



"Uflex Limited Q2 FY 2022 Earnings Conference Call"

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**MODERATOR:**

**MR. PRASHANT SHARMA – QUANTUM SECURITIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the UFlex Limited Q2 FY'22 Earnings Conference Call. 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, sir.

**Prashant Sharma:** Thank you, Faizaan. On behalf of Quantum Securities, we welcome you all to Q2 FY'22 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, Mr. Prashant Sharma. Good afternoon, everyone and a festive season greetings. I would like to welcome you all to the Second Quarter FY'22 Earnings Call of UFlex Limited. On the call today we have our Group CFO, Mr. Rajesh Bhatia. Our discussions may include predictions, estimates or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that can 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 revision to these forward-looking statements in light of the new information of future events. I would like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner.

Let me highlight a few achievements in this quarter: UFlex post 36% year-on-year growth in net revenue at Rs.3,036.2 crores in Q2 FY'22. EBITDA at Rs.424.5 crores and PAT at Rs.170.7 crores

We have also commissioned the Greenfield of 45,000 MTA production capacity of our BOPET film manufacturing plant in Nigeria.

Let me now hand over the call to Mr. Bhatia to throw some information on the quarter that's under review. Over to you, sir.

**Rajesh Bhatia:**

Thank you, gentlemen for taking your time out today in this festive season. First of all, a very warm wishes to all of you on the call for the Diwali and Karma, Govardhan Puja, Bhai Dooj for all the festivities.

I know it's a bit tough for everybody to be taking time out of their schedules now and get on to this call. Because we didn't want to delay it any further after the results are there, so we just thought that we will go ahead with this concall and present our views on the highlights of the quarterly summary.

Yes, as my colleague said that we achieved 36% almost top line increase which is followed by 31.5% volume increase as well. So as we've been saying that the capacity being available from the newly commissioned capacities is now helping us in this buoyant market from the demand perspective.

Happy to say that except Nigeria all our newly installed capacities are now working at their full level of capacities in this quarter and post this quarter also they continue to work at much higher capacity utilization levels. As we come out of their warranty periods, yes, the speeds for the machines will be increased and there'll be more throughput available for us to take but as of now what we have achieved is the rated capacity given to us by the suppliers in respect of all the plants except Nigeria. Nigeria is also operating at a high capacity utilization levels, about 70% or so but I think for Nigeria to come to a 100% level may take a quarter or maximum quarter and a half to two because there are some logistical challenges over there which are resulting in some of the bottlenecks in terms of the logistics management. So we'll be sorting that out. So it's not a machine or a demand problem, it's more of a logistics issues in Nigeria which has kept the utilization levels at a slightly lower level, but I'm hopeful that next one or two quarters at the best we will overcome those hurdles and we'll start utilizing the full capacity because the demand side both

on BOPP as well as on the BOPET continues to be very strong, you would have seen, otherwise 36% year-on-year volume growth and even if we see on a QoQ growth also we are at about 10%. This is the first time ever that we crossed Rs.3,000 crores revenue mark in a quarter and we expect that we should be doing it consistently throughout the rest of the quarters in this year and subsequently.

Another highlight for this quarter is a constant increase in the raw material prices, constant increase in the shipping cost and some impact on the energy costs. So as a result of that the margins have been affected a bit. In any case as I've been saying earlier that at a higher crude prices the margins would even otherwise get infected because the top line addition does not necessarily mean that you are maintaining the same margins. So your margins are more or less fixed at a dollar per ton or dollar per kg whatever way you take it and obviously when the input prices are higher and your margins are fixed largely in the dollars per ton or per kg number so they will look a bit subdued in the context of when you say the EBITDA margins to the sales. So if we negate that impact and all that, still the EBITDA margins are lower but they are low basically because of only one thing that a constant increase in the raw material price is good for the PET, the BOPP region as well as for the BOPP, Homo-Polymer.

Just to give you an idea, in India, for the fact reason we had almost close to about 70% increase in the cost of the raw material as compared to what on a year-on-year basis and there has been a quarter-on-quarter increases also, Homo-Polymer cost has gone up by about 30% on a year-on-year basis. And similarly across all our offshore facilities also the PET resin prices which are used in the BOPET films has gone up on the average by about 40% and Homo-Polymer is used only in Egypt and now in Hungary. So again there is a the firmness of the prices all throughout. And this time the firmness in the prices have also been more consistent like if you have a price now and then the next month it will be different but know the trend in the quarter has been that there have been frequent changes which actually means that the stronger the order book position that you are sitting on and I have said that demand momentum was very high. So to service the same order you are then buying the raw

material at a higher cost. So while from the sales team it looks good that you're sitting on such a huge order book but in a constantly, continuously rising raw material prices probably that is a bit counterproductive because you still continue to serve those orders at the higher input prices but this is I would say an aberration and I don't think so this would be there beyond one or two quarters including the previous one. So once the stability returns on the pricing obviously the margin profile will definitely improve. Heartening is the revenue profile which is both volumes of about 31.5% and value of about 36% and that's what is the highlight for the quarter.

And not only that in some of the other businesses also which are ancillary to our packaging business like chemicals business which comprises of inks, adhesives and other stuff, so there also the impact of the raw material prices over the previous year has been pretty hard and so much so that the prices have gone up for the various items from 25% to almost about 100%. The strong order book position has only worked on the wrong side for us in this quarter and when I look at some of the competitor results which are out or whether we call it SRF they've also reported huge fall in EBITDA margins from roughly about 36% to about 20% on a standalone basis and about 35% to 21% for the quarter. So, some of the other competitors who are there in the BOPP films, their performance has been better because the BOPP price, raw material rise has been much less as compared to the PET is, raisin price hike as I explained and know the BOPP also demand side continues to be extremely, extremely strong at this point in time.

So yes the advantages are that you have found a customer much earlier than what you had expected from your expansion projects, but yes, the margin profile till the last quarter was good. This quarter has been frequent changes in raw material with a strong order book position which didn't help the cause but hopefully October is much better as compared to the whole of the last quarter and hopefully that will help us translate into better numbers.

There is positive news that India Ratings has been rating the company now for many years, they have given us a Two-Notch Upgrade and our credit rating now stands at AA- level, same as some of our competitors who were always two

notches higher than us because of the smaller balance sheet profile but I think we've been able to break that barrier now with them by showing such an exemplary performance that whatever was created in the last one year almost stands fully sold out. So that's where they've seen a strong business growth and have upgraded us by two notches to AA-. That's another feature for the quarter.

Nothing much to say on any of the other stuff because there is no new expansion, there is nothing much else happening, as and when we have anything on that, obviously, we do come back to you, announce that whatever is required statutorily, but both India expansion of our Aseptic Packaging is on schedule, our expansion in Dharwad for BOPET films as well as CPP films is on target and our expansion in Dubai for the CPP films is again on the target. And we continue to make strides there.

Packaging business per se we would say has been a kind of not so good performance that the kind of volumes we wanted to have there, we not able to show that kind of a performance in that segment. And that's why you see that there is no expansion of a business over there. And I saw for the second successive quarter loss reported by one of the major competitors in the flexible packaging business which clearly demonstrates that this is a particular business segment which is clearly because of the demand and supply mismatch but while we can take more tonnage, we don't want to be doing the things at the prices which are just to undercut somebody or just to get a higher capacity utilization levels and all that. So we've taken that call and we said that look, we are not going to be getting into the mad race of cutting down the prices and winning the order somehow. We want to do more of a value-added stuff and some of the higher margins business which others do not have because of their infrastructure limitations. So we are happy doing that till the time we have this demand/supply equilibrium sorting out and hopefully that business will also start to generate higher margins in the quarters to come. After the completion of the Dharwad project, our total BOPET capacity should be close to about 400,000, our BOPP capacity is now about 150,000 and after

the expansion of CPP, we should be close to about 50,000 tons CPP both India, Egypt and Dubai at three locations.

There has been some reduction of debt in this quarter; the term loans have been paid so whatever is the structured repayment profile of those facilities they are being paid according to that amortization schedule. That's in nutshell what explains about the quarter and happy to have any questions that you guys may have.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Yash Dhantavadiya from Maruti Securities. Please go ahead.

**Yash Dhantavadiya:** So, I just have a couple of questions. I would also like to understand the revenue on the operating loss from Nigeria facility. Also, since you are doubling your Aseptic Packaging production capabilities, I want to understand what was this quarter's revenue from the Aseptic Packaging and the EBITDA from aseptic packaging? And also why haven't we been able to pass on our rising input cost onto our clients and will be able to do so in the coming quarters if the input cost stay wherever they are from this quarter onwards? Also, the order book and the debt level, when can we expect it to stabilize and start coming down?

**Rajesh Bhatia:** On Nigeria, I can only give you the capacity utilization levels and information that it's an EBITDA positive in this quarter and the capacity utilization level has been around 70% this quarter for the Nigeria business.

**Yash Dhantavadiya:** Can I know what percentage of revenue comes from the Nigeria facility because you've invested \$100 million, right?

**Rajesh Bhatia:** I don't think so that number is available with me right now. In any case we don't disclose in the quarterly that much of a number but as I said in a one quarter or maximum two quarters there also we will be operating at a full capacity utilization level. So I think you can very well know that what kind of a number the top line we are talking about over there. On the Aseptic Packaging, this is not a peak quarter, the peak quarter for them is normally January, February, March, April, May, June. This is probably a bit lower quarter than that but this time the second quarter for them was...just one second.

**Yash Dhantavadiya:** I would just like to understand the revenue and EBITDA from Aseptic Packaging since you are doubling the capacity here, I can come to an assumption of what kind of growth you see when the capacity...?

**Rajesh Bhatia:** We said that we are looking at about 20% margins over there. So as compared to the Q1 where we had the capacity utilization of about 93% from that business, this quarter we had about 87%.

**Yash Dhantavadiya:** So we are doubling our capacity, right. So I just wanted to understand what percentage of our revenue comes from the Aseptic Packaging if you can give me a number?

**Rajesh Bhatia:** I'll not be able to share that right now but offline we can probably do that. Aseptic packaging business also, you have to take it that, whenever we talk of numbers there we need to take into account the peaking capacity. And as I said peaking happens from January to June which is the summer period and as the rains and other things....

**Yash Dhantavadiya:** I am just trying to understand the size of the Aseptic Packaging unit in terms of your company size, what percentage of your revenue comes from Aseptic Packaging and since you're doubling the capacity what kind of revenues do we see in the coming year?

**Rajesh Bhatia:** So I think at a current capacity of 3.5 billion packs we can look at about Rs.600 crores of the top line from that business yearly.

**Yash Dhantavadiya:** If the rising input cost stabilized here, will we be able to pass it on to our clients from the next quarter onwards?

**Rajesh Bhatia:** We are passing on the rising cost to the clients but what happens is if you take an order today and you have to service that in 30 days' time and 30 days' time there are four price rises. So obviously you will always lag behind in terms of passing on to that. Yes, because of the strong demand side, it's not very challenging to pass on those costs to the customer but because of this frequent changes the lag effect has increased a bit in this quarter. So what we are doing is now we are restricting the order book to a much lesser period than



we earlier used to do so that we know that if we were earlier taking 30 to 60 days kind of orders also, so now we love to do only about a week, 10 days kind of an ordering so that we know that as to what are we committing ourselves to.

**Yash Dhantavadiya:** Do we not have any way of hedging our input cost?

**Rajesh Bhatia:** No, we don't have.

**Yash Dhantavadiya:** I would just like to know the current cash and the current debt level?

**Rajesh Bhatia:** So as on 30th September the term debt is about Rs.3,165 crores and the working capital has gone up a bit because as I said that there has been an increase in the raw material prices which means more working capital is ...but still on a net current assets basis we manage it well by having incremental liabilities also. So overall the net impact of the working capital is within 100 crores only, but obviously the working capital whatever are the cash earnings from the business we've deployed in the working capital and we have tried to bring the working capital levels down to as less as possible. So today if on an overall basis we talk about I think not more than 40% of our working capital facilities are used on a company-wide basis, so there is enough liquidity both in terms of your higher utilization of the working capital possible. And also, there are no opportunities to lower your working capital. So we keep on investing money in the very short-term maturity government securities....

**Yash Dhantavadiya:** That's why I like to get your cash and cash equivalents on your books other than the working capital that you've invested into short-term and long-term debt instruments?

**Rajesh Bhatia:** We have to give you that offline.

**Yash Dhantavadiya:** Also, what is our interest cost right now if you can give me a figure or in terms of percentage?

**Rajesh Bhatia:** What we borrowed in India are sub-7% and in foreign it depends on the jurisdiction-to-jurisdiction but again very competitive at not more than lag of plus-2%.

- Yash Dhantavadiya:** So after we got ratings upgrade, are we expecting the cost to come down?
- Rajesh Bhatia:** Definitely.
- Yash Dhantavadiya:** Going ahead, what kind of margins are we projecting from this quarter onwards, can you give me a figure?
- Rajesh Bhatia:** Very difficult to predict at this point in time. I can say October is much better than the previous quarter.
- Moderator:** The next question is from the line of Prashant Sharma from Quantum Securities. Please go ahead.
- Prashant Sharma:** Sir, in your press release you have said that the high raw material prices, shipping and energy cost led to the decline in margin. Sir, this is regarding the shipping cost. Are you facing any difficulty in procuring the raw material and how much of your raw material is imported right now?
- Rajesh Bhatia:** So in India we import Homo-Polymer which is used in the BOPP. Across other locations also there is some shipping involved both from a raw material as well as for your material being sold in the different jurisdictions like if Egypt is exporting to Europe or some of the other countries are exporting into America I think the shipping cost everywhere is affected both for the prices, increase on a YoY basis is at least 5-6x there also and this quarter also there has been no respite from increasing shipping costs. So everything is sort of adding on to the Cost. And as we cross the industry this quarter that the cost inflation has affected everybody in this. Again in our industry as I said that the demand momentum was strong and we were able to pass on the costs. So it's not that we are not able to pass on the cost. I do it today and by the time I go to the market again if there is a rise again, then the orders which I have already taken I can't renegotiate prices on that, no, those still have to be serviced So that's the only thing. So hopefully that's a passing thing in the last quarter only and there are the price rises are not so frequent. If we have a monthly sort of a price rise, it's easier much easier to handle rather than a weekly price rises.

**Prashant Sharma:** And we have ample inventory sir so we do not lose any sales due to the shipping issues that the world is facing right now?

**Rajesh Bhatia:** No, we're not losing any terms to that so far, but the raw material availability continues to be tight and as we said on an earlier call our global footprint gives us that flexibility that we can move material from any part of the world to wherever there is a deficiency. Yes, today, that will come at a slightly higher cost that flexibility will cost you slightly higher but will ensure that your fire is burning.

**Prashant Sharma:** See, our sales volume went up by 31.5% whereas the net revenue was up by 36%, so there is an increase in realization. So what do you attribute to this increase in realization?

**Rajesh Bhatia:** Cost increases.

**Prashant Sharma:** There's no favorable revenue mix that we have?

**Rajesh Bhatia:** The margins were healthy only in the previous quarters also. So I think when the raw material prices started going up, the selling prices had still a lot of catching to do. So typically what happens in an industry is when the raw material prices start to rise, people just don't start passing on those prices to the market immediately, they wait for a fortnight or so before those prices are passed on but in our industry given the strong demand momentum we were able to do that almost instantaneously. But what hurt us was a constant increase in the raw material prices and not by increasing the raw materials.

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

**Saurabh Sharma:** Coming to the first question of mine, congratulations by the way on the volume increase, it's quite commendable how the capacities have been ramped up but the raw material increase was expected I believe in the result but what really set off the decline in stock price yesterday on a trading day no less first of all was I believe the other expenses and they have been a point of contention for quite some time now sir even in the last September '20 quarter there was there

was a write-off I believe of about Rs.100 crores, there was receivables write-off and there was some recoverable write-off combined of Rs.100 crores. Despite of that write off in YoY quarter, the other expenses have gone up quite substantially around 10% and if you take out the effect of that write-off in the September '20 quarter the other expenses have gone up by 50% and that I believe is the core of the matter. Could you please explain why these other expenses have gone up so much? Shipping should not be a major problem for a company like UFlex primarily because one of our USP is that you are closer to customers. So compared to competitors your shipping costs should not be affecting UFlex's particularly as much...?

**Rajesh Bhatia:** Other expenses increase if I see correctly last quarter versus this quarter they are in line with our revenue...

**Saurabh Sharma:** Last quarter there were exceptional expenses for Nigeria plant, there were some EBITDA losses and they were included in other expenses as you had explained in the conference call.

**Rajesh Bhatia:** No-no-no, EBITDA losses are never included in other expenses, but the other expenses of Rs.341 crores in the last quarter and Rs.392 crores in the current quarter, they are in line with the increased volumes and the increased revenues of the company.

**Saurabh Sharma:** If I look at the other expenses of the March quarter, in which the production was almost 125,000 tons you look at other expenses of March quarter they were at 288 and they're at 392 right now. I mean I have the results right in front of me.

**Rajesh Bhatia:** So the message that I am giving you is that there is there is no cause for concern for us on any of the expenses side other than the raw material cost and the shipping cost. All other expenses are well within control and there is nothing that is raises their eyebrows from a management perspective for any of these.

**Saurabh Sharma:** In a nutshell, you're saying that there are no one-time expenses for this quarter and same level of expense is expected to carry forward from here on?

- Rajesh Bhatia:** Yes. There are no one-offs.
- Saurabh Sharma:** So does that mean your EBITDA expectation, your PAT expectation which you had outlined at the beginning of this financial year, you had outlined around 10,000 crores revenue which probably is going to be accomplished but you'd also said Rs.1,000 crores PAT number, that is going to be difficult to achieve?
- Rajesh Bhatia:** So very difficult to say at this point in time. I think the Rs.1,000 crores we never guided anybody to that. I think we've always talked about EBITDA, PAT that is for you today, but even if I look at the first two quarters if you are looking at about Rs.435 crores, I think there is still ways to catch up Rs.2,000 crores I don't think there is anything will be far off on that number.
- Saurabh Sharma:** My second question is about the balance sheet. So in the balance sheet for this quarter there is an increase in current assets and a substantial increase in receivables and inventories is understood because of the new plant and new capacities coming online but there's an increase of Rs.200 crores in other current assets and going back in the past of UFlex there have been these property investments, the Utech developers transaction that was made. I wanted to ensure that this other financial asset increase of Rs.200-odd crores, it's there in the cash flow also, there is a Rs.258 crores negative cash flow for other current financial assets. So what is this comprising of? This number has actually increased by substantially over the past 18 months now. It started at around...
- Rajesh Bhatia:** As I said on a YoY basis, there's a 70% cost increase in your input cost, there is a 30% cost increase in the BOPP. So obviously the working capital deployment has increased, but when I see on the net current assets deployment as a whole I think we are on that basis within 100 crores number when I see the net working capital deployment. There are no other investments into any of the non-related business or any loans and advances to anybody. There may be some investments in some of our businesses for any short-term instruments that they may have made in Egypt like there're about \$20 million invested in some treasury bills issued by the Government of Egypt, but that is more as a liquidity management thing and not as any long-term strategic investment. So

as and when they require liquidity, they will offload... they will sell off those bonds and realize their working capital.

**Saurabh Sharma:** On the debt servicing front, I realize your rating has been upgraded to AA-. That will only affect the interest cost for India. Your interest cost abroad of course going to the NIM to say, is that?

**Rajesh Bhatia:** No, not going to impact the interest cost abroad.

**Saurabh Sharma:** Most of our debt is outside?

**Rajesh Bhatia:** No, India also we have term debt of close to about Rs.900 crores and then there is a working capital of Rs.400 crores. I think those will get better priced.

**Saurabh Sharma:** So the 7% that you mentioned that is after the AA- re-rating?

**Rajesh Bhatia:** No-no that was before that. AA- is only last one week.

**Saurabh Sharma:** But on the debt servicing front do you see UFlex being comfortable going forward because your EBITDA has reduced now, being a CFO you would of course want to plan for contingencies and further anything can happen really with the raw material prices, other costs also, so are there any contingency plans for debt servicing because in terms of comfort for the company there's enough

**Rajesh Bhatia:** There's enough comfort. Undrawn line as well as the liquidity would today sit on more than 1,000 crores cash, there are absolutely no issues.

**Saurabh Sharma:** UFlex has increased its capacity by around 40,000 MT per quarter. So that amounts to around four lines in a year and all of them have come up under operation in the past one year. We've seen in BOPP things have not been affected up by as much as in BOPET. Do you believe that all of the additional capacity that the UFlex has put up that has been weighing on the margins and that is actually the reason why the PET film margins have been low and if let's say you were to go slow on capacity utilization if you do not too flood the market with product at the present moment but if you were to stagger your

production increases over a few quarters this impact on PET film prices is going to be lessened because...?

**Rajesh Bhatia:** Whatever expansion we have done on the BOPP side, the same numbers we had done on the PET side also. It's not that PET is more and the other one is less, it's the same. We are more known for PET rather than for BOPP internationally because before this expansion we had just one line in Egypt for our BOPP business but with the new line in Hungary and Egypt expansion, so it's the BOPP capacity which got added and obviously because we were known more for our PET play rather than a BOPP play. What has been admirable is that you've sold out those additional BOPP capacity so fast. Yes, the market has also supported us but still in terms of making new customers and everything, things take time but fortunately buying market has helped us and both the plants today are operating at their full capacity levels. On the PET side we just added two lines; one in Nigeria and another in Poland. I don't think so we flooded the market more than... So I really don't think so there is anything.

**Saurabh Sharma:** In FY'23 there are quite a few capacity additions including your own but how many capacity additions in at least in the next 12 months?

**Rajesh Bhatia:** This year it does not look... there will be any challenges but yes next year you will have some of the new capacities coming in but unfortunately or fortunately the raw material side is also getting tight. So, for some of these new capacities as we stand today tying up the raw material is not going to be very easy. We have to wait and watch and see as to what happens but raw material even availability is the kind of new dimension that we achieved.

**Saurabh Sharma:** So with regard to the difference in prices between BOPP and BOPET films we've seen that BOPET films are actually now more comparable in price to BOPP while traditionally BOPP is cheaper. So is there a possibility of replacement of BOPP users being met with BOPET users because of pricing?

**Rajesh Bhatia:** That still takes a longer timeframe because some of the large companies for changing their structure for them it's a bit long drawn process and not so easy, right.

**Saurabh Sharma:** But it is possible if there is a long-term structural scenario?

**Rajesh Bhatia:** Yes, people do switch over.

**Moderator:** The next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

**Kaushik Poddar:** So far your investment has mostly been in big capacity and all these things. Now every quarter you come out with another press release saying that these are the new innovations you have carried out in various kind of packaging type of things. In the last quarter for example along with the press release about the opportunities and there is one more press release about Aseptic Packaging. So can we take it that from now onwards your focus will more be on such kind of innovative packaging products which can hopefully give you higher margin rather than on putting up capacity?

**Rajesh Bhatia:** Both the things go simultaneously. We have to be innovative in our business, there's no doubt about that, we have to be ahead of the competition and that is where your customer also respects you and he does not think that you the kind of the company who will only... so they know that they can turn up to you in case of any contingencies and the availability of a particular material, particular structure and all that. I think both are two separate things. As you would have seen now if this capacity expansion was not there, we would not have been looking at 3,000 crores top line number and a much higher absolute amount of profitability both on EBITDA and PAT side. I had earlier also said that at some point in time the capacity catch up will happen in this business, the margins will come down but our new capacity expansions and the revenues will actually compensate us to ensure that our absolute numbers on the profitability remains intact and I think over the next couple of years we will see more instances of those things happening as the market stabilize as the higher margins in the PET or the BOPP industry are normalized with the new expansions, with the new capacities coming in. So that that has been the whole objective. Our innovation is not a substitute for the capacity expansion and also the vice versa. Innovation is a constant thing that we keep on doing.



- Kaushik Poddar:** In aseptic packaging, are you the only people in the Indian market?
- Rajesh Bhatia:** We are the only two manufacturers in tetra pack in India market. There are other people who import it from China also.
- Kaushik Poddar:** As there are two manufacturers, is the margin higher in Aseptic Packaging than in other packaging?
- Rajesh Bhatia:** Yes, currently the margins in Aseptic Packaging are much better as compared to flexible packaging.
- Kaushik Poddar:** Your capacity is being doubled for example 3.5 billion to 7 billion which is Rs.700 crores. When do you hope to attain say 80%, 90% capacity of the expanded I mean it is coming on stream probably end of this fiscal, right?
- Rajesh Bhatia:** It might take about 12 to 24 months' time after it comes into production.
- Kaushik Poddar:** When it is coming into production?
- Rajesh Bhatia:** Should be in the next June quarter.
- Kaushik Poddar:** My last question is on your debt profile. See your debt is right now around Rs.3,165 crores as you said term debt. How do you see it at the year end and how do you see at the end of next year?
- Rajesh Bhatia:** We would generally have about 400-450 crores of repayment each year.
- Kaushik Poddar:** Which is roughly equivalent to your depreciation, right?
- Rajesh Bhatia:** Yes.
- Moderator:** The next question is from the line of Kamaljeet, individual investor. Please go ahead.
- Kamaljeet:** What is the plant utilization in India-based plants as well as overseas plants right now from last year to as on date?

**Rajesh Bhatia:** So as I said all are at hundred 100% except Nigeria which was at about 70% last quarter.

**Kamaljeet:** Last year also in the same period, what was the plant utilization capacity?

**Rajesh Bhatia:** I don't have that number before me.

**Kamaljeet:** Your inventory versus your sales at what level management will be comfortable in the sense, has inventory been increased and you are taking proactive measures?

**Rajesh Bhatia:** So inventory increases because of the increase in the price level. It's not because of increase in tonnage at all.

**Kamaljeet:** Like even though plant is 100% in use and we are increasing the inventory level?

**Rajesh Bhatia:** No, see, when the plant is utilized more, obviously your inventory level for the WIP as well as for the raw material for the WIP and also for the finished goods and also receivables, everything will get inflated no, because then you are utilizing the plant to the maximum, so you need more raw material, you need more finish stock and you need more customer receivables. So everything sort of is expected to go up when you are operating the plant at a higher level. But as I said that the incremental working capital deployment in this quarter has been mainly on account of the raw materials price increase which affects that and which affects everything, even your receivables will go up now because the price rise will impact your receivables also, but as I said that net impact of that increase has been less than Rs.100 crores for us.

**Kamaljeet:** My next question is how much we are spending on the R&D expenditure?

**Rajesh Bhatia:** Again, a question to be taken offline

**Kamaljeet:** Any patent in queue right now or it is already taken?

**Rajesh Bhatia:** Nothing. We will announce to the markets as and when it happens. Very difficult to give a very premature information. Even if we are working on some of those things, it will be difficult to share.

**Kamaljeet:** What is management's strategic view from a market valuation of the company like there are good products of the company and but a market still not giving the valuation what is required to be, so what management doing at strategic level like what is marketing or anything or any discussion with us like investor community what are the steps management is taking care of?

**Rajesh Bhatia:** We're busy in ensuring that we are the most efficient player in the market to run the business. We feel that it's for the market forces to take note of this that how is our performance in comparison to the other peers, take note of that and we will find opportunities or else or some other competitors. I think we've left it to the market forces largely to take care of that. Yes, as we told you on a governance side now we have for the last three years EY as our internal auditor, now BDO is a statutory auditor, joint statutory auditor also. So from our side whatever we can do in terms of a better governance we are doing that coupled with our performance on the business side. Rest is for the market to take note of that and I think in the last 1, 1.5-years we've done reasonably well in terms of the stock price performance, still not happy with the level at which the stock is and the multiples are still much lower but I think it's up to you guys to have faith in us and stay invested and even look at allocating more to an industry leader which is the global industry, we are a global industry leader not only a local or a regional industry leader. So I think once you're doing the things the right way the world will find you and give value at some point in time which has happened partially in the last year, year and a half but will happen much better in the next few years to come.

**Kamaljeet:** Like power and fuel, the cost has been increased; 20% to 30%. So it is only India-related increase in cost or it is globally?

**Rajesh Bhatia:** No, it is globally also the costs are increasing everywhere. So, whatever we could do we are going to take care of that. In Mexico we've now recently started our own captive plant. In Russia also now we've started our own

captive power generation. So obviously these things will come handy in terms of the cost but in some of the other jurisdictions it may not be possible to sort of do that. So we'll have to then take that into our stride but yes, the impact of the shipping and the energy cost has been not only in India but globally also.

**Kamaljeet:** Last year as well as this year, whatever the annual reporting you have released, format of the accounting statement has been changed in the sense of migration, some consultancy has been taken, some mechanisms on basis organization is working. So may I get some input in your annual report?

**Rajesh Bhatia:** I am not too sure of that unless that is statutory required.

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

**Chirag Singhal:** Now the first question is on the status of the ongoing expansion which is the...

**Rajesh Bhatia:** I just like to make one correction here; Nigeria capacity level was not 70% but it is 56% for Q2 FY'22.

**Chirag Singhal:** And current capacity utilization?

**Rajesh Bhatia:** I think should be around 75%, 77%.

**Chirag Singhal:** On the ASEPTO, Dubai and Dharwad, so what are the tentative start dates for all the three expansions?

**Rajesh Bhatia:** I don't remember as of now, but I think around the same time next year we should have Dharwad up and running. ASEPTO will have commencement in the next fiscal, that's it. Dubai line, almost at the same time as India so it takes the same amount of time.

**Chirag Singhal:** Coming to the production numbers, we recorded a production of 125,000 tons approximately and we sold close to 122,000 tons of packaging films during the quarter. Now I was just trying to reconcile this with the production across all our plants given that we are running at full capacity including the expansions. So just wanted to understand that this 122,000-odd tons of sales volume, does

this include the entire film sales of India or this excludes the captive consumption and only includes the external sales?

**Rajesh Bhatia:** Whatever sales number we are reporting, they are only external sales.

**Chirag Singhal:** So then I'm getting a difference, so if I take like 100% capacity utilization for all the plants for all the rated capacity and slightly higher for US, Mexico and Poland because we are running at more than 100% in those three plants, so total comes a little lower than the sales volume. So did we have some sort of inventory sales in the quarter like the production that we would have done in the previous quarter and sold in the current quarter?

**Rajesh Bhatia:** In offline, we will do reconciliation, our team can help you with that answering. Whatever the revenue is reported 3,000 crores, that is net off.

**Chirag Singhal:** I was asking on the volume front. I will take it offline. Now, coming to the increase in raw material prices, so you gave a detail explanation on how things pan out and the time lag that happens for the pass-through. So in the current quarter how are you seeing spreads, are you seeing that the spreads are better than the previous quarter, are you able to...?

**Rajesh Bhatia:** This quarter is much better than last quarter.

**Chirag Singhal:** So we are able to sort of pass through the increase in raw material prices by taking price action in the BOPP assets?

**Rajesh Bhatia:** I think from last quarter to so far it is better across all the businesses, not only India.

**Chirag Singhal:** On the specialty side, so like domestic peers let's say Cosmo so they kind of give the split between the specialty and the commodity, similarly even Polyplex is giving the split between the specialty and commodity. So just wanted to understand at least for the past two to three quarters what is the likely trend we are having in terms of the split between specialty and commodity and what is the target that we have set internally because now we have...

**Rajesh Bhatia:** I think we'll also have to take this also offline in terms of the specialty and commodity split.

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

**Saurabh Sharma:** My question was about the selling price per se of BOPET films. So the selling price would have gone up after the end of the September quarter, right?

**Rajesh Bhatia:** Yes, you're right.

**Saurabh Sharma:** So, the strategy of the company would be to sell out maximum production or would it be to sort of produce most efficiently so that the margin is maximized so would it be volume led growth that the company is looking at right now or would that be EBITDA accretive growth? Your volumes have increased this quarter, your EBITDA is reduced. So there are there are ways of balancing the two out, there are ways just like you said you have done for your packaging business in India where you said one peer posted a loss and that probably is because they are doing all kinds of business and they are not differentiating between EBITDA accretive business or EBITDA descriptive business, that is what I'm trying to understand?

**Rajesh Bhatia:** I may have understood your question only partially, but I can only tell you one thing that when we look at our business whether packaging or packaging films we don't want to cater to the market where there are no margins. So we are happy to leave some of the business, some of the SKUs which can be done by a much, much smaller company because they can obviously do better than us as compared to a large player like us where the cost structure is different from that. So even in case of our Aseptic Packaging, we took more time in terms of achieving the full productivity because what we didn't do was to just to cut price and get the market, penetrate into the customer and then look at raising the prices, take the entry and after that we will see. Some of the other businesses have that tendency. But clearly we are not into that kind of mindset at all that you have to do the plant utilization at the highest level under whatever the situation is. Yes, the market dynamics for our expansion capacity

when it came into being were changed and I had earlier also said that probably the kind of operating levels of these plants that we see probably even the management had thought that it would take a much longer time but the market dynamics are such that it has happened early. But as a management philosophy, we are not ready to sell our product cheap. If there are other players where we see structurally it is not possible to service that particular SKUs just because others are able to do it more cost effectively, we simply get out of that and let others do that because otherwise then it is a blood bath and we don't want to get into that stuff.

**Saurabh Sharma:** What would you attribute the fact that BOPP film prices have increased first, but BOPET film prices have not?

**Rajesh Bhatia:** So the raw material has played a spoilsport there, but Homo-Polymer has been in short supply. So because of the raw material scarcity price ramp up has been a faster.

**Saurabh Sharma:** I'm not sure I understand sir because resin prices have also increased?

**Rajesh Bhatia:** Yes, but if you see the PET prices only increase substantially recently while the BOPP is now about a six months old story that the raw material availability is becoming a bit of a challenge for the player. Because of our raw material, better management, so maybe that's another reason that we were able to populate those plants fairly quickly.

**Saurabh Sharma:** I'm not sure what role did raw materials play in populating the plants quickly?

**Rajesh Bhatia:** So let's say a player who is not able to procure it and that happens to a lot of smaller companies who are one plant play and they don't have the global reach to source their raw material. So those are the companies who are then not able to sort of...

**Saurabh Sharma:** After the quarter end, in October month have BOPP film prices have increased? Also, the difference between BOPP increase and BOPET increase if you can comment?

**Rajesh Bhatia:** The BOPET raw material prices have increased on a sequential quarter basis but the BOPP raw material prices have been lower this quarter.

**Saurabh Sharma:** And selling prices for BOPP and BOPET?

**Rajesh Bhatia:** Selling prices for BOPET has gone up in Q2 over Q1 while the BOPP prices are marginally down as compared to the sequential quarter.

**Saurabh Sharma:** Just to clarify to Mr. Singhal's question I believe he was not taking into account the packaging sales from India, which are close to around 20,000 tons per quarter, that is why there might be a discrepancy of 120,000-odd that is saying and 140,000-odd that we're doing in sales so that might explain the discrepancy. All right, thank you, sir.

**Moderator:** As there are no further questions from the participants I would now like to hand the conference over to Mr. Yusuf Nasrulla for closing comments. Thank you and over to you sir.

**Yusuf Nasrulla:** Thank you, everyone for joining us today and we look forward to staying in touch in future quarters. Have a nice day and wish you all a very happy festival time.

**Rajesh Bhatia:** Thank you, sir, and enjoy your festival.

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