



“Uflex Limited Q4 FY19 Earnings Conference Call hosted by  
Edelweiss Securities”

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**MODERATOR: MS. SHRADHA SHETH - EDELWEISS SECURITIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the Uflex Limited Q4 FY19 Earnings Conference Call hosted by Edelweiss Securities. 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 would now like to hand the conference over to Ms. Shradha Sheth. Thank you and over to you ma’am.

**Shradha Sheth:** Thank you. Let me welcome you all to the Q4 FY19 Earnings Call of Uflex Limited. From the management today we have Mr. Rajesh Bhatia, the Group CFO and Mr. Rajesh Agrawal – the VP (Investor Relations). So, without any further ado, I will hand over the call to Mr. Agrawal who will take the call over from here. Thank you and over to you Rajesh.

**Rajesh Agrawal:** Thank you and welcome to fourth quarter FY2019 Earnings Call of Uflex Limited. On the call today we have Mr. Rajesh Bhatia, Group President and Chief Financial Officer. Before we begin I would like to remind that management will make forward looking statements during the course of this call and our actual results could differ materially. I would now like to invite Mr. Bhatia to share a perspective with you with regards to the company’s operations and results for the quarter and the year under review. That would be followed by interactive question and answer session. Over to you Mr. Bhatia.

**Rajesh Bhatia:** Thank you Rajesh and Shradha. Welcome all of you on this our Q4 and FY19 Earnings Call and I think this been an excellent year for the industry and Uflex as such, so the highlights for the year are, this being the year where we have the highest ever production for films plants across the world recorded about 317,000 tonnes, 6% growth over the FY18. Which means individually also some of the consequence, some of the plants have also outperformed the Mexico plant. It has increased its production from about 36,000 tonnes last year to about 52,000 tonnes this year and some of the other plants also have recorded their highest ever levels. So, this has translated into for us 18.5% topline growth, out of which a part of it is also because of the higher raw material prices which we had this year and EBITDA has grown by about 11.5% this year from 903 crores to 1008 crores this year and I think there is no doubt that in FY20 also we will look for a higher volumes coming from our films as well as the packaging business. So, the packaging business is now the key where we have the capacity and we need to translate that into a higher capacity utilization. The films division across the plants, I think we have some capacity in Mexico, in Dubai and in Egypt where we look to consolidate this year. Other than that India, US, Poland, we are operating at more than 100% capacity utilization levels and there is not much scope for the increase in production over there though we keep on doing some technical adjustments to increase the speed of the plants and that’s how we have been able to operate the plants at above 100% capacity like America plant this last, Poland plant last year has operated at about 114% capacity utilization. So, we keep on doing some technical adjustments wherever they are possible to ensure that we are going to go ahead with the, we can come up with the higher production volumes and all that which are also at more to the profitability because the fixed costs are already there and we are also looking at expanding. We have already said that we

are going to set up a facility in Hungary which is now, we are also looking at one another facility in Nigeria and these facilities will come up over the next couple of years and that is how we are looking at increasing our throughput in this business which has already almost reached its peak capacity.

On a flexible packaging side, yes, we did better numbers as compared to the last year. But I think still we need to look at more volumes over there. Last year also we had a lower number because as a strategy we decided to exit some of the lower profit margins sort of businesses and look to do more work on business towards the more value added. The exports business after the first 6 months of a subdued performance has been doing extremely well in the last 4 months or 5 months precisely and we are looking to consolidate that and add on more customers as well as increasing the throughput to our existing customers so that on a consistent basis we can do about packaging exports of about 2000 tonnes a month from that business and that is what will be our target this year to consistently do that on a month to month basis which is about 25% growth over currently what we are doing in the exports market. I think that has been sort of the key highlights for the year. The EBITDA for the quarter basis, last quarter we are up by about 14% and overall for the year we have EBITDA growth of about 11.5% at a PAT level consolidated we are almost same as last year's 1% increase over FY18 which is largely due to higher amount of the taxes. We have in the current financial year as compared to the last financial year, so the last financial year we had MAT credit of about 53 crores which resulted in a lower amount of the tax provisions, but this year we are back to, we don't have any such provision and that is why the tax cost is higher this year which has resulted into a flattish PAT level on a consolidated basis.

So, I think broadly that has sort of the highlights of our performance for the quarter as well as for the last year. One more, what we also wanted to put across is that, I think we already have seen in the current year that there is a lot of noise in our industry for recyclability and biodegradable solutions. Everybody including us, we all working on that. And it is for sure that in the next few years the only the companies which are able to have solutions around these two problems that the environment is facing will only survive or grow and we have taken substantial steps. You all know that the recyclability we are already, we have existing facilities at all our plants where we recycle all our waste stuff and convert that into something which can be used elsewhere or can be put back into the plant. But biodegradability as a solution we are working and we are still few months away from going through the markets with that solutions and we reckon that this going to be a huge game changer as we go into the FY20 and beyond. So, that is it from my side and I would open the discussion to any questions or any clarifications, anybody may need. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

**Runjhun Jain:** Sir, we have in the press release you have mentioned about the improved scenario in the BOPP market. Can you give little more outlook and more views on that?

- Rajesh Bhatia:** So, BOPP because of the overcapacity we saw in quarter 2 and quarter 3 that the margins were eroding and because of the overcapacity in that, people were actually selling at their costs and all. We have in the current year seen a better, in the current quarter seen, if you see the results of Cosmo you will find that their EBITDA margins for this 4<sup>th</sup> quarter while for us, it is a blended thing, so that information is not there but what I am telling you is that you know, BOPP the worst is behind us and let me just give you a sense of the margins also. So, BOPP margins which let us say in the Q1 was about, Q2 was about 35 to 38 range. They are now in the Q4 they are about Rs. 42 to Rs. 45 range. The sales less the raw material cost for the plane films but, so you see that clearly there is an improvement in the...
- Runjhun Jain:** So, sir, is there any specific reason for this increase because like you said till 9 months or so we have seen that the overcapacity situation was there. So, you think that the industry has reached a level where it can reach an equilibrium for the time being at least?
- Rajesh Bhatia:** So, there is some equilibrium which has been, given that the consumption growth is there between 9% to 11%. So, obviously over a year's time, you reach some sort of maturity situation. But the BOPET margins are still much better than the BOPP margins. So, I think there is a scope for the BOPP as the more demand supply equilibrium comes into play, there will be a better pricing for the BOPP as we get into the Q1 of this year and Q2 of this year.
- Runjhun Jain:** Thank you sir. That is helpful. Sir, like you have touched upon the BOPET, so what is the BOPET margins as of now. Till last quarter we have seen it was around 47...?
- Rajesh Bhatia:** BOPET are about between 50 and 54 now.
- Runjhun Jain:** And you think these are sustainable now. We are reaching like kind of mid-level average?
- Rajesh Bhatia:** I think all depends on demand and supply equilibrium, but as of now we think that you know these are sustainable.
- Runjhun Jain:** Sir, little bit more about the Aseptic packaging. How many customers we have now?
- Rajesh Bhatia:** We have now 30 customers in the Aseptic packaging, 39 customers in the Juice category, 4 customers in Dairy and 12 in Liquor.
- Runjhun Jain:** Sir, in the last quarter we have said we would likely to breakeven in Q4. So, have we achieved that?
- Rajesh Bhatia:** Yes, we have.
- Runjhun Jain:** So, it is broken even in this quarter.
- Rajesh Bhatia:** Yes, Q4 we have broken even.

- Runjhun Jain:** Any growth outlook or volume outlook you can give about this sector for FY20, sir?
- Rajesh Bhatia:** I think FY20 we should look at about between 1.7 billion to 2 billion packs.
- Runjhun Jain:** Sir, the tax is higher. So, we should take now this as the base now or what is the tax ETR we are expecting for the FY20?
- Rajesh Bhatia:** No, I think the tax is, this is the normal for the tax now.
- Runjhun Jain:** Full tax we should assume for FY20?
- Rajesh Bhatia:** Yes. Whatever is the tax rate now coming as per this, I think we should take that going forward.
- Runjhun Jain:** So, sir just last question. In the Q3 we said that the prices were going down raw material prices and that is why we were seeing some postponing or delayed orders by customers. So, do you think this quarter, now the prices are, you have said that they are on the moving trend, so were there any pent up demand we have seen or you see this is the normal scenario in this kind of growth we can expect in coming quarters also?
- Rajesh Bhatia:** So, as I said the BOPET for me looks okay. If we can sustain those margins that is what we expect and BOPP we will look to have better margins.
- Runjhun Jain:** Sir, more on the volume growth?
- Rajesh Bhatia:** So, volume growth, see for us there will be no volume growth from India as such because even if it is there it will be very marginal for us because you know we are already operating at 100% capacity in India. So, for us there is not going to be much volume growth coming from India. But you know for the industry there is a volume growth between 9% to 11% and that is what, our strategy is that in India we do more packaging and overseas we do more of the films where the costs in terms of financing as well as some of the energy costs are lesser.
- Runjhun Jain:** Okay. Sir, what is the CAPEX we have earmarked for Nigeria?
- Rajesh Bhatia:** See, normally it would cost about \$80 million for a new facility
- Runjhun Jain:** Last question on the balance sheet. Current assets, if I am not wrong, which is going 264 as the amount for this year against the 68 last year.
- Rajesh Bhatia:** I think we can get back to you offline on this as to what it is. 264 crores you are saying, as compared to?
- Runjhun Jain:** 68 last year, FY18 consol numbers.
- Rajesh Bhatia:** Rajesh, can you just note down and we will get back.

- Moderator:** Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.
- Devansh Nigotia:** Sir, my question was that, currently we are at 100% utilization in BOPET fields, so are we planning any CAPEX or what is our outlook on that?
- Rajesh Bhatia:** We are not planning any CAPEX in India for the moment.
- Devansh Nigotia:** Okay. But it seems counter intuitive that we are witnessing strong demand and I think I just want what are we really, how are we actually seeing the Indian market?
- Rajesh Bhatia:** India market on the BOPET as I said for the next one year at least our outlook is that it should sustain its margin, but given the high margins currently prevailing there will be some capacity additions which will get announced sooner or later and then closer to for a new facility to be operational it takes about couple of years. So, that is the time when one can again look at some sort of a margin normalization. But otherwise in India the things look good from a BOPET perspective. From your perspective saying that why we are not adding, I think it is largely a management call as to where should we add. So, that is where we sort of, as of now we view that let us concentrate in India on our flexible packaging part of the business where we have more capacity available to utilize and any growth in the BOPP or BOPET let us do it in the overseas location where we are doing quite good.
- Devansh Nigotia:** And how long it takes to set up the plant?
- Rajesh Bhatia:** Two years.
- Devansh Nigotia:** So, if you start construction today it is going to take two years?
- Rajesh Bhatia:** Yes.
- Devansh Nigotia:** And can you share the revenue mix and margin mix, product wise, revenue mix and margin mix?
- Rajesh Bhatia:** We don't give that numbers, we don't share those numbers. There is a lot of numbers, there is a lot of captive this thing, films in India, whatever we make in India we use a lot of in-house. If you see our consolidated operations largely they reflect the overseas business which is only the films business plus some other small entities, but overseas if you, the consolidate minus the standalone you see, you will get largely the number which is the performance of our films division overseas. But for India per se because it is a fully integrated operations even the plants are situated in one premises only and so we don't segregate it that way because there is not much of things that we sell in the open market. We rather consume it in-house.
- Moderator:** Thank you. The next question is from the line of Ayush Budahda from Aequitas Investment. Please go ahead.

- Ayush Budahda:** Sir, I wanted to understand what kind of capacities would be coming in BOPET over the next say 1 or 2 years globally?
- Rajesh Bhatia:** Globally I think what we know off in the areas we operate there is an SRF facility which is coming in Hungary as well. And this apart, there may be one other plant which may be coming up. But largely apart from that, there is nothing that we here in US or any other location wise. So, capacity addition is not very aggressive as the thing stand today.
- Ayush Budahda:** So, our current global demand would be?
- Rajesh Bhatia:** For the BOPET?
- Ayush Budahda:** Yes.
- Rajesh Bhatia:** Rajesh will take that offline. I think it does not matter much, because we are not worldwide operations. Our operations are largely in US and Europe and Europe the BOPET still continues to be market which is deficient market and they import a lot of stuff even as of now. So, that is why there are opportunities there to set up new facilities.
- Ayush Budahda:** Okay. And BOPP I believe for the next one year at least now new capacities are coming up, right?
- Rajesh Bhatia:** I think BOPP there is no capacity coming up. India there maybe capacity coming up even in BOPP but not internationally.
- Ayush Budahda:** So, like you said the BOPET margins may go down a little but BOPP should improve?
- Rajesh Bhatia:** BOPP has to improve from hereon and normally the good parity is about the same levels and all that, but I think we will have that in the next couple of quarters and all that whereby there will be parity in the margins.
- Ayush Budahda:** Correct. The current margins that have improved in BOPP, they are improver at least trusting at these levels?
- Rajesh Bhatia:** Improve only. I see that it will only improve.
- Ayush Budahda:** This is not a one quarter situation, that means?
- Rajesh Bhatia:** No, that is what our guidance is that we should look at consolidating these margins.
- Moderator:** Thank you. The next question is from the line of Aman Kumar from AK Securities. Please go ahead.
- Aman Kumar:** Sir, what is the reason for certain increase in the other expenses?

- Rajesh Bhatia:** Other expenses are basically increased because, two reasons. One, we have a joint venture in Israel where we are trying to develop a technology for replacing their auto gravure printing cylinders. So, we have invested in that set up and as per IFRS we have to keep on charging those expenses to revenue and because we are not, it is all investment in new technology and we cannot capitalize or keep that as any, we have to charge it to P&L and that is why we have done. So, one is that impact. Plus, in our one of our subsidiaries we had some advances given for some real estate which company has gone into NCLT. So, we have provided for that also. So, the combined effect of these two is about 56 crores.
- Aman Kumar:** For the quarter?
- Rajesh Bhatia:** During the quarter. For the quarter as well the whole year. So, there is one time.
- Aman Kumar:** Okay sir. And sir, Israel expenses is totally written off or will be again coming in the next quarter also?
- Rajesh Bhatia:** So, this is a continuing thing for us and the expenditure in the first year were largely higher. So, I think that part is now over and from this year onwards we can look at not more than half a million dollar to 3 quarters of a million dollar kind of an expense.
- Aman Kumar:** And sir why there is a sudden drop in the engineering division margin sir?
- Rajesh Bhatia:** Margins there is no difference in engineering division. There is slightly lower turnover this year which is engineering businesses normally work that way, but at a profitability level it not impacted much.
- Aman Kumar:** Because in the quarter 4, the quarters Rs. 5 crores.
- Rajesh Bhatia:** I am looking at a larger picture, which is for a year picture. So, if you see the annual picture for the engineering while there is a drop in the turnover, the margins if you see the segment profitability there is hardly any drop.
- Aman Kumar:** And sir how much turnover we can expect from Asepto this year?
- Rajesh Bhatia:** From Asepto we should look at about 1.72 billion–2 billion packs this year.
- Aman Kumar:** That means how much turnover sir?
- Rajesh Bhatia:** So, about 300 crores.
- Aman Kumar:** So, profit after tax will be gain sir from in this division?
- Rajesh Bhatia:** At these levels, at a PAT level there will be more or less breakeven only.



- Aman Kumar:** And sir one last question, about tax provision. In the international division also we have to charge very high tax going forward?
- Rajesh Bhatia:** In which one?
- Aman Kumar:** International businesses.
- Rajesh Bhatia:** So, whatever are the tax rates now, I think there is a tax holiday still remaining in our facility in Poland which will be there for the next couple of years and Poland has 20% tax rate. So, apart from that all our businesses will have this sort of a tax rate only.
- Aman Kumar:** So, it will be around 20%.
- Rajesh Bhatia:** I think if we see for the year as such, I think the average is about 23.8%.
- Aman Kumar:** Overall?
- Rajesh Bhatia:** Overall.
- Aman Kumar:** Okay sir. And sir what about the pharma packaging, any development on that sir, because I think it is a very innovative product?
- Rajesh Bhatia:** Which one?
- Aman Kumar:** The pharmaceutical packaging which you have developed?
- Rajesh Bhatia:** Pharmaceutical packaging we are trying to make in-roads in to that business and all, but will take time.
- Moderator:** Thank you. Next question is from the line of Mayank Sharma from Shasun Corporation. Please go ahead.
- Mayank Sharma:** I just had a couple of quick questions. First one was that the CAPEX which you have announced is, what is the payback period for that because if I roughly work out, the businesses normalized BOPET margins are around 12% and the turnover would be somewhere around 1100 to 1200 crores. So, on an investment of 1100-1200, basically investment versus sales would be a 1:1 ratio which is very low. Normally in packaging it is 1:2 or at least 1:1.5. So, the return on capital employed would be additionally low. It will be below 10% actually. So, am I making a mistake in my calculations or...
- Rajesh Bhatia:** No, so the normally the payback period for the films industry is between 4 years to 5 years depending on as to sort of where the cycle is. So, currently based on the current numbers it is about little over 3 years. But I think one should normalize assume anything between 4 years to 5 years kind of a stuff as a normalized going forward, because the good times you can't really predict everything on a best of the times.

- Mayank Sharma:** I taking the numbers as the normalized BOPET margins in a normal cycle is around Rs. 15 to Rs. 20 a kg. Now if I multiply that by the quantities, I am getting 150 crores upon 1200 crores. That is the total investment, 1100, that hardly comes to around 11%-12%. Now from what you told me that figure should be around 20%. The money which is being invested seems quite large for the profit which is to be expected in the future.
- Rajesh Bhatia:** No, it is not like that. As I told you, 4 years to 5 years is the kind of a timeframe, is the payback period for such projects. While currently it is low because of the higher margins in the industry but we are planning things on a...
- Mayank Sharma:** See, I know Nigeria and Hungary, I don't know about Hungary but Nigeria a very high margin business. Would the margin be much higher in Nigeria compared to the Indian operation?
- Rajesh Bhatia:** Obviously.
- Mayank Sharma:** Okay. And sir I wanted to ask you that, if I take, if I bifurcate the margins for your different businesses, I come to the conclusion that the margin in packaging which is Asepto and flexible packaging is quite low. It is almost half of what a normal flexible packaging operation should run at. It is operating I think between 6% to 8% EBITDA margin as of today. When would...?
- Rajesh Bhatia:** If we see India business is largely our packaging business only where we have an EBITDA of about 480 crores this year on a standalone basis we have a topline of 4243 crores, so 480 upon 4243 is about 11.3%.
- Mayank Sharma:** But in this if I take out the machinery business?
- Rajesh Bhatia:** But machinery business for us is an integrated part of that because you know the machinery business is where we give a complete solution to our customers not only the laminate but also these filling machines, at their end also. So, for some of the customers it is like a Gillette story where you sell the razor keys...
- Mayank Sharma:** Yes, understood. Because I was under the impression that in BOPET abroad you must be making around 15%-16% margins.
- Rajesh Bhatia:** BOPET margins are better in overseas market and that is where we want to expand in those markets. And India currently you find that the returns are probably the margins are bit low because the capacity is 135,000 tonnes while we are producing about 80,000 tonnes. So, I think once the capacity is already set up, once you start using that capacity bit more obviously the things will improve.
- Mayank Sharma:** So, sir, this 80 upon 135, I mean this is, I think you are production 80,000 up on a capacity of 135?
- Rajesh Bhatia:** Yes.

- Mayank Sharma:** So, what I am thinking is this is not very high fixed cost business. So, what is the volume growth that you are witnessing in this business?
- Rajesh Bhatia:** This is a high cost business because some of the plants that we set up they require some specialized labor and all. So, we are continuing with all those things, maintaining those machines and all that while the capacity utilization is bit low. So, obviously we need to do a much better there.
- Mayank Sharma:** Actually, this never comes out in a concall that in flexible packaging you are hardly doing around 65%-70% capacity utilization, sir you can go up to around...?
- Rajesh Bhatia:** Each and every call I have been saying this only that we need to do a better capacity utilization in our flexible packaging business.
- Mayank Sharma:** Sir, what is the volume growth that you are witnessing in flexible packaging?
- Rajesh Bhatia:** So, current year, flexible packaging we have done only 3% growth because we have sort of shed some of the low margin business and that is where we are, that was intentional and we left those businesses. Otherwise on a normalized basis you would expect the growth between 9% to 11%.
- Mayank Sharma:** Sir, what is the reason for the dividend being so low because you are a cash rich company, you hardly utilize your credit limits and...?
- Rajesh Bhatia:** We do utilize our credit limits and it is the same dividend what was there in the last year as well. And the payout ratio if we take the India operations only, it is almost double of what we had in the last year, the payout ratio if we take India's business only is about 28% and if we take consolidated it is about 5% same as last year.
- Moderator:** Thank you. The next question is from Mohit Agarwal from India Capital. Please go ahead.
- Mohit Agarwal:** Sir, I only have one question and this is regarding the bottom line and the return on equity of the company. Now, if we see the last 2 years, our bottom line has been absolutely flat, even though we had increase in revenue growth, we had EBITDA margin expansion due to good cycle in film business and of course the drive coming from the underutilized capacities like flexible packaging and Asepto has played a role in not increasing the bottom line. So, the question is that just two quarters back, you announced that probably you will be consolidating and focusing more on ramping up the capacity, so that we can expect the better ROE and now suddenly, we have announced about 1000 crores of new capacities which will of course have a drag when if they come onstream, 2 years down the line, whatever it is, so is it fair to assume that this consolidation we have seen and this rather stable bottom line we have seen in the last 2 years could continue for the next few years?
- Rajesh Bhatia:** No, so I think the bottom line will now from here on, will depend upon higher capacity utilization in the flexible packaging business and to that extent there is a capacity available in the existing

film business if you can squeeze a bit more out of that, it really depends on that. After that so let us say, even if we were to optimize more on the capacities from our existing film plants, which you can do probably in the current financial year, we have a Mexico capacity which is 60,000, this year we produced little over 52,000, so we can produce something extra over there. There is some capacity which is available in Egypt which we can do slightly more, but by FY20 end, we would have done all those optimizations and come to a situation where we don't have any further capacity in the film business, so which will mean that if we don't take a decision to expand today, so somebody else will come and eat into our market share and our customers in these businesses. So, I think even otherwise I feel that we are a bit late in sort of going ahead with our expansion of the facilities, but nevertheless I think this was in offing for the last 3 or 4 quarters that we have been discussing, but we decided now to go ahead because it takes 2 years' time to set those things up and stabilize them, so I think it is all part of that. So, in the packaging business, as you said we will keep on consolidating, we will keep on adding, achieving higher capacity utilization and there is no further CAPEX in these businesses as of now.

**Mohit Agarwal:**

Just one more question, just continuing from the last question, I do see the levers on capacity utilization for whatever is less now for the company is not very high. If I take a number, it looks like in overall film businesses only like 8% or 10%, may be you have more leverage on the Asepto and the flexible packaging India business, the only packaging business, which is also not growing at the pace we would expect which you have seen now, we are all not talking about max 2 billion packs in the current year which is a very low run rate and it looks like at this pace it may take many years to come to 100%. So, my question is that are we doing capacity utilization at a much higher rate, then we are actually ramping up our existing one. So, there could be a situation where we are investing more, then we can actually turn it into business, right?

**Rajesh Bhatia:**

No, it is not that. I think Asepto business were we had some plans but obviously there has not been that level of achievement in that so that differential could be about 12 months period, so we would have loved to achieve what we have done, what we are saying we will achieve in FY20, probably in FY19 but this has not happened because of many reasons. I don't want to get into those because for us also it is a new line of business but apart from that I really don't think so that there is going to be a huge time taken in terms of increasing our capacity utilization, may be a couple of years down the line we will be looking at expanding even the flexible packaging or the moment we reach about 80% capacity utilization in our Asepto business, we are talking of spending another 50 crores to what is the residual CAPEX there to take the capacity to 7 billion packs. So, I think next couple of years, FY20 as well as FY21 is where we will definitely look to do much better in our packaging business and that has been the management focus as well.

**Mohit Agarwal:**

So, what can we expect?

**Rajesh Bhatia:**

So, I think on a conservative basis, we should look at about 10% volume growth from the packaging business excluding the Asepto.

- Mohit Agarwal:** Sir, what is it been to the bottom line sir, because we obviously should have some financial operating leverage now, so what do you expect this 10% growth will shift you in the bottom line because it has been flat for 2 years?
- Rajesh Bhatia:** So, 10% growth, let us say, on a 4200 crores topline today would be additional 400 crores coming out of that 425 crores topline additional coming out of the flexible packaging.
- Moderator:** Thank you. The next question is from the line of Kunal Bhakta from First Water Fund. Please go ahead.
- Kunal Bhakta:** Sir, what I would like to understand with regard to the Nigeria and Hungary project is when are we planning the ground breaking and what is the machinery ordering schedules for these two projects?
- Rajesh Bhatia:** I think we will do everything in June and we will go ahead with these investments. Land and other things and all that we had taken earlier itself, but the projects were not announced earlier and so those infrastructure things and all that are settled. We are having discussions with machinery suppliers and all that so they are at various stages now.
- Kunal Bhakta:** And any thought process in terms of choosing these locations, of course Hungary there is also SRF which has gone there, but with regard to Nigeria, besides?
- Rajesh Bhatia:** Hungary was more because Hungary is today offering the maximum incentives in terms of physical incentives to set up sort of businesses there, so while we are already at Poland which is next door, it would have made sense to continue there but we chose Hungary because they are offering more physical incentive plus the opportunity to also be able to send the work force and team from India is also very important which Hungary is much more flexible today than what the Poland could be. Poland was when we went into the Poland, but over the years, we have seen that some of the man power issues become a bit tough there to handle and it is not that easy, so Hungary is giving us almost 15% of the project cost as physical incentives to set up the project which are there in Poland and Hungary, even otherwise also has a lower taxation rate as compared to Poland.
- Kunal Bhakta:** So, this investment of 81 million is netof that subsidy or it is gross?
- Rajesh Bhatia:** This is gross.
- Kunal Bhakta:** And any ongoing incentives?
- Rajesh Bhatia:** The ongoing incentive, so this is the cash incentive. Ongoing incentives are in the form of tax, so I think for the next I think at least 7 years to 8 years we will not have any incidents of taxation over there.
- Kunal Bhakta:** And what about Nigeria?

- Rajesh Bhatia:** So, Nigeria, there are no incentives but that is apart from the normal depreciation and others you will have but that is the territory where the margins are much higher.
- Kunal Bhakta:** And what is the competitive scenario like, in the market because you will be obviously catering to entire West Africa and other markets?
- Rajesh Bhatia:** True.
- Kunal Bhakta:** So, what is the competition?
- Rajesh Bhatia:** As of now, if you see in Nigeria there is no facility, so it is all there importing everything into Nigeria, so that is where as an early mover makes sense for us to get into that territory and capture that local market because today everything is imported and they have some BOPP facilities but nothing on BOPET side.
- Kunal Bhakta:** There was also a media article about £66 million film plant in West Russia where some ground breaking was done by our company Flex Films international, so any update on that?
- Rajesh Bhatia:** No, there is nothing on that. We have because Russia is one of the markets we cater to, so we have gone there and we are looking at expanding our chemicals business over there in terms of supplying that from India, so we are looking at Russia in a big way because if we see today from our existing facilities in Dubai, there is a substantial capacity that goes into catering to the Russia and the other CIS countries, so then there are associated products with that which are like cylinders or which are chemicals which we are looking to sort of get a foot hold there.
- Kunal Bhakta:** But there is no timeline to that facility coming up as of now?
- Rajesh Bhatia:** No.
- Kunal Bhakta:** And with regard to your 1,35,000 capacity in India for your packaging, what is the achievable level of output from that facilities, 135 must be a name plate capacity right, so what should we look at as the peak optimum level of output?
- Rajesh Bhatia:** I will tell you, the capacity that you declare in this depends on the printing capacity and then there are lot many other processes also which you do, but the main thing the way the capacity is determined in packaging industry is the printing capability. So, I think we can do about 100,000 tonnes based on the existing infrastructure or may be 100,000 tonnes to 110,000 tonnes. Beyond that I think it will be sort of pressure on the other downstream infrastructure which we need to look into at that stage.
- Kunal Bhakta:** So, basically for the next 2 to 2-1/2 years you are covered with regards to the existing facility?
- Rajesh Bhatia:** Yes.

- Kunal Bhakta:** And the last question is on the Aseptic, there is a company called Greatview which is listed peer and I was looking at them and they have never achieved more than 55% to 60% utilization levels consistently in that their existing capacities. So, is that something we should look at as a kind of gap even with regard to our 3.5 billion packs that we currently have where we should say that 2.5 is max that is achievable?
- Rajesh Bhatia:** But how do we say that because we see tetra pack in India which has 80% market share, may be 90% also, but they are utilizing their plants, their capacity utilization levels are quite high and I don't think whether that is the correct reference or not for us to take.
- Kunal Bhakta:** Right, so we are still hoping for 80 plus percentage utilization?
- Rajesh Bhatia:** We will, yes.
- Kunal Bhakta:** And how much have we achieved in terms of volumes, what was the exit run rate that we ended March at?
- Rajesh Bhatia:** We are doing March, we were doing about 80 million packs.
- Kunal Bhakta:** And this 1.7 to 1.92, how much of this is back ended? What are we forecasting for this first half and the second half?
- Rajesh Bhatia:** I think for the year only, let us take it for the year itself and we are saying about 1.7 to 2.
- Moderator:** Thank you. Next question is from the line of Abhishek Joshi from CGS CIMB. Please go ahead.
- Abhishek Joshi:** Sir, my question was that why have we seen such a dismal performance in Asepto division, is it because of low acceptance level from our customers or anything else?
- Rajesh Bhatia:** I think acceptance level from the customers, in a packaging thing probably we would have underestimated the time it takes to get a final yes from a customer, their test things, they want to test again, they want to test three times and all that and obviously they are today dealing with one of the largest and the only player in India which is tetra pack, so I think combination of all these issues is what would have set us back by about a year, but in a business where you are not in, similarly for us we find that when we get into some of the export markets, there also the product approvals, things and all that takes a hell of a time, takes anywhere between 2 to 3 years kind of a time frame with a large companies like Nestle, P&G or Pepsico and probably in India, we thought that would be much faster because on a normal flexible packaging side, we didn't have that much of the time from a conversion from inquiry to the customer, but Asepto has taken time for us to get customer approvals and starting with small quantities to then increasing the quantities. I think it has all taken a longer time than we actually thought off.
- Abhishek Joshi:** So, how many big customers can we add during the current financial year?

**Rajesh Bhatia:** I think if we add 2 or maximum 3, I think we are done. Then by next year, by FY21, we can look at much higher level of the capacity utilization may be around 80% or so if we are able to achieve that but simultaneously now what we are also doing is we are looking at export markets for this also, so we have already exported in a small way from here and we are trying to till the time, these customers start with us in a reasonably sized way because if they start with us in a small way and it does not take time for them to sort of giving us large orders or depend on us to a very large extend, I think we will continue to explore the other markets also for this product, so either way I think FY20 will be a very interesting year for this business.

**Abhishek Joshi:** And what would be the major growth driver for us in the flexible packaging business to grow to fully utilize our capacity up to say 129,000 tonnes or something, so what would be major growth driver out there?

**Rajesh Bhatia:** So, I think flexible packaging industry is seeing some consolidation, we find that the smaller units are being taken over by the large multinationals and these were the businesses which were actually creating sort of depression in the prices because when they start to capture the market, they would offer some ridiculous pricing, but if you see last 3 or 4 years, there have been consolidation to an extent and that is continuing. We see creative being brought over by one of the large packaging companies. You will see all the three, Huhtamaki, Constantia, AMCOR here have only grown through acquisition of small players, so I would again say that the flexible packaging business also in terms of its margins probably, I am not sort of two as I say with BOPP, but probably it would have also hit its low point in terms of the margins and obviously we are expecting that we will see a better margins in this industry. So, once that happens the smaller player gets consolidated or they wind up their businesses and all that so the large players will definitely have much better control of the market and the huge game changer here could be the government pressure on recyclability and biodegradability which some of the small businesses will not be able to get access to in terms of technology or capability, so that could really make a difference as we go along apart from the normal consolidation that keeps on going.

**Abhishek Joshi:** Is GST also playing some part in this consolidation you were talking about?

**Rajesh Bhatia:** It does but there are more steps being planned in the GST now as government is looking at reporting some more compliances in terms of the invoices itself being generated on the portal, so I think it has impacted but not to the extent we would have also thought so.

**Moderator:** Thank you. We take the next question from the line of Nitesh Bhansali from Emkay Global. Please go ahead.

**Nitesh Bhansali:** Sir, Congratulations for good set of numbers, can you please elaborate more on your new CAPEX plan that which kind of product line you are planning at which location?

**Rajesh Bhatia:** We are planning BOPET line in Nigeria and we are planning specialized BOPP line in Hungary.

**Nitesh Bhansali:** And sir, what is the time frame that we are keeping to complete that?



- Rajesh Bhatia:** Two years.
- Nitesh Bhansali:** It means by FY21, we are expecting to get output from this line?
- Rajesh Bhatia:** Yes.
- Nitesh Bhansali:** And sir, just one more question, on your revenue and profit, what was the film division contribution to your Indian revenue and profit?
- Rajesh Bhatia:** So, that is what I said that we don't get those separately because the film business in India is largely captive to our flexible packaging business, so we take it as one general sort of consolidated business as such and we don't look at the separate profitability for these. Only overseas business is where we look at separate numbers because overseas business is all sold in the market.
- Nitesh Bhansali:** And sir, how is your new segment that Asepto is working in Indian market?
- Rajesh Bhatia:** I think I already answered that question that this year we look at between 1.7 to 2 billion packs, selling 2 billion packs and next year, so if we are able to say sell about 2 billion packs, then that is about 57% capacity and FY21, say about 80%.
- Moderator:** Thank you. Next question is from the line of AM Lodha from Sanmatti Consultant. Please go ahead.
- AM Lodha:** My questions are sir, just I wanted to know the gross debt in the consolidated level sir, on FY18 and FY19?
- Rajesh Bhatia:** It is 2100 crores as on 31<sup>st</sup> March.
- AM Lodha:** 19?
- Rajesh Bhatia:** Yes.
- AM Lodha:** Including working capital?
- Rajesh Bhatia:** Including working capital.
- AM Lodha:** Sir, any debt reduction plan because you are almost earning Rs. 700 crores cash flow on the consolidated level basis, depreciation plus PAT and our debt is almost on the same level where it was in last year, no reduction in the debt?
- Rajesh Bhatia:** Because of the CAPEX in the holography as well as Asepto there were some debt added, in India we don't have any debt addition plans now and while repayment this year is about 270 crores and the next year onwards is about 175 crores. So, the working capital part will remain, I am talking about this term debt only, the working capital is an integral to business, so that will

remain and this year probably the working capital utilization would have gone up because as the prices of the crude and the raw materials went up, so the working capital utilization would have gone up, but the term debt if we see overseas, we have term debt of only about \$40 million which gets repaid in the next 3 years' time, but overseas we will have the new debt coming in for these two facilities.

**AM Lodha:** My second question is on dividend distribution policy, as you told that you are distributing the dividend on the standalone basis, you look at your neighbor and your competitor, Polyplex has given Rs. 51 dividend, even the Cosmo which is just one fifth size of your company, just it has given Rs. 6 dividend, whereas you have free cash flow of Rs. 700 crores and you have distributed only 14 crores to 15 crores to the shareholder, so it is very poor payout from our shareholder's point of view Bhatiaji. It is very poor, you have had also outside India business, Polyplex has also got the outside India business, they have given Rs. 51 dividend this year. So, please convey our message to the management that dividend like you are distributing, dividend like a charitable trust, not as a shareholder to the company.

**Rajesh Bhatia:** Okay.

**AM Lodha:** And my another question is regarding your Asepto Packaging, can you tell me sir, capacity utilization presently this year in this Sanand plant?

**Rajesh Bhatia:** Currently it is about 40%.

**AM Lodha:** Can we expect in current year, it to go up to 50% to 60%?

**Rajesh Bhatia:** Yes, that is what we have guided that we are looking at 57% to 60% capacity utilization.

**AM Lodha:** Another thing is that one sided you said that we will not expand in the outside India, then market share will be eaten by our competitor, so we are expanding outside India. So, similar things we will apply in India, you say that we are not expanding in India, then if you will not expand in India, then when the market or the product will go up, then your share will be taken over by your competitor also?

**Rajesh Bhatia:** No, I think you have got it wrong, I am not saying that we will not grow in India, I am saying because in India we are focused to grow in the films businesses overseas, our focus to grow in our packaging business is India and because currently in India we have the capacity available to grow the business, so that is why in the next few years there is no addition, there is no projection to do any further CAPEX to grow any capacity on the packaging business in India. But let us say, 2 years down the line once you reach 80% to 85% capacity utilization, definitely if it is a growing market, we will need to grow there also. Hope that is clear.

**Moderator:** Thank you. Next question is from the line of Aman Kumar from AK Securities. Please go ahead.

- Aman Kumar:** Sir, we are expecting a 10% growth in packaging side, whether this include the export business also sir?
- Rajesh Bhatia:** Yes, includes everything.
- Aman Kumar:** And the margins in export is better than domestic market or it is very much same?
- Rajesh Bhatia:** Definitely, they are better.
- Aman Kumar:** So, that means we can expect better margin compared to 2018-19 in the packaging business?
- Rajesh Bhatia:** No, so the packaging business margins in India will grow depending upon the consolidation in the industry, the new value added products that you will give to the customers, so it is basically that. In the export markets as I told you that the product approval time with all large customers, anywhere ranges at least 2 to 3 years' time depending on the organization, so while we grow that business, we want to grow that business and that say, high margin business, but it takes a huge time to get those sort of approvals in. But having said that in India as the industry is consolidating, the margins will definitely improve. Globally, in the flexible packaging industry, clearly the margins are much better as compared to what they are in India and India will move to that direction as the industry is getting consolidated.
- Aman Kumar:** And sir, since we got A rating from the CRISIL so the rate of interest will come down for the working capital from there?
- Rajesh Bhatia:** Definitely.
- Aman Kumar:** How much sir?
- Rajesh Bhatia:** We should expect 1% decrease in India rates at least. We are approaching our banks to sort of do that.
- Aman Kumar:** And sir, one more question, what is the status of expansion in the holography business sir?
- Rajesh Bhatia:** What is the?
- Aman Kumar:** Holographic expansion sir?
- Rajesh Bhatia:** Holography expansion is still not complete. I think it will take another 3 to 4 months to sort of make it complete at our Jammu plant.
- Aman Kumar:** And what is the amount of investment in that division?
- Rajesh Bhatia:** We spend about 200 crores in that.

**Moderator:** Thank you. The next question is from the line of Thomas Priju from Karma Capital. Please go ahead.

**Thomas Priju:** Basically, I just wanted to check if we have medium or long-term target return on equity and hopefully if possible by when we can reach an ROE closer to 20%?

**Rajesh Bhatia:** I think ROE reaching to 20% will have to be not less than a 5 year kind of a plan and you have to utilize your existing capacity more in the packaging. That is how you can only achieve towards that and obviously better consolidation of the markets happening, so that is the only way but I don't see anything if we 20% target anything less than sort of 5 year time frame to reach that kind of levels.

**Moderator:** Thank you very much. Ladies and gentlemen, that seems to be the last question for today. I would now like to hand the floor back to the management for their closing comments. Over to you.

**Rajesh Agrawal:** Thank you everyone for joining us this afternoon. We look forward to talking to you again in the next quarter. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities we conclude today's conference. Thank you for joining, you may disconnect your lines now.