"Cosmo Films Limited
Q2 FY2022 Earnings Conference Call"

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MANAGEMENT: **MR. PANKAJ PODDAR – CEO– COSMO FILMS LIMITED**
MR. NEERAJ JAIN – CFO - COSMO FILMS LIMITED

MODERATOR: **MR. BHAVYA SHAH - S-ANCIAL SOLUTIONS PRIVATE LIMITED**

Moderator: Good afternoon everyone and welcome to Cosmo Films Limited Q2 FY2022 earnings conference call. From the management, we have, CEO, Mr. Pankaj Poddar and CFO, Mr. Neeraj Jain. Starting off with the statutory declaration, certain statements in the conference call may be forward-looking. These statements are based on management's current expectation and are subject to uncertainties and changes in circumstances. These statements are not guarantees of future results. Now may I request Mr. Neeraj Jain to take us through his opening remarks subsequent to which we can open the floor for the Q&A. Thank you and over to you Neeraj Ji!

Management: Thank you. A very good afternoon ladies and gentlemen. I am Neeraj Jain, CFO at Cosmo Films joined by Pankaj Poddar, CEO at Cosmo Films. Our financial results and investor presentation both are uploaded on the company's website.

The Company has posted record consolidated EBITDA of Rs.152 Crores during the Sept 2021 quarter. In fact, with this quarter result there is a continuous uptick performance by the company in terms of the EBITDA since last 10 quarters.

Consolidated sales for the quarter is Rs.759 Crores, which is 36% higher compared to the Sept 2020 quarter and this is for largely three reasons, higher specialty sale which has grown for us more than 20%, increased margins and third is raw material price increase which got passed on to the customers.

The EBITDA has increased to Rs.152 Crores which is in fact 54% higher compared to the last year similar quarter on the back of three key factors. First is higher specialty sales which has grown for us more than 20%, better operating margins, BOPP film margin during Sept 2021 quarter was running Rs.40 per kg as against Rs.27 per kg in September 2020 quarter and third factor is of course the uptick performance by the overseas subsidiaries.

Subsidiaries taken together have contributed Rs.24 Crores of EBITDA as against Rs.5 Crores in the similar quarter last year. Subsidiaries are doing very well on the back of higher sales and better margins. Lot of operational efficiencies also we provided favorable result in overseas subsidiaries and hence EBITDA together with the lower finance cost and lower effective tax rate led to increase in PAT by 83%.

In fact EPS increases by 96% as the company has done buyback of shares in December 2020 quarter. On trailing 12 months basis, EPS now is Rs.178 per share as compared to Rs.127 per share at the end of the March 2021. Based on the trailing 12 months ROCE is close to 24% and return on equity is close to 32% which is the best in fact in the industry.

On balance sheet side, net debt to EBITDA stands at 0.85 times and net debt to equity stands at 0.5 times reaffirming strong financials.

In September 2021, the company has launched its Petcare brand Zigly with the opening of its first experience centre in South Delhi, launched mobile van services in NCR along with e-commerce platform. These Omni channel offerings will provide unique convenience and value proposition to pet parents. Initial response in fact is propitious and the company plans to significantly expand its footprint both digitally and offline in the coming quarters be it experience centres, stores and vans. In fact, post COVID the petcare industry has grown significantly.

In the quarter the company has announced its first interim dividend of Rs.25 per share which in fact is equivalent to last full year dividend, which has been paid at the beginning of the Oct 2021. The company is looking close to 300 Crores of capex during FY22 primarily on the specialized BOPET line, value add capex to further enhance specialty films and on specialty chemical division. The financials are expected to be fairly strong even with this capex and the balance sheet as the cash generation is fairly robust. The bottomline addition from the capex will be effective from the starting of the next year.

Coming to specialty films, in fact specialty films has been growing consistently for last more than three years, and growth rate in FY2021 has surpassed more than 20% as base was wider. The company is in process of ordering several other value added assets for further growth of specialty sales. The capex size in these assets will not be very substantial, but of course the potential for the bottomline impact will be higher.

As we announced earlier, we have increased R&D headcount to 30 numbers to further enhance our R&D focus. The company is further enhancing its specialty film portfolio and some of the new innovative products in fact, we are working on includes Shrink Label films, direct thermal printable films.

Coming to new projects, as you can notice now largely we cater to both B2B and B2C segment. On the B2B segment growth of the specialty films is running fairly intact. The pipeline is looking robust. The specialized BOPET line will activate further and very recently we have announced new BOPP line which will further enhance growth. In the B2C side, Petcare and very specific specialty chemicals will drive the growth.

Progress on specialty BOPET line is broadly running as per plan even with the COVID related challenges. The line will have close to 20% capacity and is expected to commence from the beginning of the next year. We are targeting complimentary growth in specialized BOPET line including Shrink Label and other high end specialty. This will partially substitute imports as well in India and this will also provide an opportunity towards to convert the known recyclable PVC film market in India which is close to 30,000 metric tonne.

The company has placed order for the new BOPP line which will be the world's largest production line and this line will add close to one-third capacity to our existing capacity. The line is expected to commence commercial production from FY2025. Both these lines specialized BOPET line and BOPP line this will allow the company to further expand in specialty films.

Textile chemical production line is under commissioning while the company continues to conduct extensive trials on the newly developed products.

Now moving to the ESG initiatives. A separate report covering complete details of ESG initiatives shall be shortly available on the company's website. Besides environment and social impact these initiatives shall be cost rationalization as well, which will be reflected in the P&L in the coming quarters. Some of these initiatives include renewable power, at all our plants, offering monolayered structure for ease of recycling, power, water, gas consumption rationalization, rainwater harvesting and reuse of affluent treated water, waste elimination recycling of the waste. We planted already more than 5,000 trees and we have plan to increase this to 50,000 trees in the coming time. So we feel that besides rationalization of course this will also contribute to the environment. I think these are the few updates on the quarter from the company's side. Now we would like to open the call for the questions, please.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session.

Question: First of all congratulations on very good results this quarter. Firstly, my question was on the specialty film business. In your opening remarks, you did mention that spread was very healthy at Rs.40 per kg, but given the recent increase in cost in various things like power, packaging, freight cost, in the last one and a half months, so how do you see directionally the spread going forward and are we able to pass any increase in cost to customer?

Management: Well, you rightly pointed out some of the cost increases. I am glad to confirm that yes a large part of these cost increases have been passed on to customer. In fact, we internally as a company are trying to work on the FOB basis rather now on the CIF basis. Having said so, I think the spread is more a function of demand and supply. So far, we feel that demand levels remain very robust based on the industry information, the kind of the supply which is expected further on the BOPP side, and the kind of the demand which we expect, we expect that it should remain fairly healthy except if in a quarter some capacity increases there may be some temporary impact on the margin front other than this we feel fairly robust overall position.

Question: Secondly on the Masterbatch line which we commissioned last quarter, what is the current capacity utilization and how incrementally it is impacting our EBITDA positively, if you can just give some detail around it?

Management: Well, we are running close to 55% to 60% capacity utilization depending which in fact is increasing on month to month basis. So we are running fairly towards the target to have the full utilization by the end of the year. EBITDA for the Masterbatch line is already positive. Now with the increase in volume, it should add further. What we initially indicated was the line was expected to have two to three years payback, the capex incurred on the line was close to 20 Crores so from that perspective you can compute.

Question: For Masterbatch if I remember from one of the earlier presentations you mentioned it was supposed to cater to 75% in house consumption and 25% was supposed to be sales outside customers. So, have we started outside sales and what kind of a revenue will this bring into us?

Management: We have already started 10%-15% sales outside and I would not be able to recall the exact numbers but from the overall volume perspective 40%-50% was planned for sale outside Cosmo Group.

Question: As we have already launched two new products in our chemical side, and Unilever has also launched one last quarter, how is the response and what is our timeline for launching rest of the textile chemicals?

Management: Well, in fact the response is very positive. Our R&D team is working along with the production team on the commissioning of the production line, as all new launches done so far is on the pilot line. Now we are going to have the main line in place. So you may expect next few quarters then it should further increase. In Dec 2021 quarter we should be able to stabilize the line for the commercial production.

Question: Given the initial response in Zigly now what is our plan for rest of the year and next year if you can elaborate on that?

Management: The response is very very positive. We already have experienced lot of good feedback coming from the various levels of the customers. Having Omni channel presence, providing the end to end solution to the pet parents. As we had indicated at the beginning that it is more a pilot launch initially which we will do, based on learning from it then we will further expand, very soon we will announce the expansion plan.

Question: What will be the current quarter's volume growth if I just want to bifurcate into the price growth and the volume growth?

Management: Compared to the June 2021 quarter it is close to 10%. Compared to last year broadly similar volume.

Question: As you mention launch of FMCG and B2C products. So, is there anything apart from Fabritizer and Zigly that we are planning? What would be our current sales of Fabritizer?

Management: Not at this stage. In Zigly, there will be lot of launches in the next 12 to 15 months in terms of more stores, putting more services on the digital platform, ensuring that the services are being provided through marketplace modeling, more cities, so all that will start positively. When it comes to FMCG we are right now working on a detailed strategy, in terms of which are the other products that we should launch and how should we go about the expansion plans. As and when we have more details, we will be certainly happy to share with the investors. As I had also mentioned last time that Fabritizer was initially a B2B product and we launched it as a B2C product as well because expected that customers will like it, it is the need of the hour, and therefore we launch it as a consumer product. It is already now available at many modern retail outlets as well as online space and as we speak we have also have a business head for it who is detailing the detailed strategy for it and hopefully that study should be complete in the next three to four months in which case, we will decide which are the other products we have to launch which markets, we have to launch and go to market strategy, but as of now we are right now only expanding on the Fabritizer sales. Fabritizer sale is still very small. As I said, we have got if I remember correctly around 10k-12k bottles till now.

Question: There is a mention of that the synthetic paper market, Indian synthetic paper market is around 6,000 tons and globally that is 1 lakhs tons, so apart from Cosmo, how big the Indian market is being catered on the synthetic paper side?

Management: See, right now as far as BOPP is concerned, only Cosmo is there, though there are some imports, which come from the overseas market Japan and from Nan Ya, Taiwan. India has got unique products, which is being serviced out of polyester which is quite difficult films. In that segment, again there are one or two more players, but that is a very specific product right now only in Indian market and I do not think that is a large market outside India,

Question: In terms of the patents, while we already have six patents and applied for six more, is there any particular products which are like to be sizable big time, are there new market of any particular product for which we have applied patent?

Management: Some products will certainly scale up, because you know obviously when you launch these products, you have certain things in mind and in the past, we had launched lot of other products in the past, which worth the patent, but we did not apply for patent. Like the first version of feet resting we launched, first time in the world, when we had made the structure for soaps, I mean, the soap packaging that was done first time in the world, but for some of those products, we had not taken our patent, but off late we decided that we will go for a patent and therefore we applied to six patents. Some of the earlier launches that we have done has good market share and some of these products that we are continuously developing I am sure some of them will certainly scale up, but if you ask me today obviously it requires a lot of innovation, lot of work with the customers, and a lot of joint development and therefore it becomes very difficult to pinpoint any number. What we certainly share with the investors is that there is a specialty number and how it will project over the next two years.

Question: What the specialty versus non-specialty film sales was for this quarter? I think in the previous quarter it was 80% and we were targeting also 80%, if you could just tell us about this quarter?

Management: Last two quarters it was hovering between 60% and 65%.

Question: Can you highlight upon what are the adhesives which we are planning to launch, catering to which segment of the industry and what is the scope of that business?

Management: Initially we are going to complement our film business and we intend to launch adhesives for packaging, lamination, and labels. But as we move along because adhesive is a very vast field depending on the success these three areas we will totally evaluate other areas.

Question: My question is regarding what is driving the growth for our subsidiary over the last two quarters?

Management: Specifically, the US subsidiary has grown very well, and I would not be able to share quarter-on-quarter numbers right now with you, but I can say that US alone will grow close to 30% - 35% this year and even Korea, Japan is also growing by close to 15% - 20%. So, overall there is a very handsome growth in the subsidiaries. Growth is driven partly specialty sales, partly volume and partly price all three put together.

Question: Considering all these parameters and if economic growth sustains globally is it reasonable to assume that the EBITDA margins should remain sustainable or maybe even improve further as specialty shares increases?

Management: Largely yes, we have stated many times in the past that what we can control is the specialty film margins obviously commodities also dependent on demand supply. But as you rightly pointed out today we are close to 60% - 65% and as we continue to grow the specialties at a point in time will come that there will be hardly any impact from the market once is and

Question: Big international e-commerce companies are shifting to paper boxes compared to film pouches. How is it affecting the packaging industry as a whole and the company specifically?

Management: We do not supply to e-commerce sector directly therefore there is no impact to Cosmo, however it's definitely one opportunity for us to look at.

Question: Swiggy and Zomato they are doing a lot of food packaging and delivering to the houses. Does it help the packaging and suitable and are we supplying to companies like these? In future we are thinking of tapping that industry or no or they are not too smaller market to be bothered right now?

Management: Again, we do not supply to that segment that is untapped opportunity for us. Packaging is a very broad industry and obviously Cosmo is not supplying all types of packaging. We are largely into flexible packaging, you have separate packaging for pharmaceuticals, containers, corrugated boxes, paper packaging, tin packaging, I mean Cosmo is obviously not in every type of packaging. We are into flexible packaging and therefore those are untapped areas for growth.

Question: Are we looking for outside funding once the company is demerged from the main company?

Management: We have clearly said that in the past that within two– three years we intend to make it a separate entity and what you are asking is a very long-term question and I may not have all the answers as of now. But certainly we do see that this will drive lot of valuation for the company as such.

Question: Regarding FMCG sector is lately showing slowdown in growth rate. Will it affect our packaging industry as such?

Management: We see a very huge growth coming from FMCG. Last quarter FMCG grew by 15% and that is obviously showing a positive result for the packaging companies. Let us not forget that lot of new brands are coming in the FMCG segment. Earlier every category there were hardly four -five products now if you see there are so many challenger brands which have come up in every category. If you add up all of them FMCG is going at a very handsome pace. However, for Cosmo packaging is only 40% of its total sales. We have 60% sales outside of packaging and for us within packaging again we do exports and domestic. So, we really do not get as much affected by this but to answer your question packaging is going at a very handsome pace.

Question: Other listed player is having very high market share in the Shrink label films. What is the market like and what kind of presence do we have as they claim like 80% - 90% market share so, just understanding from what our presence is?

Management: Right now again this is one segment which we are going to come in the next year and you are right that only one player has majority of the market and Indian market is again still very small from the global parlance and once we come we too intend to become a big player. Just to remind the investors that we are coming with the largest line in the world shrink labels which is the most cost efficient and therefore we see that we have a very large opportunity because the most cost efficient line which will produce one of the best quality of shrink film in the world and therefore we do see that we will be able to capture quite a bit of market over next two year to four years.

Question: What has been the experience in the last one or two months of Zigly store launch as well as website launch, what kind of website visits, what kind of foot fall in the store or something that can be slightly more quantifiable?

Management: Till now 120 customers have given us feedback out of which 85% have given us 10/10 and remaining 15% have given 8/10 or 9/10 and most customers have written as feedback that this is the best store they have seen in the world and especially offering almost the entire ecosystem at one place. Having said that our model business has four different businesses as such of which there is retail model, there is a marketplace for services, there is e-commerce and there is private labeling. The website offers services as well as products and as we speak, we continue to expand with more services. There is so much of training that we had given to our people that they are able to service the need of the customer in a far more professional manner and that is the reason that customers are loving it and there is so much of word of mouth publicity that we have already started getting with the launch of the brand.

Question: Absolutely and that is visible on the website that has been designed this. So, my question is let us say we are able to hit 5 Crores of revenue on this segment and we are still away from it, I mean, some kind of quantification, just to get a high level thoughts about it?

Management: It is only days of launch of brand only one store on the website and unlike starters who throw lot of money just to buy sales we are not doing any of those funny things we are going in a very systematic manner. But just to let you know that already we have on some good days at the stall we have even touched sales of Rs.70000 – Rs.75000 and bad days we do Rs.25000 – Rs.30000 sales but average sales coming quite well, and it is more than what we had initially expected.

Question: Our employee cost is currently somewhere approximately 7% of our sales and other expenses are roughly 12% of the sales. They have been coming down from 8% in employee cost and 13% in other expenses. I just wanted to understand this decrease; can we sustain this decrease that we are currently running at?

Management: Other expenses actually have two components, one is the fixed cost other than the employee cost and second of course variable cost including packing etc., lot of it depends on the variable cost how it moves like globally now the packing cost has increased substantially. So, accordingly the other expenses might have increased. That is more a function of how the variable cost related to packing etc., moves.

Question: Thanks, and the second thing regarding Zigly and Fabritizer do you have any expectations members will be coming one year or two years sales we are targeting?

Management: It is very difficult at this stage to pinpoint a number but what we just said on the call is we are looking for fair amount of growth for the Petcare particularly the industry has been growing very well. Our set up has come out very well. Our initial experience has been very good. We are looking for growth for the Petcare in the coming quarters. You will see much more from us in the coming quarters on this.

Question: The Petcare what we have seen when we compare it to the core business it is very difficult, may I know what is the main objective to grow this business?

Management: What we can say is we saw a substantial opportunity there though there is no meaningful player than India level currently in the Petcare although industry has been fairly good. Industry growth has been in pre-COVID period close to 25% and post COVID it has further increased. So, those are very clear business opportunity we saw there and accordingly we formed the business plan which we are trying to implement. It may not complement the existing lines of business, but it is an excellent opportunity to create shareholder value.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, Sir!

Management: Thank you. The company is taking all right steps required to transform into specialty packaging and specialty chemical company with years to come B2B segment and B2C segments separately. Company's uptick performance reaffirms the company's strategies working in the right direction. Specialized polyester line, new BOPP line expected to commence in the first quarter of 2023 and FY2025 respectively which will add to not only the specialty growth the overall capacity addition. Company's diversification projects into Specialty Chemicals, Petcare driving further growth. So, company's focus shall continue to be on improving this specialty film, R&D particularly on this sustainability side of R&D which should yield further results in the coming years. These actions will continue to improve margins and would contribute to the long-term sustainable growth. At the end of the call, I will repeat the statutory declarations. Certain statements in this concall may be forward-looking statements. These statements are based on the management's current expectations and are subject to uncertainty and changes in the circumstances. These statements are not guarantees of the future results. Many thanks for joining the call. Wish you very, very Happy Diwali.