



“UFlex Limited Q4 FY 2021 Earnings Conference Call”
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MODERATOR: **MR. PRASHANT SHARMA – QUANTUM SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY 2021 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 this conference is being recorded. I now hand the conference over to Mr. Prashant Sharma from Quantum Securities. Thank you and over to you, Mr. Sharma.

Prashant Sharma: Thank you, Nirav. On behalf of Quantum Securities, we welcome you all to quarter four FY 2021 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. Sharma, for hosting the call. Good afternoon, everyone, and a very warm welcome to all of you who have joined us today for quarter four earnings call of FY 2021 for UFlex Limited. On call today we have our Group CFO – Mr. Rajesh Bhatia, who will be sharing his assessment of the performance we posted yesterday.

Please note that today's discussions may include predictions, estimates or other information that might be considered forward-looking. While these statements represent our current judgement on what the future holds, they are subject to risks and uncertainties. Thus, you are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinion only on the date of presentation. I would also like to emphasize that the call should not be broadcasted or reproduced in any form or manner. We will open the floor to questions and answers towards the end.

Let me briefly take you through the key highlights:

UFlex rose above the challenges of pandemic to post an exemplary performance in Q4 FY 2021, the number posted yesterday marked the best performance for us as our PAT and EBITDA for the quarter grew by **163%** and 87% year-on-year, while FY21 PAT jumped 128% year on year to 842.9 cr. Total production volume and total sales volume for quarter four increased by 33.7% and 43.5% respectively on year-on-year basis. For the full year 2020-2021, total production volumes stood at 463,065 metric tonnes and total sales volume at 462,418 metric tonnes, both growing at roughly 21% on year-on-year basis.

I would now like to invite Mr. Bhatia to address the participants. Over to you, sir.

Rajesh Bhatia: Thank you, Yusuf. Thank you, Quantum people for organizing this call. I think the numbers are before you, Yusuf also reiterated that for your easy reference. So, the quarter has been stupendous, the few facts which I would like to highlight other than what is already known to you

in terms of the performance numbers, whether it is the sales or production or the revenues or the EBITDA. I think Q4 was challenging in the sense that the raw material prices and availability, both particularly the PP, which is used for manufacturing BOPP films was a bit of a challenge.

The prices also went steeply very high after the first three quarters, which when we saw, the raw material prices in a particular range. So, Q4, we had a 30% price increase for the BOPET raw materials and about 17% for BOPP raw materials. And despite that we achieved these numbers where our EBITDA is up 87% on a Y-o-Y basis, and the PAT is up 163%. So, our total installed capacity of the packaging films after the expansions in Poland, Nigeria, Hungary and Egypt will be about 510,000. So, next year, another expansion which we have announced at our new location in Dharwad and Dubai adds up to about 81,000. So, by FY 2023 end we will have our total production capacity in the film's business of about 600,000 tons, which is an increase of about 75% over what we had at the end of FY 2020.

So, I think important is as to how do we quickly utilize to ramp up the production to reach near the optimum capacity utilization levels. And that's where we feel that in the next three years, even if we look at a reasonable volume growth, we should be looking at about 60% growth in the packaging volumes from here on. We will also in next three years look at about doubling our aseptic packaging business for which we are already going ahead with the expansion of the line to double the capacity. So, the business is good, the margins are pretty decent, I think the challenge is to as to how do we maintain these margins? Yes, the raw material prices went up in Q4 but so did the final product prices. But the more capacity coming up in the subsequent years, at least in India, will check these prices to an extent, but overseas markets are pretty decent at this stage and we don't see much of an issue there in terms of any demand supply mismatches.

Even after you know we had expansions in terms of the Poland, Nigeria, Hungary and Egypt plants which added to our debt. But still if I take it as an FY 2021, the long-term net debt to better is still very healthy at 1.4. And if I take total debt on a net debt basis, including the working capital, that is still under 1.8. So, overall, sort of very healthy financials and we are looking to grow on volumes now that the capacities are available, and that will set the tone for the next three years to come. And we have, as of now, no plans to expand our packaging business where we are looking for more value-added products. But there is no capacity expansion which is currently planned in that business. And the packaging films and aseptic packaging the other two businesses are already before you.

The other ancillary businesses which are, like for us we do make chemicals and adhesives which are used in the packaging industry, which we make cylinders for the packaging, all of them which are not in the mainstream but as a support to the main businesses, but they have also grown big, not only in terms of serving the internal costs but also serving the external customers. And they are also doing good volumes as well as the top-line and they are adding to the profitability of the overall packaging business.

The packaging industry per se still remains under the consolidation phase. And whenever the packaging films prices are up, the packaging industry always have challenges in terms of maintaining their healthy margins, because the price is going up, there's always a lag effect from the customer. But I as I have been advising earlier, the packaging business, the margins still continue to be below our expectations and the consolidation continues over there. And we expect that in the next couple of years that business will also start contributing healthy margins, which today are clearly lacking in that business. And on the other hand, the packaging films business, the margins are much better not only for us, but across the industry as a whole. And that's basically the summary.

So, we have no other new CAPEX plans to announce this quarter other than just Rs. 120 crores expansion of the aseptic packaging business. Others are all sustaining and some normal CAPEX which we keep on incurring in such a huge business. But otherwise other than that, there are no other major CAPEX plans at this stage. And the endeavor in the next two years is to utilize the capacities which we have set up.

Thank you, I think that was a bit of a summary of the performance for FY 2021 and Q4 FY 2021 from my end. I would like to summarize it by saying that on each one of the parameters, whether we take it as the production volumes, the sales volume, the packaging films volume or the packaging volumes or the aseptic packaging volumes or the business performances of each of the overseas locations, the profitability, the EBITDA, the PBT, the PAT, they are the best in the history of UFlex till date. And quarter four revenue gives us the guidance to touch five figure mark top-line in the current financial year and a four figure PAT mark in the current financial year, which means that we are looking at our top-line of over Rs. 10,000 crores and the bottom-line of over Rs. 1,000 crores based on the run rate achieved in Q4 of FY 2021.

So, that's it from me. I would love to answer any of the questions that you may have to give you further explanations or information about whatever I am best capable of. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Jiten Parmar from Aurum Capital.

Jiten Parmar: Congratulations to the UFlex team for superb set of numbers for Q4 as well as for the full year despite the COVID challenges. I have a few questions. Can you tell me what are the spreads for Q4 in BOPET and BOPP? And also what are the current spreads?

Rajesh Bhatia: So, the spreads in the packaging films business, if we look at that business, I think normally we don't give those spreads. So, on overall basis that we have top-line with a spread of about 20% EBITDA margins, the EBITDA margins in the current quarters, I think there will be some adjustment between the BOPET films and the BOPP films. We are seeing some spreads coming down in the BOPET films business, but the BOPP films business spreads are much higher even

as compared to the Q4 of FY 2021. While in the BOPET films business they are marginally lower as compared to Q4 of the last year.

Jiten Parmar: In previous con-calls you have given the spread, but that's okay, this EBITDA margin number is put up. And I must congratulate you that despite all the raw material increase, you have been able to achieve good EBITDA margins.

Rajesh Bhatia: But you can look at the pure play EBITDA margins from our consolidated numbers versus India numbers. So, you will find that India number is only about 15% EBITDA margin, which is largely a packaging play. But overall basis, the EBITDA margins are much healthier at about **20%**

Jiten Parmar: I think the spreads abroad are much higher that's what I get.

Rajesh Bhatia: So, that's what I am saying that the packaging films business spread today, and this is not only for us, if you see SRF or Jindal Poly. Jindal Poly had a spread of about 21.5% in Q4, we see SRF spread being 29% in the packaging films business, this is a standalone number. Polyplex as well as some of the other players also, everybody has maintained a good spread on the packaging films side. None of them are in the packaging business. The only comparable we find in packaging business is Huhtamaki where the spreads EBITDA margins were down 2% during Q4 versus Q4 of FY 2020. So, that's a bit, and Q3 also they had close to about 7%, this quarter it is slightly better. But none of those numbers are anywhere near to the margins today you have in the packaging films business.

Jiten Parmar: So, what was the capacities utilization of aseptic division in Q4?

Rajesh Bhatia: Q4 we had about a little over 80%, and current quarter is above 90%, 92% or so.

Jiten Parmar: Okay. And for full year what is your guidance, would you be able to tell?

Rajesh Bhatia: Full year I think still very early because there are setbacks. And this is the only business where the setbacks in terms of the lock downs and all that cannot be predicted. But yes, for an overall year basis, we were looking at about 80% to 85% utilization.

Jiten Parmar: And would you be kind enough to share what is the EBITDA or, I mean, in this division is it positive?

Rajesh Bhatia: Yes. So, this business today has about 20% EBITDA margins.

Jiten Parmar: Okay. So, I think that's what we started out with, that we want to do 20% EBITDA margins in this business. So, I think we are there, so great. And really happy that finally I think we are doing the capacity expansion in this division.

- Rajesh Bhatia:** In the aseptic packaging, there's a lot of stuff happening on the export front also. So, we are looking at about 30% capacity catering to the export markets as we grow that business.
- Jiten Parmar:** Okay. Sir, what would be our peak debt? You mentioned that Rs. 120 crores CAPEX will be towards Asepto. And you also mentioned that I think you are increasing the capacity by 81,000 tons.
- Rajesh Bhatia:** At Dharwad as well as at Dubai CTP, yes.
- Jiten Parmar:** So, the CAPEX for that, that's not mentioned. So, what that should be about?
- Rajesh Bhatia:** So, we gave that last quarter, I think the total put together will be about Rs. 1,000 crores.
- Jiten Parmar:** So, what would be our peak debt?
- Rajesh Bhatia:** I think as we stand today, if we add this debt over the next two years period, let's say, this Rs. 1,000 crores may be add, let's say, Rs. 700 crores of debt to fund this, during the next two years we would have also repaid about I think Rs. 600 crores of debt also. So, not much of a difference will be there in terms of the peaking, a little bit, 10% from here on if you see at the end of FY 2023.
- Jiten Parmar:** And sir, is there a plan to bring the debt-to-equity below 1, the plan for delivering, when do we see that happening?
- Rajesh Bhatia:** I think in today's market, as I said that when I look at the numbers, just purely on long-term debt basis, the net debt-to-EBITDA is about 1.4, which is very, very healthy. So, I don't see that there is any need to look at deleveraging yourself. So, in a natural way the one that is happening will happen, we will look for opportunities, though to look at lowering our interest costs and all that. So, we will keep on finding those opportunities, whether in India or overseas. But there's nothing that we are looking to deleverage in terms of any pre-payments or anything of that sort.
- Jiten Parmar:** Okay. So, what is the current interest possibly there on this debt?
- Rajesh Bhatia:** So, India debt is close to at about 9% or so, and offshore debt should be at about overall L+3%.
- Jiten Parmar:** And what is the breakup of the debt, I mean, how much of it is India debt and how much is abroad?
- Rajesh Bhatia:** India long-term debt is about Rs. 850 crores, and overseas it is about Rs. 2,400 crores, but there's a cash on the balance sheet of about Rs. 650 crores, so the net debt is about Rs. 2,500 odd crores.

- Jiten Parmar:** Okay. And my final question is on the films packaging division, we are not doing any CAPEX, now what is the capacity utilization at the films packaging division?
- Rajesh Bhatia:** Films packaging division, this year we have actually quarter four, the packaging volumes are up by about 26% on a year-on-year basis. And overall, for the year, I think they are about 14% which is very, very healthy.
- Jiten Parmar:** So, I want to know, when will it come to a percentage where we will want to do a CAPEX for the films packaging division?
- Rajesh Bhatia:** Sorry, I stand corrected, the packaging volume for the whole year is up 17%. And for the quarter it is up 26%. So, I think there in the packaging business what we are looking at is more value added product. And the moment that happens, we believe we can let go some of the low margin business in that and concentrate on the value added. So, that's the strategy as of now because there's no point in adding capacity for something which is not so profitable. So, let the consolidation happen in a natural way and we can still do about 10% to 15% more on our existing capacities in that business. But we will look to substitute the low value business with the higher value added products in that category.
- Moderator:** Thank you. The next question is for line of Mr. Prashant Sharma. Please go ahead.
- Prashant Sharma:** Congratulations on good set of numbers. Sir, I want to know what is the breakup of your CAPEX? Because in last call you said Rs. 850 crores of CAPEX you are going to over the next two years, plus the aseptic package capacity that you are going to add Rs. 120 crores in there.
- Rajesh Bhatia:** So, Rs. 850 crores when we said that was Dharwad expansion, then there is a Dubai expansion that should be about Rs. 150 crores and then there is expansion of aseptic which is about Rs. 120 crores and that's what is anvil at present.
- Prashant Sharma:** And sir, when this capacity is going to come online?
- Rajesh Bhatia:** This will happen by March 2023. It could happen earlier, but I think let's look at March 2023, if we achieve it earlier, that will always be better. But that's the safer target to achieve.
- Prashant Sharma:** Okay. And sir, how much is the revenue that we can expect to generate from these CAPEX?
- Rajesh Bhatia:** So, I think we can look to generate from each of these, in a nutshell, we can look to generate about, total all these everything put together, you can say about Rs. 1,500 crores.
- Prashant Sharma:** And my next question is, if you look at the history of the company, the operating profit margin is something around 12%, 13%, 14% but right now it's going to 20%, 21%. Sir, is it because of the COVID-19 that this is happening? And do you think these kinds of numbers are sustainable in future?

Rajesh Bhatia: See, the margin improvement has largely been in the packaging film business, which has gone through its own cycle after 2010-2011 boom, and then it was languishing for many years, and only after 2016 when the capacity utilization started increasing as people were not adding new capacities, so the capacity utilization across the industry improved to about 80%, 85%. And that's where the margins sort of improved. We saw what happened in 2010-2011, was a euphoria where a lot of capacity got added and the margins got affected a bit. But still to be a conservative side, I think about 2% margin shave off can happen on the packaging films business in the medium run. But we will make up on those numbers by the extra volumes that we will generate as well as on the cost per ton numbers that will go down because of a higher production level.

Moderator: Thank you. The next question is from the line of Deepak Mehta, an individual investor. Please go ahead.

Deepak Mehta: Great set of numbers, sir. Sir, my question is that, due to raw material price increase mainly in crude oil derivatives, what is the path, I mean, how you are passing the cost to the customers?

Rajesh Bhatia: So, this question has come up many times in this industry. So, in this industry, the price increase because of the raw material linked crude price link is almost either instant or with a lag in the packaging business, but it does happen on either side, when the prices go up or when the prices go down. Yes, in FY 2021, because of the pandemic, when initially in the Q1 there was a huge spurt in demand led by people hoarding the food products because of fear of lock downs and all that, that led to a temporary spurt in the demand for the packaging. And while the raw material prices fell, the finished goods prices were higher due to a huge increase in demand. But in the next three quarters that got adjusted, and as I said that in Q4 we saw 30% increase in the raw material prices for the films, about 17% raw material prices for the BOPP films. But despite that, the EBITDA margins for the quarter are still better than the previous quarter margins, which means that you have been able to pass on that price cost impact to your customers.

Deepak Mehta: My last question is, what is the optimum high level EBIT margin? Is it sustainable like 20% plus EBIT kind of margin?

Rajesh Bhatia: I already answered that by saying that, as we stand today, I think we strive to achieve that, driven by additional volumes coming from our aseptic packaging business, and additional capacities in the overseas markets coming into play. We should also expect, in the next couple of years, better margins coming from our core packaging business as such, which is today operating at sub-optimal EBITDA margins numbers. So, overall, one product yielding a few basis point and the other products catching up on that, I think that jugglery should still give us about a 20% EBITDA margin. But even if we shave off a couple of percentage points on the margins, and make up through the higher volumes coming our way, which also brings down our cost of production, we will be glad to accept that kind of a situation as well.

Moderator: Thank you. The next question is from the line of Saurabh Sharma, an individual investor.

- Saurabh Sharma:** Sir, congratulations, first and foremost, on the numbers that have been delivered this quarter. After the little bit of a disappointment of last quarter I believe these numbers, of course, speak volumes about the performance that the team has put in, so congratulations. And hopefully, the company has done well throughout the second wave that has hit the country, and my hope for the best health of everyone of the company at large. So, my question was regarding the Q4 numbers. The other expenses I saw are on the lower side, so could you detail on why that might be?
- Rajesh Bhatia:** So, in the last quarter, we had probably over provisioning of some of the costs, which were at the final set of audited numbers, so that got adjusted a bit and that's why you see some adjustment in the other expenses.
- Saurabh Sharma:** So, are you speaking of the sequential last quarter or the Q4 of last year?
- Rajesh Bhatia:** No, no, I am talking about the sequential quarter.
- Saurabh Sharma:** Okay. But also compared to Q4 of 2020, the other expenses have been controlled quite appreciably.
- Rajesh Bhatia:** So, then on top of that, there are expenses which are not happening today, mostly on account of certain travel costs, certain costs to participate in some of the exhibitions and shows, and all of that in our kind of business where we are in about 140 countries is playing a very, very substantial role in bringing down costs.
- Saurabh Sharma:** And sir, the second question is regarding the Brownfield expansion in Egypt that was completed in this quarter. So, could you just from a recollection mention, when was this Brownfield expansion started?
- Rajesh Bhatia:** I will have to get back separately for that as to when did it started. But probably this was the first one we took and later we had Poland, we had Nigeria, and we had some of the other things that came our way.
- Saurabh Sharma:** So, this Egypt expansion, that was the operationalized in Q4 2021, which is around 42,000 BOPP, right?
- Rajesh Bhatia:** Which is 42,000 BOPP, yes.
- Saurabh Sharma:** And the status of Hungary and Nigeria?
- Rajesh Bhatia:** Hungary and Nigeria are due any moment. Now we have done enough trial runs over there and all that, so that is like any moment in this quarter. We delayed there by at least I think quarter and a half, but that's coming on stream now.

- Saurabh Sharma:** And the new expansion that has been announced in the last two quarters, you just mentioned in an answer to a previous question, that the expected turnover for that is going to be around Rs. 1,500 crores. So, does that mean an asset turnover of around or less than 1.5?
- Rajesh Bhatia:** So, in our business, we have an asset turnover in the packaging films of little over one. So, that's what it is.
- Moderator:** Thank you. The next question is from the line of Mr. Sagar Shah SK Analytics Limited. Please go ahead.
- Sagar Shah:** Actually, I had just one question, actually. First of all, congratulations for a very excellent set of numbers actually, for the Q4 and also for the entire year, actually. Now, the question was that in spite of such a good performance, the dividend payout ratio seems to be on the lower side, actually. So, do you have any plans to increase the dividend payout? And secondly, if this performance continues for FY 2022, and your CAPEX is hardly Rs. 120 crores in your new aseptic packaging plant, so do you have at least some decent plans to reduce your debt so that your finance cost gets reduced, and maybe your ROE would actually get a boost, maybe it will be equal to shareholder value?
- Rajesh Bhatia:** So, I answered that already by saying that we have no plans to accelerate any payments of the debts due, and we will continue to make those payments as and when they are due. Having said that, the dividend, we have increased this year from 20% to 25%. I know from a shareholders perspective, it's a marginal increase, but any such increases further bid will only increase the debt to be taken for completing these projects. And if we give a higher payout, the accruals to be reploughed back into the business would be lesser available, which means that you are adding on only further debt, which is counterproductive to what you said that what are your plans to reduce debt. So, this is also one of the ways that you keep your debt in the check. No plans to prepay any debt, but the CAPEX plans are also as of now frozen, but that's a very evolving thing and maybe a quarter, two quarters, four quarters down the line once you have consolidated your numbers, the management and the board could consider anything further, but nothing as of now.
- Sagar Shah:** But actually your dividend payout ratio, in spite of such a brilliant quarter your dividend payout ratio seems to be on a very lower side.
- Rajesh Bhatia:** I understand the payout ratio is lower, but that was done only keeping in mind the CAPEX that we have planned in the next couple of years, for the Dharwad as well as for the aseptic packaging business.
- Moderator:** Thank you. The next question is from the line of Mr. Chirag Singhal from First Water Capital. Please go ahead.

- Chirag Singhal:** Congratulations on a great set of numbers. Sir, my first question is, like what is the CAPEX for these recycling plants which you were setting up in Mexico and Poland? And also, please quantify what is it going to contribute to the bottom-line?
- Rajesh Bhatia:** So, these CAPEX are not much, they are a couple of million dollars only, maybe \$2 million to \$3 million, not much here and there. But in terms of our readiness to embrace a circular economy in the packaging, I think these are important as a showcase. We eventually don't want to invest in some of those things, because we are actually not the right fit for some of these products. These are more of a showcasing for us to take up with the governments, for us to take up with the other stakeholders that how the plastics menace which is being given a very bad word, how that is to be tackled, there are ways to tackle that. So, this is more from that respect, rather than any investments to show that as your mainstream businesses. But yes, the biodegradable part of the things will be part of our mainstream business. But that's a little while away. And these are more of showcasing opportunities to the government, to the environmentalists, to our customers that what are we capable of in terms of recycling the plastic waste as to handle the plastic waste. Having said that, there are extra realizations when you make a BOPET film from recycling the old PET bottles, there are additional margins available, margins for selling, those films are a bit higher. But the volumes have still to catch up to the extent that the total volumes of that film. But having said that, we don't want to go out and collect those bottles from the rag pickers, others and all that, let somebody else do that business we will only guide others as to how to do that business, and how to make a plastic a circular economy.
- Chirag Singhal:** Understood. That's a great initiative. And now coming on the Asepto expansion. So, sir, if I recollect the number which have given us now and the number which you've guided for in the past, there is a bit deviation. Why is that so?
- Rajesh Bhatia:** I didn't get your thing.
- Chirag Singhal:** Sir, this time for the Asepto function, we have announced the CAPEX Rs. 120 crores, whereas in one of your earlier con-calls, the number was around Rs. 50 crores. So, are we adding something more than what we thought?
- Rajesh Bhatia:** No, we are not adding, some of the other bottlenecking equipment and when you do a project then apart from the hard costs, there are soft costs also like interest during construction, upfront fees that you pay to the lenders for their loans, the manpower cost which goes into setting up those projects and all that. So, all put together, it is the maximum Rs. 120 crores. But if you talk of printing line as such only, I think we gave a guidance earlier that it's about Rs. 60 crores or so, and that remains so.
- Chirag Singhal:** Okay, understood. Sir, one last question. What was the capacity utilization for the Poland facility in Q4?

Rajesh Bhatia: Poland facility in Q4, I don't have that number right now. But it's not fully utilized, the new plant that has come up is not fully utilized. I think we need to ramp up the numbers there which we will do in the current financial year.

Chirag Singhal: Okay. So, we are expecting to ramp it up to 100% by the end of the current financial year?

Rajesh Bhatia: That's the endeavor to do it much earlier, but let's see. We are doing our best on that and pandemic is only helping that, because today if you see the freight rates from India to Europe or elsewhere, they are minimum three acts of what they used to be pre-COVID. So, obviously, which means that the manufacturers who are supplying those films from India, have to incur additional costs, which means that their landed cost there is costlier, which means that there's more opportunities for us to penetrate into some of those customers. Given that, we will be able to derive better margins for those films, what we manufacture in Poland. As well as convince these guys that, look, if you want to be 100% sure that your factories keep on running, I think might as well pay a bit of an extra cost by buying a made in Europe material and no fluctuations of the prices. Because the crude is today X, by the time three months later you get the material it is 20% more or 20% less, so you can manage your inventory and optimize your stock inventory holding cost. So, I think all that will play out over the next couple of years. Till now it was not happening because we were already sold out fully in those jurisdictions, so there was no opportunities like this to convert more customers to buy locally, which is of course happening now.

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

Ayush: Congratulations on a great set of numbers. I actually had a question about the effective packaging line that you all are setting up. You said that you are having demand from exports now, so are you also thinking of setting up anything in Europe?

Rajesh Bhatia: If that would have been there, we would have announced that. As I said, as of now whatever the CAPEX we have announced, other than that there are no plans. But obviously, some of these successes always propel you to think as to what are the new business opportunities, so maybe tomorrow at some stage we may think of doing aseptic packaging business globally, as we do the film business today, globally.

Moderator: Thank you. The next question is from the line of Mr. Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: I wanted to ask about what is happening on the recyclability. The government keeps on talking about reducing the use of plastic and all that. So, what are our thoughts on that? Have we made any progress?

Rajesh Bhatia: So, whatever governments are doing in terms of asking people to lower the use of the plastic or single use plastic, especially the bags, we have seen a very, very poor implementation of that, and this is not happening today, this is happening for the last 15 years or so. But despite the fact, if I see the packaging films business, India for the last so many years is recording a double-digit growth in that. I just shared the packaging business growth with you also this fiscal, it's about 17%. So, whereas while we talk about all this, but are we actually in a position to find an alternate to a packaging, other than the flexible packaging which is primarily using polymers? I think the answer is no. Yes, there will be some product developments which will be plant based and things like that. But the cost effectiveness of that and the scalability, availability, all remains as the best guess. And that is where we say that our product which is a biodegradable film, that we add certain enzymes when we make the films. So, whether I throw a piece of the Lay's Chips pack after eating it by the side of the road, or by the side of the beach, if they become composed after their assigned life cycle, that's going to be the fundamental change, the way the plastics will be perceived. So, all of us, whether we are human, animals, or anything else, have end of a life cycle, but plastic hasn't got it. So, we have found a solution where we have been able to assign end of life solution to the plastic.

The product is at a very advanced stage, we are looking at the government support in terms of making this. You have to enact this, because otherwise when there is a cost involved and the brands may not want to use it, or not use it to that extent, just sometimes what happens is we just do a bit of this to show our care towards the environment and to reduce the noise around. But when we look at the full scale use of that, and the costs associated there with, obviously, we think that that cannot be passed on to the consumer, and that will take a hit on our own margins, so all those decisions are taken in that respect. But what I have been telling you is that recyclability, coupled with biodegradable films is the only solution going forward for giving an end of life to the plastic. And UFlex is in a ready situation for that. The governments are currently overwhelmed by the pandemics, so some of the other things which they were planning on this environment side probably would have taken a backseat. That's giving us more time to still perfect our product offerings, but that's going to be a huge winner for the UFlex and for the plastic industry as a whole.

Recycling stuff, I already said that we will only showcase it. We are not intending to get into that business. But biodegradable, PCR films and all, we will be the pioneers in this.

Jiten Parmar: So, cost wise would it be significant higher cost?

Rajesh Bhatia: You can expect a little bit, around 10% to 15% extra.

Jiten Parmar: 10%, 15% is fine, it's great actually to be honest, I think that's great.

Rajesh Bhatia: But don't hold on to me those numbers because I am not a technical guy. So, initial period there could be demand and supply mismatches, so the cost may be different then. We all know the

electronics, the same electronics 10 years before what was the cost and today what is the cost, including some of the appliances we use it at our home, including the LCD, LED TVs and all that. So, I think those cycles will take their own course. But yes, there will be a cost impact of that, but much less cost impact than today when we look at how do we manage the environmental associated cost with this, or the recycling costs associated with the same. So, if we throw away a plastic or we throw away a cloth and that becomes a biomass at the end of its assigned lifecycle, then you don't need to put a mechanism to collect those waste, to recycle that and then to again send. So, the overall costs if you see, I think they will be still lower than the overall environment management costs.

Jiten Parmar: Absolutely. Great. Thanks for these insights, this great to know. And very happy that the company is always a pioneer in technology and advancements.

Rajesh Bhatia: No, I am saying that, take my word today, this is going to differentiate UFlex from the rest of the industry in the packaging business. In the next five years you will see the kind of impact this one product will have. I have no idea that as to what other competitors are doing on this aspect, but I am suppose that everybody is seized of this challenge and taking this as an opportunity and will have their offerings as well. But UFlex is certainly a front runner in all of this.

Moderator: Thank you very much. This question is from the line of Mr. Prasad Kumar from Invest Research. Please go ahead.

Prasad Kumar: Congrats, Rajesh, for the great set of numbers. We are impressed with the kind of earnings growth that we can see as part of your organization. I have one quick question, while you have partly answered this before, again, on the debt levels, when are you seeing your debt levels may be coming to your lower level from what you have currently? I understand that you don't have any intention to prepay any debt, but do you see that debt getting softening in the next 12 to 24 months?

Rajesh Bhatia: It's not a debt reduction actually which matters to me as a CFO. I think what matters to me is a healthy metrics to debt-to-earnings. And as I said that even as of now, as on 31st of March 2021, when I look at those numbers and I see that my long-term net debt-to-EBITDA is only 1.4, and I haven't realized even 10%, 15% potential of the investments that I made over the last two years in terms of setting these capacities, which added us a debt of about \$300 million. So, I feel very comfortable. Because when I see also the tenor of that debt, it's a long-term debt between 7 to 10 years kind of a period. So, there are no pressures on the on the cash flows of any sort for any sort of that debt servicing. If the ratios remain healthy, in the absolute numbers, debt additions won't be much of an issue for us. We are only looking to maintain a healthy number in terms of our leverage ratio vis-à-vis our earnings. And so long as we are able to solve that, which means that you are able to create a much larger value creation for the shareholders, then what 8% or 9% or even in the foreign entity 4% or 5% debt cost would have been. So, I don't have any intention to look at any of the prepayment, it will happen in the natural course. We will only keep an eye that

our earnings with the sufficient margins are good enough to take care of our debt servicing requirement with a huge comfort, with a huge margin. That's what the whole endeavor is.

Prasad Kumar: Great. And one other quick question, I don't know whether you have covered this. With some of your plans outside India, which has finished the trial run and you also said that there was a delay of quarter and half and stuff. So, with all those capacities coming on, what's the growth that you are looking at for next two, three years?

Rajesh Bhatia: I already said that in terms of our capacities that we have created, or we are going to create, minus the production which we achieved for FY 2021, there has to be at least 60% growth from here on over the next two to three years.

Prasad Kumar: Great. And one last, maybe it's a humble request from an investor point of view. I saw somebody else also raising that in terms of dividend ratio.

Rajesh Bhatia: We will do that once we decide that there is no further CAPEX cycle, we will do that. But as I said that, the higher the payout higher is debt to be taken for funding those expansions. So, it eventually sort of evens out in that respect from a shareholder's perspective. So, what I am saying is, your money with me, I am trying to create more value for you then probably you can create with that, by me giving that money back to you. So, long as I am able to do that, you are all happy with me. If I am unable to do that, then we will look at returning excess money through the dividends, etc.

Moderator: Thank you. The next question is from the line of Mr. Saurabh Sharma, an individual investor.

Saurabh Sharma: So, I had a follow-up to few of the previous participants' questions. Just to confirm, you mentioned that UFlex as a company will be looking at biodegradability, instead of recyclability, did I get that right? So, my question was regarding the materials that you use for your films, is it that you use PTA and MEG to make your own resin and to make your own chips? Or do you buy out chips from the market and process that into films?

Rajesh Bhatia: So, we buy out the chips from the market.

Saurabh Sharma: Great, all right. And with respect to biodegradability versus recyclability, if we can expand?

Rajesh Bhatia: So, we can do a backward integration in terms of buying PTA and MEG from the refineries and set up your own resin plants. I think the larger you are, your dependence on the outside world for the raw materials should actually be a well-balanced approach. But as of now, there are no availability issues, and we are not applying ourselves to that. What we are saying is, after we buy the resin and then we process that to make films, in that process certain enzymes get added while making that film which makes them biodegradable.

Saurabh Sharma: Okay. So, resin remains the same, then only thing that is different is enzyme?

Rajesh Bhatia: No, enzyme is just an add-on. So, the resins are melted, they are hard shaped so they are melted through a process and then it is casted into a film. So, when you melt them along that you will add some enzymes to ensure that the films are biodegradable. Then subsequently there will be development of coatings on the films, on the top layer, on the bottom layer which will add to the biodegradability of those films.

Saurabh Sharma: Okay, all right. And the second question was about the CAPEX on a standalone entity level. I see there has been a significant amount of CAPEX for that matter for the standalone entity. So, could you tell us what was that for?

Rajesh Bhatia: So, that was on setting up some of the recycling facilities last year on doing some modernization at our films plant in India, because they are now about 25 years old plants. And then in any of these size of facility there's a normal CAPEX, then there were opportunities on the packaging, because all of a sudden there was huge requirements for the sanitizers packaging as well as for the liquid soaps packaging. So, those pouches making machines had to be added on an urgent basis. So, all that which you either call it a sustaining CAPEX or you call it incremental CAPEX, which is to just to add to the balancing equipment, like today I may have a higher capacity for the printing, but in terms of making pouches, if I print 100 tons, my pouching capacity may be limited to 20 tons only. But with the sanitizers and with the liquid soaps demand coming in, so we had to increase that capacity of the pouching films to an extent. So, all this CAPEX is towards that.

Saurabh Sharma: Sir, the maintenance CAPEX per year is going to be around what?

Rajesh Bhatia: You can say, across the company about Rs. 150 crores to Rs. 200 crores?

Saurabh Sharma: On a consolidated basis?

Rajesh Bhatia: Yes, on a consolidated basis.

Saurabh Sharma: Great, alright. And the last question is about the promoter thinking, in terms of shareholder returns. I understand your reasoning about the dividends, but I wanted to sort of get a bird's eye view of what the promoters are thinking in terms of increasing their stake. Because of course you would be aware of the NRI position increasing in the company's outstanding share capital. So, is that a friendly takeover? Is the management aware of that? What is the nature? Is that an independent transaction that the management and the promoters have no concern with?

Rajesh Bhatia: See, it is some investors like you who have faith in us, in our business model. I understand that, but the similar investors you had, if you see their track record, they were earlier in some of the competitor companies, but then they exited those companies because they would have found us more interesting, or they would have challenges in some of those businesses. So, I don't know the reason for that, but this is purely an investment perspective. And there are people, today still at this price, if you see the peers in our business in the developed markets, I think they are at a

much higher valuation multiples, then where the Indian films packaging companies are trading at. I see one of our competitors who's looking to divest its business and we see the share price going up substantially over the, over the over the last six months or so. Because the exit valuations on these businesses have to fall in line with what's the global things for this. And we have seen the transactions happening in the global markets in this segment, which is at anywhere between 12 to 14 EBITDA multiples in the packaging business, we have seen them as being acquired by Amcor at that kind of a numbers valuation. So, I think it's eventually somebody believing in a company mean that, yes, I am buying it cheap. But what I am buying is an industry leader, what I am buying into the largest global manufacturer of the BOPET films in the world outside China. And the track record of the management growth, how they have handled their CAPEX project, how they have ramped up their capacity utilization faster, how they are aware of the issues that are cropping up in these industries and how they plan to tackle it. So, I think it's all that they would have considered before investing, continue to invest in our company. That's the only thing I can say. But there is no way that there is any other link to that investment.

Saurabh Sharma: And to get an answer to my Egypt CAPEX initialization data, where can I email sir, to get an answer on that?

Rajesh Bhatia: Yeah. We will get back to you.

Moderator: Thank you. The next question is from the line of Harikanth Reddy, an individual investor. Please go ahead.

Harikanth Reddy: Congrats on a set of good numbers. Sir, actually, last year June was a complete lockdown and this year also partial lockdown was there cross country and across the globe, so what do you think about the overall current financial year and the current quarter?

Rajesh Bhatia: I think I already answered that, I can't be so specific about the immediate quarter or this thing, I think I can do a general guidance as of now based on the capacities that we have created. But overall, I can say, and as I have said that a month or a quarter and all that does not make a huge impact in the life of the organization. But an overall guidance from our side is FY 2022 and beyond. While this may be the best ever achievement in terms of the production sales, and the top-line and the profitability performance, but we are looking to surpass this in FY 2022, and even beyond that.

Moderator: Thank you. The next question is from the line on Mr. Rahul Sony from SMIFS Limited. Please go ahead.

Rahul Sony: Congratulation for the good set of numbers. Sir as you said, the prices of BOPET and BOPP increased by 30% and 17% year-on-year during the quarter.

Rajesh Bhatia: Raw materials for BOPET and BOPP films.

- Rahul Sony:** Okay. So, are you able to pass on this price fully?
- Rajesh Bhatia:** I already answered that by saying that despite this price rise in this quarter, my overall EBITDA margin is still better than what was there in the previous quarter. Which means that, yes, we have been able to get a better value from our customers for this price increase as well.
- Rahul Sony:** Okay. And just one quick clarification from you, your export revenue are included in the India business?
- Rajesh Bhatia:** Yes.
- Moderator:** Thank you very much. I will 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. You may also contact me for further queries. Have a nice day.
- Rajesh Bhatia:** Thanks, everybody on the call and showing such exuberance in asking questions, in being proactive and all that always sort of helps us in terms of being more on the toes and be prepared next time for better answers to some of the questions you may have. And we are absolutely transparent with you in terms of what we plan to do currently, what are our plans, how do we see our business in the immediate future, and the industry challenges and the opportunities. So, we look forward to continued interactions with all of you, and we are happy that if our shareholders are happy.
- Moderator:** Thank you very much. On behalf of UFlex Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.