. If you stop packing chips in plastic and pack it in paper, the chips will not stay fresh more than 4 days. So, how will you consume. Which will mean that the usage of potatoes for making chips in this world will get over. At least I have to see one country which could think beyond these four things to put a ban on for the use of plastic.

Ayush Jalan: Has there been any government help on using those enzymes to make the plastics more biodegradable? You were mentioning last time that you all have approached the government.

Rajesh Bhatia: That still remains a work in progress.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Yusuf Nasrulla for closing comments.

Yusuf Nasrulla: Thank you everyone for joining us today and we look forward to staying in touch in future quarters. Have a nice day.

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