



## **“UFlex Limited Q1 FY2021 Earnings Conference Call”**

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**Analyst:** Ms. Shalini Gupta (Quantum Securities)

**Management:** Mr. Rajesh Bhatia (Group President - Finance & Accounts and CFO - UFlex Limited)

Mr. Yusuf Nasrulla (Investor Relations – UFlex Limited)

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q1 FY2021 Earnings 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 pressing '\*' then '0' on your touchtone phone. Please note that the conference is being recorded. I now hand over the conference over to Ms. Shalini Gupta from Quantum Securities. Thank you, and over to you, Madam.

**Shalini Gupta:** Thank you Lizann. On behalf of Quantum Securities, we welcome you all to the quarter one FY2021 Result 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 Ms. Shalini. Good evening everyone, and welcome to the Q1 FY2021 Earnings Call of UFlex Limited. On the call today as Ms. Shalini said 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 result of any revisions to these forward-looking statements in light of the 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. I would now like to invite Mr. Bhatia to share some perspectives with you with regards to the company's operations and results for the quarter under review, after which we will open the call to questions from analysts. Over to you Sir!

**Rajesh Bhatia:** Thank you all who are all there on the call. I think I will just keep it short and crisp. I do not have to say much the performance speaks for itself. We have had a good quarter largely because of demand created by the pandemic especially for the food and pharma, and then

the new category is emerging, which is personal hygiene. Overall, all these factors led to an increased requirements for all these products and consequently there is a requirement to stack them also proportionately goes up.

We are constrained by the capacities that we had at this point in time, and there were there was very little that we could have done more in terms of utilization of capacities. Fortunately, during this period we had our Russia and the Poland lines coming, the construction getting completed and trial runs commenced. So, we could use that output out of the trial runs also to meet the higher customer demand, which overall we have a production volume up of 7% on a year-on-year basis and 13.4% on a quarter-to-quarter basis. The packaging sale is up 10% year-on-year and 9% Q-on-Q.

The liquid packaging YoY sales are up 80% that is the only business segment, which could have done better, but because that COVID impacted that particular sector the most as because of the lockdown, the demand, for the ready to go or on the go kind of a juices or other products which are packed in this got a bit affected. So otherwise in that business segment also we would have done much better than what we actually achieved in the current quarter.

I think lastly on the packaging film side there has been a situation where the demand was so robust during the quarter, and all our facilities across the globe have been working at their full capacity levels to ensure that how do we keep pace with the customer demand, and frankly if we would have had more capacity things would have been still better from that you could have sold more also, but largely while the margins, you have seen that the EBITDA margins for this quarter are up about 52% on a year-on-year basis and about same number on a quarter-to-quarter basis, and EBITDA margin per se is highest at 21% it was about 15% in the previous or two periods.

The PAT number is up about 116% year-on-year and 95% Q-on-Q, so almost doubling the PAT number also, and our overseas business there was only one business where we had some capacity, which we had to catch up which was Mexico, that business has, during this quarter they have reported 28% higher production during, for this particular quarter, yes because we had some under utilization of capacity in that territory till date, and that came handy plus the new capacities which got installed but not commissioned also gave us these additional volumes.

Another notable aspect is that the value addition in the packaging business because the demand is for the personal hygiene products, which are packed into a spout pouches, which give you far more better margins as compared to your roll form packaging. So that has also helped improve the margins though the volumes, as I said have only improved by about 10% odd or so in the packaging, but, and 7% overall production volume on a year-on-year basis, but EBITDA margin, EBITDA increase is about more than 50% which is primarily as the demand is where the value-added products are being pushed and the raw material prices also helped us because we also saw that the PPA and MEG prices crashing during this period. The PPA and MEG prices from March onwards that these have fallen drastically, but on the other hand since there is a lot of demand for the packaging which continues also in the current quarter as well. So that price reduction in the raw material has also raised the overall margins that is sum and substance of the story.

As I said in the current quarter, we will have our Poland and Russia commissioned. We will also have in the next quarter probably the other two facilities in Hungary and Nigeria also getting commissioned, which will set the ball rolling for higher volumes in the rest of the period and the subsequent year we can look forward to at least 50% growth over the volumes in the films business what we achieved in FY2020. So that is basically in sweet and short the story of this quarter.

I think the highlights just for the story for this quarter was as we said that this is the toughest period and the leadership is put to all kind of tests and each flexion at every level has been present, has been contributing, they have been coming to offices, we have been organizing our workforce to come work them in the safety, increase the safety standards for them. So that they are not affected by this Covid.

We have done all that we could to ensure only one thing that our responsibility was to maintain the lifeline of foods and food packaging without that we all know as to, we, it is not possible for us to really get the food for the consumption at our home particularly during this period, and this crisis has been a kind of a showcase for the freely resolves and the organization has in terms of ensuring that what normally people cannot even think of doing in the normal times we have achieved those things in such difficult times by ensuring that either we are commissioning these plants through completing construction of these plants people stay in the plants day in and day night, people flying to commission these plants with special

permissions and so all sorts of things.

We had a sort of a mayhem actually where nobody knew as to what were things and things were changing every moment there were new Jio, there were new guidelines being issued state-by-state country-by-country and to continue movement of our material, movement of our people and ensure that we are able to keep on operating our plants with all necessary resources as well as maintaining the supply chain impact.

I think it was really in the hindsight then I see humongous, humongous effort and that is what separates a strong management from the rest of the plan and that is what we are proud of at UFlex by our Chairman who has been in office on each single day in the last from March 21, and leading by himself going to each of he could not physically move out because there were constrains, but going to the plant, so that going to the shop floor, meeting people there was so much of so fear amongst the people that for those pandemic that it has gone to come to work so he led by personal example and showcase to the people that if the Chairman can sort of come and work with you, that will change the whole mood, the way the organization was working and otherwise the whole media and other things have created so much of an havoc around this that things could not have been moved, but we happy to say that despite everything, we have achieved higher volumes, we have achieved a better efficiency, there have been some costs also which may have come down because travel was not there nor was participation in exhibitions. So, some of those administrative costs got saved, which are generally not much, but still the show went on and it has been a really excellent terrible moment.

So that is it from me, my side open to any questions and all of you are now have been on these calls for quite long and you would know that a lot of information about this, but still happy to answer anything.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

**Jiten Parmar:** Bhatia Ji and whole UFlex team congratulations on excellent set of numbers especially during this tough time and it was really inspiring to see that the top level of the company working hard and making all this happen, so congratulations to you. My first question is basically, if it is possible to share the contribution of food and pharma to the total sales?

**Rajesh Bhatia:** Most of our packaging business you can say it is about 95% for the food and a little bit about the pharma we are not very big on the pharma, so predominantly it is a food for us

**Jiten Parmar:** My second question is on Asepto, I saw the interview today. So, you have given a guidance of 3 billion tax for the current year?

**Rajesh Bhatia:** Not in the current year. I think also saw that that they somehow got it wrong. I said if our situation is normal then we against a capacity of about 3.5 billion packs, we can easily do about 3 billion packs from our existing plant and that is what we were sort of looking to do in this year before that got stuck.

**Jiten Parmar:** So as of now any guidance as to how much realistically we can do this year

**Rajesh Bhatia:** I think as of now it is difficult to give guidance, but a normal trend which I did share on that interview also is that Q1 YoY liquid packaging sales our volumes are up 80% on a Q-on-Q basis, so that is the only guidance sort of I can give. The three segments into which it goes the liquor segment was and the juice segment was quite deeply affected because the liquor where there was a total ban during this all this lockdown and also appreciate that this is a product which is only to India this is what we tell largely in India only, and India as a country we had the most vigorous lockdown, if you see overseas business it is not affected at all by this pandemic there was not even any single day or hour kind of an effect due to any pandemic induced lockdown. So but this was a local business so that is why it got affected but we are not too worried about this now because we have our back covered unless the market supports us, the market supports us, the conditions support us, we fully sold out on this segment.

**Jiten Parmar:** So, any thought on like expansion on this, by when will we have a picture here that we will do from 3.5 billion?

**Rajesh Bhatia:** I think in the next financial year FY2020. There will be surely an extension on this because expansion also takes time know, expansion is not immediate, it takes about a year though we have to order only one line which costs about 50 Crores to 60 Crores printing line and rest of the infrastructure is already there. So, the additional capex to double the capacity is only about Rs.50 Crores to Rs.60 Crores, but we will surely be sort of looking at that and that will for sure happen in the next year, next fiscal.

**Jiten Parmar:** Next question is on the debt, I saw you mentioning that peak debt will be 3000 Crores by the end of this year probably. So, what is the plan on deleveraging, I mean, any plans for FY2022 as to how much you will be able to bring it down or any fresh Capex is planned or what would be a comfortable figure

**Rajesh Bhatia:** So, I think what is important is the EBITDA to debt ratio. So I do not think, so that we are today the cash flows are committed towards completing the existing extension projects in our overseas business there was a situation will be as on March 31, 2019 I can tell you where we had an total outstanding debt of \$30 million in our overseas business and we had a EBITDA about \$85 million annual EBITDA generation of about \$85 million in our overseas business. Now which is four months of time, and we had not sort of expanded we were actually a bit late n terms of announcing our expansion plan because if your debt is only four months of your EBITDA earnings that is being very, very conservative numbers, but overall as we go forward, our target is that while that the everything gets commissioned in FY2021, FY2022 we will get our long-term debt to EBITDA down to about 1.5x or so, which is a very reasonable number to be in, and we will, so the long-term debt at about 3000 Crores is peaking out in FY2021. FY2022 whatever is the normal repayment schedule and all that I think, I am told it is about 400 Crores on an overall basis on a consolidated basis not much. So that will be detailed, and we will be down. The working capital part is always be there, going to be there in the business and depends on what is the level of your activities and operations and all that. So that is not there something which is much here to bother.

**Jiten Parmar:** The tax percentage what is the current tax percentage and are we in the old system or in the new system?

**Rajesh Bhatia:** In India we are in the old system because our Jammu unit still have some tax incentives there, our expansion projects in Poland we have the tax holiday for Hungary we have a tax holiday, Nigeria there is no special incentive, but the additional few years the appreciation coming will get handy. So, I think, but overall, our tax average rate in FY2021 is expected to be lower than FY2020 because we able to take advantage of the customization of you these projects.

**Jiten Parmar:** Final question is the spread I understand the spread on BOPET was Rs.70 for Q1, I think Q2 also looks good, I do not know, I will not be able to comment too much on it, but since it is ongoing, but do you think the Rs.70 spread is sustainable or we see moderation in that over

the year.

**Rajesh Bhatia:** I mean, for the moderation, we expect that the moderation will happen and should happen because these levels in the normal times are clearly not sort of sustainable we are not in any kind of an industry which is where if there is such a high margin that the new capacity will not come they will come and then the margins will get cumulated, but what we feel is in the next 18 months or so still the margins can be pretty good may not be Rs.70 maybe a little less than that, but overall situation things will be, are going to remain only on a better side only because any capacities which somebody anybody will plan today also will take about a couple of years' time and it is typical to every commodity business in India there are higher margins people flock to invest in those businesses and then the capacities bunch up and then that is the time that the things start to look bad the margins go down and then again there is a consolidation. So any commodity business there is a cycle we saw in the films business in 2010-2011 when the prices were so high and then there is a lot of capacity came and only after 2016 the film industry started coming out of it and this pandemic helped a bit in terms of an extra demand.

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

**Chirag Singhal:** Thank you for the opportunity. First of all, congratulations on a great set of numbers. So, my first question is on the expansions. So, you have been regularly guiding us on the tentative timeline for Nigeria Hungary and the other two. So first in the Nigerian Hungary what can we expect as a startup month for commercial production?

**Rajesh Bhatia:** I think somewhere, we are targeting in October somewhere, but I think that is when the plants get completed, the construction gets over and the trial run commences. So, the construction completion everything will happen by October or so, that is in Q3 and commencement in the fourth quarter.

**Chirag Singhal:** So commercial you are saying in the January quarter, in the March quarter next year?

**Rajesh Bhatia:** Being an extra conservative, we can plan that the commercial production commences in the Q4.



- Chirag Singhal:** Have we started with the commercial production at Russia and Poland?
- Rajesh Bhatia:** No, not yet.
- Chirag Singhal:** Is it possible to share the volume figures that what was the volume contribution from these two plants in Q1?
- Rajesh Bhatia:** Q1 these two additional lines contributed about 9000 tonnes only.
- Chirag Singhal:** When can you expect the commercial operations to start at those two facilities Poland and Russia?
- Rajesh Bhatia:** I think it will happen in this quarter for sure.
- Chirag Singhal:** Last concall I think you guided for 3000 tonnes per month for the Poland facility?
- Rajesh Bhatia:** Now it is not making a difference. The only difference is like people cannot travel to Russia. So, the plant needs certain adjustment probably certain more technical assistance and all that. So people are not able to still travel despite everything we have tried, so whatever we could do, we could take them on videoconferences and our own team commission that somehow completed that plant and started manufacturing, but there are some technical aspects which still need to be completed and those can happen only once the technicians from the OEMs can go and complete it. In Poland plant there has been no problem for the movement of the people and all that. So that is happening, but Russia because it is still travel is not allowed, so that is the constraint we are facing and that is why with the branch whatever is producing is operating at a slightly lower level than what we normally expected it to be.
- Chirag Singhal:** So is it possible to share what kind of incremental volumes we can expect from Poland and Russia in the next nine months.
- Rajesh Bhatia:** I can guide you to the total volumes in FY2022. FY2022 we should see over the FY2020 numbers we should see about a 50% increase in the volume.
- Chirag Singhal:** Okay alright, so that is for FY2022?

- Rajesh Bhatia:** Yes, FY2021 because it is partial, it is not making much of an impact.
- Chirag Singhal:** Understood. My second question is on the flexible packaging. So, are you seeing any kind of pricing improvement because of increasing demand due to COVID?
- Rajesh Bhatia:** The only improvement is because of a change in product like if we produce more of pouches, yes, the value addition is higher. So, the export market, the domestic markets because this personal hygiene sanitizers and handwashes are the new emerge categories which emerged. So, there is a lot of demand coming from these sectors which gives you a higher margin over other conventional roll form products. Yes, initially there was some bit of a pent-up demand which could have given you higher numbers, but generally packaging in this business, you have a very few spot customers, the customers are more or less linked to the price of the films and agreed value added percentage on. So, the only way to improve that is to do more of a value-added product and also increase the throughput and that is where you save your sort of cost.
- Chirag Singhal:** So, what would be the current capacity utilization of flexible packaging division? Current capacity utilization of flexible packaging division?
- Rajesh Bhatia:** It is about 80%, I think.
- Chirag Singhal:** 80% of the nameplate, which is 137000 tonnes or the effective.
- Rajesh Bhatia:** Effective means?
- Chirag Singhal:** As in, I think we can achieve maximum 115000, 120000 tonnes right in the flexible packaging?
- Rajesh Bhatia:** I think that is also there with too many conditions as to what are you making, if you are making more of the pouches, so obviously your production will go down. So that depends on a mix of what actually you are producing. So, at the current level, you cannot keep on adjusting that, so we say that if we have today about 80% capacity utilization even on an overall basis. Now actually that might be more because if you are producing more pouches it takes more time to first make a roll and then make a pouch out of a roll and that is what you sell. So overall tonnage may still be a bit low, but your value addition is higher.

**Chirag Singhal:** My third question is in the hologram division. So last year we expanded some capacity in hologram. So, if you can share what is the potential revenue, we can generate from that expanded facility? Second what is the total revenue we generated from the hologram as a whole in FY2020 and capacity utilization in the expanded and the overall hologram business?

**Rajesh Bhatia:** I mean we are not sharing the separate holography numbers they come as part of our packaging only, but I can only give you a bit of a guidance because holography means there is a lot of liquor industry also uses a lot of holographic. So to that extent there has been a bit of, that has also been a bit of a dampener because of the liquor ban during the lockdowns and all that and even subsequently also that is one product where the liquor sale have not picked up those much because your entire hospitality industry is closed and generally people do not consume so much at home and they consume all these things at restaurant, bars, hotels, and pubs, nightclubs, so I think that sales will continue to be affected till the things are, so one those could be a bit down but that is made up by the higher volumes on the other side. So overall you are 10% up that is what the method in the packaging business.

**Chirag Singhal:** If you see your standalone revenues and the revenues are flat on a sequential basis it is like 20 Crores, 30 Crores increase, but largely flat and YoY basis it had reduced. So, when we are saying that the business volumes have increased, the sales volume have increased in hologram as well as the flexible packaging other than hologram, we are seeing an increase in volume on sequential and YoY basis. So why has the topline not increased?

**Rajesh Bhatia:** See the topline not only comprise of only these two things the topline also comprised of there is a film that we sell also and then even all these products also from a last year level to this quarter one level is about 14% BOPET prices are down. So the BOPET prices Q1 of last year and this year they are down by about 14% when you compare the actual prices per se, they are because of a various now while the margins have improved but the raw material prices have led decline, in the overall prices. So, when the prices have declined, so your turnover will also be lower while there is a volume growth but the 14% drop in the prices also affects your revenue know.

**Chirag Singhal:** Right, okay so are we planning for an expansion in the flexible packaging, yes, I will get back in the queue sure, I will get back int eh queue.

- Rajesh Bhatia:** Need not.
- Moderator:** Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.
- Vaibhav Badjatya:** Thanks for providing the opportunity. Congratulations for a good set of numbers. So, on the expansion basically in Poland and Russia and Hungary Nigeria is it all BOPET capacity or BOPP can you just provide the highlights of the same?
- Rajesh Bhatia:** So, all other places is BOPET except Hungary which is a specialized BOPP segment.
- Vaibhav Badjatya:** We have seen a significant improvement in value addition and BOPET is said as some of the earlier caller has said has improved to 70. So, can you provide a similar number for BOPP as well as to what was that last quarter and what was it in this quarter and the number for the last year same quarter?
- Rajesh Bhatia:** So much information is there. See actually we not a very large BOPP player, so that is where it is not so relevant for us to while we are the third largest player globally in the BOPET industry, but we are not so in the BOPP.
- Vaibhav Badjatya:** So, would you say the improvement, I mean, both BOPET and BOPP has a similar kind of improvement?
- Rajesh Bhatia:** Yes, it is simpler kind of an improvement, but BOPET raw material prices BOPP raw material prices are not reduced by that much and the selling price in the BOPP is in Q1 versus Q1 of last year is a bit higher by about 2.5% to 3%.
- Vaibhav Badjatya:** Got it. Okay, I think that is it from my side.
- Moderator:** Thank you. The next question is from the line of Sagar Shah from SK Analytics. Please go ahead.
- Sagar Shah:** Good evening Sir. First of all, congratulations for an excellent set of numbers in this quarter. My first question actually was regarding our volume if you see our volume has increased by 9% but our topline has not increased with that change, and as you said this is because of maybe we have passed through our lower costs to maybe to our customers to our clients

actually. So, my question is that when going ahead obviously this lower BOPET prices would be a function of maybe a lower crude price. So, going ahead do you think maybe around the year our spread actually would decrease considerably because if you see a demand uptick in crude especially moving ahead?

**Rajesh Bhatia:**

No see crude prices has recovered and they are about \$43 \$44. So, there is not so much of crude factors as such, which is now playing down on the raw material prices. It is more of a demand and supply of PPA and MEG which come from PX family. So PPA and MEG have many applications that picking industry is a very small fraction of PPA and MEG consumption not maybe about 4%, 5% or so, a very large portion of the PPA and MEG actually goes out to make the polyester yarn and other in polyester things and all that. So there the consumption is severely affected, so whatever is linked to the polymer prices, the crude prices it is okay, but just because a particular segment demand supply is affected, so that is where there the PPA and MEG prices are very low which is the basic raw material for making because of the BOPET Film. So there the price reductions have been depending on the country-to-country about 25% to 30% in the quarter versus this last quarter. So, I think as the demand for the polyester yarn and everything then the pet bottles comes back and all. So, there will be increase, see these are extraordinary circumstances, they will not be made forever. So, there will be once the situation is more under control, there will be more requirement of PPA going into polyester yarn and all that and things will get normalized. So, then we will talk about normalized margins, but with a higher capacity levels available to us, which will ensure that our profitability is always maintained.

**Sagar Shah:**

But my point was actually that our realizations for our core product, I think they have not increased right, even though the demand is good I think demand supply situation would be favorable for our things like film or any others I think. So, this is the increase in margins is predominantly due to lower raw material prices actually?

**Rajesh Bhatia:**

No, see it is not wrong, if the demand for the product is not there and the raw material prices fall your finished goods prices will always fall, will also fall and that has been the trend in the past also, but this time the demand for the packaging films and packaging was very high, the raw material price expel, but the finished goods prices did not fall as much.

**Sagar Shah:**

Sir, my second question was what is our contribution of our thin PET volume to our total volumes sir, thin PET film how much is that contribution to our taking sort of contribution.

- Rajesh Bhatia:** Thin PET means.
- Sagar Shah:** The thin PET commodity film actually.
- Rajesh Bhatia:** We will be making only thin films, we do not make thick films. We will only make thin Films.
- Sagar Shah:** Okay, then what is our contribution to the total sales volume?
- Rajesh Bhatia:** Of what.
- Sagar Shah:** Of our thick PET film?
- Rajesh Bhatia:** We will not share those numbers.
- Moderator:** Thank you. The next question is from the line of Vikram Damani a private investor. Please go ahead.
- Vikram Damani:** My question is with regards to your dividend policy given that the outlook is good, and we have done had a really good quarter can we expect any change or increase in the dividend paid by the company?
- Rajesh Bhatia:** I think we thought about this at a management level and all that so we said that more appropriate will be this is being a really short term phenomenon. So, let us look to the things follow up or more period and then decide as to how the dividend payout will be for the fiscal FY2021 per se that has bring the decision.
- Vikram Damani:** Okay that is the answer. Thank you.
- Moderator:** Thank you. The next question is from the line of Raj Mathur an individual investor. Please go ahead.
- Raj Mathur:** My question was, so growth etc., has been good but your return metrics ROE, ROC are still in lower single digits to maybe in some of the years the closer in the range of 9% to 11% so what can the company do to really increase this beyond a particular threshold because and if I just see the last few years the I am sure you are not concerned with the stock price, but the stock prices is very range bound other than some one-off events and one of the reasons primarily

could be that the return metrics are quite low compared to what your size and teacher can really earn. So, any thoughts on how will these metrics go above say 15%, 16% on a sustainable basis?

**Rajesh Bhatia:**

I will tell you. I think the packaging industry for the last couple of years in India has been subjected to a lot of competition. What happened that given that it is a low entry barrier people thought that this is the fixed way of making money so there was a lot many people to set up their own sort of packaging plans. Now over the years what has happened is a lot of capacity has got created, but eventually when they realized that it is not only about selling a product it is also about selling a culture and the confidence to customer because most of our customer category that we deal in, yes they are interested in lower prices but they also look at your quality, your management, your systems, processes, everything, so they come and check everything all other aspects. Now this actually means that if you are a new investor and you set up a plant and you go to Nestle and say that I want to supply you and I will give you a 10% lower price Nestle will not buy from you. Nestle will have approval thing going on for a couple of years and while capacity got created so people started administering whatever price you sell you just sell, but we have seen that there is a consolidation happening in the industry we see that all the large multinational packaging companies are now there in India except Mondi and there is a consolidation happening, so once that consolidation is through and then all these players are also able to wipe out the other smaller players, I think once the consolidation happens, I see Huhtamaki margin in the packaging business, you see their results where EBITDA margins are between 8% and 10% while across the world the large companies who are working at about not less than 15%, 16% of an EBITDA margin and then their interest costs are still lesser in those territories, which means that effectively the EBITDA margins are much more because they are based on a lower interest cost. So I think that once that consolidation happens the packaging margins will improve again in line with the international standards and then the ROCEs and the other return ratios you will find those in a perfect of health, but yes it might take still more couple of years before this sort of things come up. Packaging business the film business is a pretty straightforward business. So there the returns and the plant investments everything else is more or less known to everybody. So, there is not much of an sort of improvement there given that it is more of a commoditized business. Another thing which we are planning and which we think that will set us apart from others. As of now because of the pandemic there is no focus on sustainability biodegradable and the recycling options, but we have made the substantial showcases in those categories

and I think once this pandemic shout is over, the focus will shift back to more of the recycling and biodegradability of the sales and once those things are triggered on then you are definitely your power because not many people in the world have that capability of sort of recycling as well as we set up. So today in our Noida facility at a small pilot plant we are buying old pet bottles used by all of you for any product categories that, we bring them, we wash them, we sort of clean them and then what we make a resin again out of it. So instead of buying a virgin resin made out of a freshly made PET and MEG today we are using those PET bottles to make a BOPET film. So, these things are being replicated at some of the other plants also we do not talk about these because the capex because they are not very high, the capex they are a relatively very, very small capex. But this recycling even we are recycling in our Noida facility as I showcase if your Lays Chips or you buy any oil, Dhara Oil or you buy anything, all those plastics that we use, we collect them, wash them and then we recycle that to small granules which are used to make any products which can be made for the chair, which can be used from the flower pots, which can be used in the road dividers, there are 50000 other products. So once the focus comes back from pandemic to all these things there are very few companies in the world who have the line of sight in terms of what they need to do to differentiate between the men and the boys, and I think that will clearly stand to lay out in the next couple of years that who has the capacity to showcase recycling and offer biodegradable and recycling of things, I mean, that is going to change the storyline around the packaging and the film's business in a absolutely different way. We all know that there are certain products categories which some of the companies like Sorey and others have and those specialized lines where they have their patents and all that they come out with a much more premium as compared to a normal BOPP and BOPET films which all of us make whether any player whether be it Jindal, SRF, or Mitsubishi anybody else, but these are the specialized kind of a products and the environment friendly which is going to be changing the game for the UFlex in the next couple of years as we come back to the normal level. So those will change these two things once the in India a bit of a more consolidation happening in the packaging industry and then the focus coming back on biodegradability and recyclability will change the whole complexion of the way the packaging returns of are currently good.

**Moderator:** Thank you. The next question is from the line of Harish Kumar Gupta an individual investor. Please go ahead.

**Harish Kumar Gupta:** Can you just tell me like, is there any difference in realization prices right now and whatever



realization prices. It is like product prices have been increased in right now from quarter one realization prices or it is around the same.

**Rajesh Bhatia:** So vis-à-vis quarter one the current margins are as good as or slightly better than the keyword margins like the accrual as I thought it.

**Harish Kumar Gupta:** Basically, you are saying that prices are almost same what you have realized in quarter one?

**Rajesh Bhatia:** I am not saying that. I am saying we are concentrating on the margins only, and I am saying that the margins for the quarter one whatever they are the current margin in the Q2 till date are better than those.

**Harish Kumar Gupta:** Yes, so better means I just want to understand like how much it is better 10%, 20%?

**Rajesh Bhatia:** No, I will not able to share that, I am not able to share that.

**Harish Kumar Gupta:** You do not want to disclose that.

**Rajesh Bhatia:** No, I do not want to disclose that.

**Harish Kumar Gupta:** Okay fine. Another question is like in for example this demand spurt helps because of this pandemic so do you think that some demand will be there for around a year or two or like the demand will be finished after this after a quarter or two?

**Rajesh Bhatia:** See I think the new demand categories which are like handwash and sanitization will become the new norm. Yes, after the pandemic is finished the requirements may not be as large as they were earlier, but still I think this all these will become a way of life. Now during this period there were certain other product categories, there I said that holographic is used and the septic which will reach its full potential because of the pandemic. So they will come back to their normal level, elevated level, there may be some effect on the packaging business per se that the volumes may come down a bit, but still on overall basis we do not think so that there will be a degree in the overall volumes at all rather we think thing that given that the market in India is growing for the package thing it will only grow and people are now more keen to buy packaged products even the vegetables and others the people want to buy so now today nobody talks about the polybag and then we do not buy things without that, so I think consumption levels are going to go up there maybe as it happened during the pandemic

there always there has been a realignment of the product some products are in high demand currently others went down, but still on an overall basis we achieved the 10% volume growth. So similar things will happen in the future also as well. So certain things might go up certain things might go down but be confident that FY2021 we will still achieve the 10% volume growth overall.

**Harish Kumar Gupta:** Right now, what is the scenario like as per your research is there any new capacities are coming in another one year?

**Rajesh Bhatia:** I think two years kind of a thing. Right now, if in next one year there is, so unless there is a bunching of capacity that happens till that time there is no impact on the margins or the demand supply equilibrium position. Now if you have four lines coming at a stretch let us say after two years then yes there will an effect because as a country we are today whatever we are doing we can consume one the kind of growth in volumes that we have currently in our country one line can be consumed each year an earlier lines were having a capacity of about 30000 tonnes. Now a new line which is set up has they normally a capacity of you can say about 4000 tonnes a month which is about 44000 a year so the line capacities are also bigger. So today based on the average growth what we have seen in the last few years one new line for BOPET can be easily sustained because of the demand growth to come yes there is a bit of a overhang of demand and supply, but yes if spike comes, there will be an overhang for some period of time they will not what happened in 2010.

**Harish Kumar Gupta:** Thank you. I am done.

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

**Ayush Jalan:** Good afternoon Sir. Thank for the opportunity. Congratulations once again on the great results. I had two questions. The first question was on the margin front. In the last concall you had mentioned that you would be happy with the blended margin for FY2021 of around 16% seeing Q1 being at around 21% would you feel that these margins were sustained for Q1 or would you see it coming back to the 16 level margin that we were thinking about in the last quarter?

**Rajesh Bhatia:** I think the margins will improve. FY2021 maybe a bit out of a rack for us as well as for

everybody and if the Q1 it may get sustained and Q2 but beyond Q3, Q4 whether it gets sustained, I really do not think so that commodity business can sustain this kind of a margin. So whatever we are projecting in the future also, we are saying that the margins will not be 14%, 15% margins will be around between 17% and 18% but not 21%, 22%, so till the time this good period continues, it continues, but you cannot say that I will build the business on 21% margin. Yes you will build business of 17% to 18% margins that you will because these expansions completed you have a new lease of new legs the latest plant and machinery higher technology you have better product which will fetch you a higher margin coupled with a low overhead distributed over a much larger sort of production volume so the margin will definitely increase on that account.

**Ayush Jalan:** Thank you Sir and my second question was regarding you all had launched a new PPE suit with conjunction with IIT, just wanted to know how the sales are for that or how do you see that going ahead?

**Rajesh Bhatia:** I think I am told that we still have some approval process pending on that and as of now when the government has also allowed the export of that so we are doing, we are evaluating exports, but things do not happen in a day that yes you can do that but we were not there in that category because of this pandemic we just decided to get into this. I think there that business will take a bit of time to sort of come up and by the time so we just have some small equipment ordered on that so we have not got any major which way on that but we thought that with IIT the technological advantage in terms of giving a more breathable output to these COVID warriors it helps them definitely but for that we were not short-sighted on that a small pent-up demand which came during the, because we know that we could not produce during this period. We were creating capabilities to do something on the product side, which on a long-term sustainable basis we could sort of hold so that is the take on that.

**Moderator:** Thank you. The next question is from the line of Akhil Pathania an individual investor. Please go ahead.

**Akhil Pathania:** Congratulations on good set of numbers. My first question is Sir, can you give me the bifurcation for the capacity utilization in India and overseas?

**Rajesh Bhatia:** All plants above 100%.

**Akhil Pathania:** Second question is I think yesterday or two days back European Council has announced tax for those companies producing BOPET films whose plastic phase can cannot be recycled. So what step is our company taking for, if such thing happens in India by our government? So basically, they have introduced a tax of €0.8 per kg as tax for those whose waste cannot be recycled those who are producing those BOPET films, so if something gets introduced here then what is our plan?

**Rajesh Bhatia:** One is I am saying that we are capable of making these recyclable and biodegradable film and if such a thing comes to India that can immensely helps us because that is where when we will be able to and that is what we ultimately want the government to do government should kind of a put sort of enabling environment where it should say that all the plastics that you generate should be recyclable and biodegradable we want the government to do those things only then our initiatives, our investments, our R&D done on these aspects comes to the forefront and the we start monetizing those.

**Akhil Pathania:** That is all from my side.

**Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

**Jayesh Gandhi:** So, congratulations on good set of numbers. I have joined little late, so maybe it is a repetition so I just wanted to understand your Capex plans for two years and are we even thinking of generating free cash flow in say after two years or something like that or we may still continue to do Capex...

**Rajesh Bhatia:** As of now we do not have any other plans other than what we were concluded, but the situations do remain dynamic at all times and very difficult for me to say that, oh, this is the end of it now we will not plan anything else. If there are opportunities still to grow our business still to do better I think we keep on evaluating those opportunities and that is what as a progressive organization you need to do and but if at the moment you speak whatever current we have told you this is what it is as of now

**Jayesh Gandhi:** And sir last question is, what is the rate of interest that we are charged on our debt currently average.

- Rajesh Bhatia:** So, our blended cost of the debt for FY2021 is going to be about 6.7%.
- Jayesh Gandhi:** That is all from my side sir, congratulations for future.
- Moderator:** Thank you. The next question is in the line of Rajendra Shah from Rajendra Shah & Associates. Please go ahead
- Rajendra Shah:** Congratulations for good set of number. I would like to know what about the promoter increasing in the stake which was announced previously whether they are planning for the increasing stake or not.
- Rajesh Bhatia:** No. That was the announcement and that did not happen so that did not happen so that was shelved and there is no flash plan all that part of it. If you do it then there will be a some boost up will come into the confidence of a investor, I think let the market take its own course and if the market sees that the earnings are good the size of the business in number one in India number three globally will become number two globally as a profit player and good handle over the business and these all these things really are short-term jobs which...
- Jayesh Gandhi:** So, we are increasing the debt in line that we should increase our equity stake also know sir.
- Rajesh Bhatia:** Not necessarily.
- Jayesh Gandhi:** See how much then you will keep the leveraging like this way sir.
- Rajesh Bhatia:** No, so the leveraging we are not increasing our necessarily not, leveraging we are saying we have a target beyond which we will not go we will not go more than anything.
- Jayesh Gandhi:** If you want the value essence sir your debt should come down and you will get a ROC or whatever it is there it will take place so it is highly a time to increase the stake by promoter to give the confidence with the undergoing, if you would like to make a QIP or something like that.
- Rajesh Bhatia:** Okay understood.
- Moderator:** Thank you. The next question is from the line of Chirag Singhal from First Water. Please go ahead.

- Chirag Singhal:** So, what was the effective rate overall for FY2020 you mentioned FY2021 will be lower than that so if you can guide on that number of that.
- Rajesh Bhatia:** It was about 8%.
- Chirag Singhal:** effective tax rate.
- Rajesh Bhatia:** Tax rate.
- Chirag Singhal:** Yes.
- Rajesh Bhatia:** Tax rate last year FY2020 was around 23%.
- Chirag Singhal:** And this year you are guiding for. This year for FY2021 you are guiding for.
- Rajesh Bhatia:** About 18%.
- Chirag Singhal:** And on the debt repayment what was the debt repaid in the last quarter that is Q1 and in FY2020.
- Rajesh Bhatia:** One we did not pay any debt.
- Chirag Singhal:** Okay and last year FY2020.
- Rajesh Bhatia:** I do not have that number Chirag. I think last year our gross debts repayment was about overall basis would have been about I think close to about 300 Crores which is there for FY2020.
- Chirag Singhal:** Sir my last question is on the capacity utilization at those three plants wherein in the earlier con calls you have stated that we have not been running at full capacity Mexico, Egypt, and Dubai. So, Mexico you mentioned production to be higher by 28% in Q1, so I just wanted to know the capacity utilization at those three plants in FY2020 and what is it looking right now have you achieved full capacity at all these three plants.
- Rajesh Bhatia:** So Q1 yes, we have achieved Mexico I think would have been 95% I do not have exact numbers with me it gives about 100% all others were already at 100%.

- Chirag Singhal:** Okay, sure that is it for my side. Thank you.
- Moderator:** Thank you. The next question is in the line of Yash Joshi an individual investor. Please go ahead.
- Yash Joshi:** So, my question is pertaining to the aseptic business can you share an update and status on the order of second line.
- Rajesh Bhatia:** Order for the second line, the next fiscal we will do. It will be towards the q4 of this fiscal or next fiscal also, most probably let us take it at Q4 of this fiscal.
- Yash Joshi:** And from it all I am summarizing like there are no any capex plans lined up apart from the commissioning of the Nigerian Hungary plant, is my understanding right on that.
- Rajesh Bhatia:** I have repeated that many times. As of now these are the only capex plan.
- Yash Joshi:** Is there any capex what would be the quantum of amount instead that capitalized for these plants?
- Rajesh Bhatia:** I think each plant roughly cost about \$80 to \$90 million depending on the country and the kind of stuff we are doing so maybe about \$200 million.
- Yash Joshi:** Can you share the contribution of the exports in the overall sales volume?
- Rajesh Bhatia:** Our exports I think they are about 10% of our overall sales. Let me just check if I have that number. I think you can take about we do about \$80 million dollars worth of exports every year from India.
- Moderator:** Thank you. The next question is from the line of Mohit Agarwal from India Capital. Please go ahead.
- Mohit Agarwal:** Just you were discussing a very important point earlier with the participants regarding the sustainability initiative being taken by UFlex you are talking about this will eventually will separate the men from the boys and that is where the severe potential of a big plan like you fix will start reflecting in your return ratios and all that. My only suggestion is that I think this very important initiative which as you said you stress is taking very seriously is not well

communicated enough with the investment fatality I think with that we have the style of investing, you should do a maybe a separate call probably with your sustainability t people who are hieadingthis and explain to them what initiative you are taking and I think that that will induce a lot of new investors especially .

**Rajesh Bhatia:** Understood. I think that that is very well put we surely look forward to doing that we can touch base separately for that also.

**Moderator:** Thank you. The next question is from the line of Gaurav Gupta from Money Quest. Please go ahead.

**Gaurav Gutpa:** Thank you so much for taking my question. Heartiest congratulations on a fantastic set of numbers. I think you answered on the taxation front last year your tax rate was about 33% this year you are presenting it to be almost half at 18% what would cause that up kind of a depth in your tax rates and second was if you can also highlight a little bit on the deferred tax part I think this time there was some component of the deferred tax in Q1 for the rest of the year if you can provide some guidance on that that will be helpful?

**Rajesh Bhatia:** I think I am only trying to say is that the tax rate is lesser because the additional depreciation coming into play some of the other countries have reduced their tax rates America has reduced the tax rates the new capacities coming online and there the tax rates are, so we have some tax holiday on those lines so as a combination of all this we are expecting about the 5% fall in our average tax rate for that I can see that.

**Gaurav Gutpa:** Anything on the deferred tax rate Sir?

**Rajesh Bhatia:** I would not be able to answer that on that call. I will have to take offline.

**Gaurav Gutpa:** Okay and then final question on if at all you have any kind of revenues coming from speciality films?

**Rajesh Bhatia:** No we do speciality films also and that is maybe not as much as, as we should be sort of doing, but definitely we do and the endeavor is that only and that is why this Hungary line the BOPP line with the inline coating and low OTR the metallizer will, is a very high value film which was still they have been done by only a select one or two guys in the world and there is a huge demand for this. So I think we are getting into that speciality but speciality should give



you that contribution also and in the times when the overall business will back, I think speciality does help you and we will also build our capabilities, more capabilities towards the special education.

**Gaurav Gutpa:** So, by end of next year how much percentage of revenues would come from speciality?

**Rajesh Bhatia:** I will not be able to answer.

**Gaurav Gutpa:** Any ballpark?

**Rajesh Bhatia:** I am not be able to give you an answer, I do not have an answer I will just tell you.

**Gaurav Gutpa:** Okay understand and all the best for the rest of the year. Thank you, Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Yusuf Nasrulla for his 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.

**Rajesh Bhatia:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of UFlex limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.