

Huhtamaki PPL Ltd.

(Formerly **The Paper Products Ltd.**)

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26th February, 2016

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Ref: PAPERPROD

Sub: Transcript of Conference Call

Dear Sir/Madam,

Pursuant to intimation given on 18th February, 2016 in respect of conference call to discuss financial results of the Company for the quarter/year ended 31st December, 2015, please find enclosed herewith Transcript of the said conference call held on 19th February, 2016.

Kindly take the same on your records.

Thanking you,

Yours faithfully,

For Huhtamaki PPL Ltd.,


D V Iyer

Company Secretary & Head – Legal



Transcript

Conference Call of Huhtamaki PPL Limited

Event Date / Time : 19th February 2016, 03:30 PM IST

Event Duration : 50 min 22 sec

Presentation Session

Moderator: Ladies and gentlemen, good day. And welcome to Huhtamaki PPL Limited fourth quarter and FY15 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant lines are in the listen only mode. Later there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Shreyans Mehta from Aditya Birla Money. Thank you and over to you sir.

Shreyans Mehta: Hi. Thank you. Good afternoon everyone. We welcome you the 4Q CY15 earnings concall for the Huhtamaki PPL Limited. Today from the management side we have Mr. Parag Vyavahare, the CFO of the company. We start with the call. We will have a brief update from the management on the results, after which we will open the floor for the questions. Over to you sir.

Parag Vyavahare: Thank you Shreyans. Good afternoon ladies and gentlemen. Thank you for taking interest in tracking HPPL and welcome to this Q4 and the year ended 2015 investment call. As the results are there with you I think for a couple of days, I will just briefly say a couple of comments and then throw the floor open for the questions.

The year was quite challenging for us in terms of, in view of many things like the geopolitical situation in overall exports market and the international market has been very tough. The Indian economy has (not clear) has been this thing. On the backdrop of this thing we had a major acquisition which we went through some of the integration related challenges, all the issues which we faced, all the difficulties that we faced. Looking at that thing, I will say that the year has ended reasonably well for us and the results have been satisfactory. And I can say with the happy note that our EPS is at comfortable level, as is (inaudible). Excluding the extraordinary items if I consider from last year of Rs.9.9, we have gone to Rs.10.58, it is almost like I can say 14½% to 15% increment. So, with this I can say, I think it is a very happy mood from the point of view of the shareholders concerns and the fact that we took a major loan to finance this transaction. And also we financed the portion of the real value to the authorization of this (not clear) the transition on the both sides, but I think still despite that thing, we have been able to close the year very well. With that I would like to throw open the floor for the people to ask the questions. Thank you very much.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad.

We have our first question from Ms. Praveen Sahay of BNK Securities. Please go ahead sir.

Praveen Sahay: Thank you sir for taking my question. The first question is related to the standalone numbers. The sales were flat or just a 1½% increase YoY we have seen versus the last quarter de-growth we have also seen. And also there has been a good improvement in EBITDA margins. So, if you give some information or light on this, this quarter versus last quarter or something?

Parag Vyavahare: The last quarter was corrected because of the fact that it began, of course the Q3 was very much on low side, and that definitely was a...we had seen (not clear). Because of the downturn, the impact was really, really heavy. But, as we entered the Q4, the situation bit started improving and towards the year end, I think the, I will say the year ending, quarter end went very well in terms of the sales growth. Of course, not very, very high growth, but I think a decent turn compared to (inaudible) to Q3. So, the major reason I will say is that the improvement on the EBITDA and the margin numbers what we have been able to see on a standalone basis or even at the consolidated level basis has been that the raw material prices have continued to be softer in this quarter, because the oil slide has continued, so that has been having its effect. Of course, to some extent that effect has been negated by the fact that the dollar has appreciated vis-à-vis the rupee. But, overall still I think we were able to manage the cost of the materials as well as the sales mix well and also the expenses are managed and the net result what you can see is that the EBITDA has grown.

Praveen Sahay: Sir, we can expect the sales mix going ahead will give the same numbers, similar performance?

Parag Vyavahare: Sorry, sorry, I didn't get you Praveen.

Praveen Sahay: Sir, I just said, because we have seen a little bit improvement in the sales, and as you have mentioned that there has been some recent improvement on the business as well, so going ahead also we will see, expect the same numbers for the sales?

Parag Vyavahare: It is very difficult, as you know Praveen, as a policy we do not give any guidance. So, though the trading conditions have not improved absolutely to the most delightful expectations of one, but definitely we have been able to see some improvement, which we have seen. And we are seeing some improvement compared to let's say, relative to last year Q3, compared to that thing. And we are seeing that some positive momentum can be seen. So, that is only what gives us a bit of a comfort that things would still be bit better. But, number wise I really would not like to put specific numbers.

Praveen Sahay: Yeah, definitely sir.

Parag Vyavahare: Because, as you know because roughly the raw material prices are continuously going down, so obviously that is going to impact on the selling

prices also, because our industry as you know has a pass through mechanism. The moment the raw material prices goes down, we cannot retain the benefits infinitely with view that it is raw material prices driven. So, we end up passing on the decrease to the customer. Obviously the moment the sales prices comes down, sales value tends to come down. So, those things keep on happening from period to period and quarter to quarter etc. So, it becomes difficult to give the mix, because many factors are playing at a point of time.

Praveen Sahay: Sir, just more on the margin side that as you had already mentioned the RM cost benefits has impacted the improvement in margins. Is there any role on the merger of the new entities as well played in the improvement in the margin, like any merger synergies and all also benefited thereof?

Parag Vyavahare: As we are operating, though legally on different entities, for all practical purposes and on the business side, we are operating as one entity. So, as I said, we have been able to better leverage both our sales capability as well as the purchase capacity. So, the purchasing ability we are having, yes definitely we have been able to get some, I can say better raw material cost advantage or whatever we can say.

Praveen Sahay: And lastly sir, will that margin be sustainable, because this time consolidated margin of 12.7% we have delivered? So, is that sustainable?

Parag Vyavahare: Could be slightly difficult I will say. It may be, I will say that it is a really at a very historical level, one of the very high number what is sitting there, because the raw material costs were really, really quite beneficial to this quarter. So, of course you can't expect all your (not clear) to be in the best of the places probably. You cannot expect that.

Praveen Sahay: Okay, thank you sir. I will come in the queue for further questions.

Moderator: Thank you sir. We have our next question from Mr. Vipul Shah from Sumangal Investments. Please go ahead sir.

Vipul Shah: Hi, good afternoon and congratulations for a good set of numbers sir.

Parag Vyavahare: Thank you.

Vipul Shah: Sir, can you give any figures in terms of volume growth, because as you said, you pass on the raw material cost benefit to the customers. So, it naturally depresses the sales value. But, if you can give any volume growth numbers, it will give us a better handle to understand what type of underlying growth you are having?

Parag Vyavahare: The volume growth is, do bear in mind that it is slightly difficult to compare, because the last year numbers are slightly, excluding the Positive this year is in the Positive. So, I will comment that the numbers are more from the standalone perspective, because that may be a proper numbers. So, probably I can say that the volumes have grown at the rate of around 5½% in the whole year.

Vipul Shah: 5½%, roughly?

Parag Vyavahare: Yeah.

Vipul Shah: For the entire year or the quarter sir?

Parag Vyavahare: For the entire year. For the entire year I am saying.

Vipul Shah: Okay. And sir, can you give any roadmap for the debt retirement over the next two-three years, this 420 odd crores debt?

Parag Vyavahare: Of the debt, around 385 crores of debt which is the non-convertible debentures of what we took for the financing of this acquisition, this is 7% non-convertible debenture and that could go foreign exchange (inaudible). Now, this loan if you see is raised for five years period. So, this is supposed to be there with the bullet repayment at the end of the five years. And so of course we do have the option of doing a prepayment at any point of time, depending on our comfort with the cash flows and the overall fund available.

Vipul Shah: So, I didn't get it, your coupon rate is 7% sir?

Parag Vyavahare: Coupon rate is 7%.

Vipul Shah: Plus, whatever is the forex cover we must have taken.

Parag Vyavahare: No, no, there is no forex covers at all. This is a 7% rupee loan.

Vipul Shah: This is a 7% rupee loan. And sir is it possible to give separate margins for this Positive Packaging and standalone Paper Products?

Parag Vyavahare: We may not like to give that separately. But I will say, I don't think the margins are very widely different. They are not very widely different.

Vipul Shah: More or less they are converging.

Parag Vyavahare: More or less. Half of a percent, percentage point differences here and there, because depending on each cost structure, the product that we sell, the kind of markets that we sell, depending on that, some difference could be there. But, that is not something I can really tell is very much realized. No material difference. No major differences.

Vipul Shah: Okay, thank you sir. And all the best for the future.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Our next question is from Mr. Apurva Mehta of KSA Securities. Please go ahead.

Apurva Mehta: Hi sir. Thanks for taking my question. Sir, one thing I wanted to ask was currently what are the capacity utilization in both standalone and Positive?

Parag Vyavahare: Roughly we will be operating somewhere between 70% to 80% capacity utilization.

Apurva Mehta: 70% to 80%. And in the last quarter we saw some, earlier when we split between standalone and the consol figures, there was a huge gap between margins. So standalone we saw a margin of 11.67. When we split it up into the consol, the other company, rest of the consol, there was a margin of 14.6 or something like that.

Parag Vyavahare: This you are talking for the Q4 or you are talking for the....?

Apurva Mehta: Q4. Q4. So, any product mix change or anything related to that?

Parag Vyavahare: No, it has got to do with; inherently the product portfolios are slightly different. They are not 100% exact replicas of each other. Positive does have their exports and are definitely more than mine. Exports of the Positive are slightly higher when compared to the HPPL. So, that factor also has its own play, I will say. And then also the Webtech if you see, the Webtech business is different. Their margin profile also is different. And it is better compared to the HPPL. So, those are having that effect, when we try to segregate those numbers.

Apurva Mehta: Sir, what is the Webtech turnover this full year?

Parag Vyavahare: It will be roughly around 94%-95% or something like that.

Apurva Mehta: 94%-95%. Sir, Q4 we saw some loss in it, on consol basis....?

Parag Vyavahare: What has happened is, they have faced the, what I will say is the slowdown effect they have felt very, very harsh impact in the Q4, because of that thing what has happened is the sales growth has been very muted for them in this quarter. And obviously, of course they also have gone through some expansions etc. So, the costs have walked into the P&L account, but the sales growth in the last quarter was very pathetic. There has been a, as you see on the one side, rains were very bad. So, obviously the agricultural sector which is one of their customers has not performed very well. So, in that sector the orders were very well. And our second sector, the pharma sector also has seen some of the negative effects coming from; one is the FDA ban what we saw on many of the companies. And the second thing is, in the export market also the trading conditions were quite difficult for many of the pharma companies. So, obviously that factors is having its own impact, I will say.

Apurva Mehta: Sir, currently how they are doing, during this quarter now, current quarter?

Parag Vyavahare: It is slightly premature to talk about that thing. But, I think, but I will say that Q4 was a blip. We don't expect it to really sort of continuing trend, I will say.

Apurva Mehta: Sir, what is the currently, what is the export percentage currently what we are having in both combined entities?

Parag Vyavahare: Combined we are at around 25% or so.

Apurva Mehta: Okay. And last year any growth was there in that? We were growing or we had de-growth? What was there in the exports?

Parag Vyavahare: On exports, there has not been growth, because of those three-four factors have played, as I just told you. One factor definitely has been that the raw material prices have come down and that is the one factor. But, the major has been that the overall world economy has not been doing well, and that is why you have seen India's exports have (not clear). I think two days before there was a report that almost for fourteen to fifteen months continue to (not clear). So, that effect is there. But, I think there has also been one major impact, which has been happening is that lot of our exports goes into this Africa and Middle East markets and this has been witnessing a very huge amount of geopolitical uncertainty on one side, (not clear) etc. But, also the major reason is that in many of those countries, because of their dependence on the oil, since the oil realizations have gone down, so their economies have completely got dried up. So, there is no forex availability and the customers are just not ordering. Or, if they are ordering, they are ordering lesser quantities, or if they have ordered, they are deferring the deliveries. They are facing challenges in paying. Or some of the countries, the Government to conserve the forex has tried to go and impose customs duty. So, that has had a bit of a negative impact.

Apurva Mehta: But still we are facing the challenges currently also?

Parag Vyavahare: Still those challenges are there, because they can't go off. All of us are reading every day so it is not something that this will go off in one month or two months. It is slightly difficult to predict. But yes, one knows that hopefully it will not prevail forever. From there, the things will turn around. We already have seen, oil has now recovered from the 28 level to 30-35 level, we have seen that thing. We will have to wait and then, because always when these kinds of national changes takes place, in one quarter, two quarter, people cannot adjust to it and respond. It takes at least a year or a year and a half kind of period. So, we have seen fifteen somehow they have managed to survive etc. etc. So, we have also tried to do, we have also tried to collaborate or cooperate with our customers and tried to see how we can exist to make both the ends meet and the needs of both the parties are met. So, that we remain firmly rooted in those market and prevail with the customer. And that is what we are trying to do. And of course at the same time, we are also trying to see how (not clear) new customers we can get or whatever. It will take some time. It will take some time. Generally if you ask me, whether it will be six months or one year, two years, three years, five years, it will be very difficult to say.

Apurva Mehta: Sir, but the impact will be not there because we have 85% of our sales over there. So, do you find any significant impact will be coming or will it be nominal whatever?

Parag Vyavahare: Slightly difficult, because we have seen the whole year's performance we have seen what is there, we have seen. So, the situation will continue I think for sometime around that level only. I don't think there is going to be any major change immediately. Only thing is that, now we have been hearing the views that those countries have agreed to cut down on the oil production and sales, so maybe that will start to have some positive effect on the oil prices. So, that may help in reviving those economies. But, it is still some way to go. We really can't, only thing we are hopeful is that, okay, maybe the negatives from here may not be very, further negatives hopefully should not be there.

Apurva Mehta: So, are we exploring any new markets other than Middle East and Africa?

Parag Vyavahare: Obviously. Obviously we are. We are exploring market. But, one needs to keep in mind that the whole world economy right now is slightly in doldrums. The growth rate everywhere has come down. To enter any new market also is not going to be easy, because there are already companies servicing those markets. It is not that, let's take an example like Australia or maybe let's say go to Japan or let's say maybe go to Europe, it is not that people from there were not consuming and so they tried consuming and hence there will be huge demand for your packaging material. Because, the packaging is such a product where the customer wants to have a supply in time and in the last moment and just in time. And when he has to buy from a distance, he has to develop that relationship and comfort level with the supplier and we just take it full time. It doesn't happen overnight. So, it is a long process. It is not that, so we will continuously keep on working on exploring new market, whether as new products or the kind of offerings or whether it is geographies or giving the same offerings (not clear). All these strategies we will keep on working. But, it does take time to bear results.

Apurva Mehta: Sir, currently what is our import content for the raw materials? Are we importing?

Parag Vyavahare: Yeah, yeah, we do import substantially. Almost I can say, 450 crores to 500 crores of imports we are doing per annum.

Apurva Mehta: Sir, we are hedging or does our natural hedge (not clear)?

Parag Vyavahare: We have a natural hedge. Largely we have got natural hedge.

Apurva Mehta: Sir, any bonus provisions for what, everybody is doing....do we have any, this (not clear)?

Parag Vyavahare: Sorry, I didn't get your question very clearly.

Apurva Mehta: Sir, bonus provision which every company is doing because of this new policy of the Government of provision of bonus, so do you have any impact on this quarter?

Parag Vyavahare: Yeah, we had. We had impact in this quarter. We had. We also had to do the provision, because it is a retrospective amendment that the

Government has come up with. So, we also had to review our position and we had to make some additional provisions to cover.

Apurva Mehta: Sir, what will be the amount, approximate amount?

Parag Vyavahare: I will not like to specifically put a figure on this. But, the impact is not much, I will say. I don't like to (not clear),

Apurva Mehta: Okay. Thanks a lot sir.

Moderator: Thank you sir. Sir, we have our next question from Mr. Praveen Sahay from BNK Securities. Please go ahead.

Praveen Sahay: Thank you for the follow up question sir. How much of the excise duty this time sir, this quarter, consolidated results?

Parag Vyavahare: I didn't get this question, Praveen, in the sense it is not very clear.

Praveen Sahay: Sir, basically earlier we used to get a number....like gross sales, then the excise and then the net comes. So, this time we had compared....?

Parag Vyavahare: No, we have removed it. Because, if you see the excise for us is a pass through mechanism, so we realized that it is better not to report it and that is why we have started to straightaway reporting on the net level basis. Because, the excise for us is around 12%. But, whatever, this doesn't apply to exports and it doesn't apply to let's say our (not clear) so, whatever the ratio sometimes we get weekly there at times.

Praveen Sahay: Okay. So, last time you had said it is somewhere around 7.3.

Parag Vyavahare: Typically around that. Because, roughly one can say that roughly it might be around 45% to 50% turnover will be (inaudible). So, average will come to around that.

Praveen Sahay: Okay. And the next is, employee strength sir, by the end of 4Q?

Parag Vyavahare: It will be roughly around 1560 employees in HPPL. And Positive will be again 1400 (inaudible).

Praveen Sahay: (Not clear) is there any change sir?

Parag Vyavahare: Small changes will be there. Small changes.

Praveen Sahay: Small?

Parag Vyavahare: Nothing really abnormally high. Typically we would add some equipment or we are trying to do something, few people here and there we typically add.

Praveen Sahay: Sir, lastly on the market dynamics in the flexible packaging in India, we had seen the exit from one of the players and (not clear) consolidation happening. So, what is your take on that?

Parag Vyavahare: No, I didn't get you.

Praveen Sahay: Sir, we have seen that there is, one of the players has exited, even they have sold their flexible verticals to some other, like an international player. So, what is your take on the consolidation of flexible market in India? Is that happening or slightly we had also taken a pause there?

Parag Vyavahare: Consolidation to a small extent is definitely taking place, like (not clear) and Positive are consolidated or some other competitors are also trying to add (not clear). That kind of process happens. But, it is more process. The number of players in the market is something like 900 plus. So, even if the consolidation takes place, it is not going to change the market dynamics very, very dramatically. That will require a huge number of acquisitions by anybody or by all people put together or all active players or let's say the ones who are very seriously trying to consolidate the market. Really we will have to do a lot of acquisitions, then only we can see the consolidation impact coming in the market.

Praveen Sahay: Right. And on debt side again sir, like how much of the gross debt we have currently?

Parag Vyavahare: Can you just give me a minute, I will just check? Roughly around 529 crores.

Praveen Sahay: Okay. Fine sir. Thank you.

Moderator: Thank you sir. We have our next question from Mr. Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thank you for the opportunity sir. Sir, this question is related to...

Parag Vyavahare: Sunil-bhai, try to talk slightly loudly. Your voice is very faint.

Sunil Kothari: Okay. Sir, regarding this standalone entity, I am trying to understand this employee cost has gone up by almost 16%-17% sir. So, is there any major manpower additions or this is just wage revision and just bonus provisions? I am talking about standalone.

Parag Vyavahare: Are you referring to the yearly numbers or are you referring to the quarterly numbers?

Sunil Kothari: No, yearly. It has gone up to 133 crores from 126.

Parag Vyavahare: No, no, one second, standalone entity you are talking of?

Sunil Kothari: Yeah, standalone.

Parag Vyavahare: No, standalone what you are saying, the numbers have gone up from where to where?

Sunil Kothari: From 126 it has gone to, sorry, from 84 crores it has gone to 97½. So, any major addition to sales?

Parag Vyavahare: No, I think one needs to remember that there are three-four impacts in this area. One is that some number of employee increase have definitely taken place, because we did add certain capacities in the factory last year. If you remember, last year we did a major expansion in Silvassa and Hyderabad. So, obviously some of the employee strength did not come completely for the whole of the 2014. So, they joined in 2014, but there were various points of time that people kept on coming. But, in the current year you saw, you are able to see it for the whole of the year. So, that is one part I would say. The regular incremental impact is there. Third is also I will say, some impact has come because of this bonus provision revision impact also has come. So, I think those factors will have contributed. So, otherwise it is not a number of employees or something, like it has suddenly gone to 100 or some 200 or 300 employees, no, nothing like that. It is a nominal employee increase of thirty, forty, fifty employees, which typically takes place anywhere, because we are trying to do things here and there etc. That kind of changes will be there.

Sunil Kothari: And sir, any merger related activity, which is what the one time like?

Parag Vyavahare: Not very major. I will say....throughout the year we have incurred lot of expenses in terms of completing the acquisition and etc. etc. But, that we would have spent close to around, I think if I am not mistaken around Rs.2½ crores or something, whole year.

Sunil Kothari: And one more thing is that what is the CAPEX we have for standalone entity and consolidated during this 2015?

Parag Vyavahare: Yeah, that is what I told you, roughly around 2½ crores to 3 crores expenses are there, that's right, okay. Please ask me the last question again please? Sunil-bhai?

Moderator: Sir, he has left the queue sir. Shall we move to the next question now?

Parag Vyavahare: Yeah, please.

Moderator: We have our next question from Mr. Shreyans Mehta. Please go ahead sir.

Avinash: Hi Parag. This is Avinash from Aditya Birla.

Parag Vyavahare: Yeah, Avinash. Please tell me.

Avinash: Yeah Parag, one thing, are we giving any technical fee to Huhtamaki?

Parag Vyavahare: No.

Avinash: Any technical fees, any royalties?

Parag Vyavahare: No, no.

Avinash: Okay. And the second thing is, during the calendar year 2015, have we added any other markets in our export markets, because it was not there in 2014? Any other destination which we have added?

Parag Vyavahare: We would have added. But, I am not able to recollect. But not very hugely significant, making any major difference immediately. We would have added, because the penetration in various countries keeps on happening. So, you keep on going into different, different markets. So, those activities are on. But, nothing very, very, I will say, hugely significant immediately. It will take time to bear its fruits. Because, when new countries we will enter, there obviously is resistance for entry as you know. I don't have specific country names here. Maybe I can check later and tell you.

Avinash: Okay, one more thing. What is our policy like; Huhtamaki would have other subsidiaries in different countries. So, when we compete with our own group companies, so what is the policy between group companies when we are into export market?

Parag Vyavahare: Typically what happens is, there always is a....there is a first incumbent who is sitting there in that market. So, typically when an incumbent is sitting in that market, generally as a group we try to follow a policy of, I will say it co-operation, cooperative competition. In the sense, if somebody is selling X product and at a reasonable price, and that price is not this thing, so we don't try to be price warriors and go into competitive market and say that, okay, I will sell that product at a lower price in that thing and then snatch away business from that thing because, that actually is going to destroy the value for the whole group. So, when we try to compete or we try to operate in those markets, the approach is that you have your competence in X product, fine, you sell that thing. I have competence in the Y product and if you are not into the Y product, then we will go and sell the Y product in those markets. Or, with their existing customers, if they supply X product, I will not go to the same customers and sell X product. I will see whether I can sell Y product. That is how it operates.

Avinash: Okay. So, basically if you have gone to a market or a market or to a customer, who at presently there is no Huhtamaki subsidiary catering to, then you are free to do that?

Parag Vyavahare: Yes, yes.

Avinash: Okay. Sir, one question from (not clear).

Parag Vyavahare: Sorry, your voice is very, very faint. Can you talk slightly loudly?

Avinash: Yeah, yeah. Sir, can you hear me now?

- Parag Vyavahare:** Barely, barely.
- Avinash:** Just a second. Sir just wanted to understand...
- Parag Vyavahare:** Now, it is very clear, very clear. Thank you.
- Avinash:** Sir, the cost of debt you said is 7%, right?
- Parag Vyavahare:** 385 crores of NCD what we have, I was talking only with reference to that.
- Avinash:** Okay, that is the NCD portion.
- Parag Vyavahare:** Yeah, the NCD portion.
- Avinash:** Okay, that is it from my side.
- Parag Vyavahare:** Yeah, next question Moumita.
- Moderator:** Yes sir. We have our next question from Mr. Ankit Ghosh from Systematics. Please go ahead.
- Ankit Ghosh:** Thank you sir. Thank you for taking my question. My question was with regards to what earlier one of my colleagues asked, what is the CAPEX we have done for CY15 and what would be the expected CAPEX for the next few years?
- Parag Vyavahare:** I will tell you, just a second. Roughly all three entities put together is (not clear). We have done additions of roughly around Rs.85 crores.
- Ankit Ghosh:** Sir, 85 crores is at consolidated or PPL and H?
- Parag Vyavahare:** Consolidated.
- Ankit Ghosh:** And just the standalone basis, HPPL how much sir?
- Parag Vyavahare:** On standalone on HPPL basis we have done additions of around 90 crores.
- Ankit Ghosh:** 90 crores. And what is the future plan for the next two years, what is the CAPEX?
- Parag Vyavahare:** My expectation is that both the entities put together, all three entities put together roughly, actually we will keep on adding at least 75 crores-80 crores of CAPEX still we will keep on adding. Because, in this business you don't create CAPEX at a very large capacity at one go and then make a CAPEX (not clear) next three-four years. It doesn't happen like that. Typically you keep on doing CAPEX every year, because you are still, you have to catch a 10%-12%, 15% growth every year, you need CAPEX at typical intervals of anywhere between twelve to eighteen months. And then in between, at one point of time, you suddenly feel there is a surge in the growth or

you see some new things to do some time, we may do some additional CAPEX at that point of time.

Ankit Ghosh: Okay. Sir, this CY15 numbers if I see, 10 crores for standalone, CAPEX I am talking about, then 85 crores on a consol basis, so 65 crores could be with regards to the Webtech and PPL, right sir?

Parag Vyavahare: Webtech plus Positive and.....let me just reconfirm. One minute, I hope I have not made a mistake. I am sorry. Sorry, I thought, so sorry. I gave you the depreciation figure, I am so sorry. This format is slightly new to me. Sorry, the additions are at, the gross additions are at 45.6 crores.

Ankit Ghosh: 45.6 crores.

Parag Vyavahare: 45.6, so total company wise, total all three entities put together is 45.6 and standalone, as I mentioned is 20. So, when I read that number, suddenly I felt that, I know for sure that those other entities have not added so much, so I just went back to it. Thanks for asking me both these questions.

Ankit Ghosh: Alright sir. Sir, Webtech has done a completed CAPEX cycle, a small CAPEX addition last year itself, right sir?

Parag Vyavahare: No, there also, again all these three businesses operate almost on similar basis. Every year we will keep on adding some CAPEX. So, it is not that you added a capacity.

Ankit Ghosh: Right. In Hyderabad we have done some expansion, if I am not wrong.

Parag Vyavahare: No, 2014 we did lot of expansion in Silvassa and some expansion in Hyderabad. 2015 we have not done any major expansion. What we have done are basically are the carry forward of the same CAPEX which we had initiated last year. We basically went on and completed them in the current year. Whereas in Webtech also they had registered certain CAPEX last year, largely they have gone in and completed it in the current year. And same is the case largely with the Positive. That is why the current year CAPEX for 2015, what I have got capitalized what we are able to take off that 45 crores, they are not major capacity addition CAPEX, I would say. They will be basically capacity balancing or rupee maintenance CAPEX is what we call, like you expand, you need office, you need laptop replacement for every three-four years, (not clear) need to be changed every three-four years, weighing scales need to be changed and the wrapping system need to be changed, wrapping or weighing materials need to be changed or somewhere some fire-fighting equipment you need...., those kind of routine maintenance CAPEX.

Ankit Ghosh: Okay sir. Thanks a lot.

Moderator: Thank you sir. Our next question is from Mr. Rohan Pandya of BNK Securities.

Rohan Pandya: Hi sir. Thank you for taking my question. Just want to understand that if our parent Huhtamaki is planning to increase or decrease the stake or

something like that. Because, there were talks going on in this, so just want to know what is going on.

Parag Vyavahare: Not to my knowledge at all. Rather as a part of this merger if you see, Huhtamaki's stake will slightly go down, as a part of merger if you see. Webtech, when it will get merged with us, the Huhtamaki as well as the general public, both stakes will slightly go down.

Rohan Pandya: Right sir. One more question, I just want to understand, our company's business is linked to the FMCG sector, so what kind of guidance do you see going ahead? Because, not just guidance, I want to understand, what kind of orders you are getting, what is there? Is there some traction in this kind of, in that space?

Parag Vyavahare: You need to understand that this business doesn't work on any long term contracts or long term orders that we get. If the orders are small, you are on a hand-to-mouth basis. To give a perfect view, certain orders we have to fulfill let's say within anytime between five days to seven days and certain orders we can get let's say (not clear). So, really every month we have got to get those orders or whatever, 150 crores to 200 crores of sales of what we want to do, I mean it can be anywhere between 175 crores to 200 crores and we will then execute them every month. If you have got 500 crores order book with you now and you are trying to execute it comfortably. No, it is not like that thing. So, everyday you are trying to get that 5 crores, 7 crores, 8 crores, 10 crores orders or whatever.

Rohan Pandya: Okay. So, recurring orders are, we don't see much of that?

Parag Vyavahare: No, no, recurring orders, these are recurring orders. You are dealing with the same customers every day. But, it is not like that thing that he is giving you, somebody is giving you 50 crores order and saying that, supply me for the next three months. No, it is not like that. Even he may be buying, somebody maybe buying from me, let's say, 5 crores worth of goods, but he will not give me one order of 5 crores at one go in one month. And maybe in a month he will end up giving me seven, eight or ten orders.

Rohan Pandya: Okay, alright. That is all from my end. Thank you.

Moderator: Thank you sir. We have our next question from Mr. Vipul Shah of Sumangal Investments. Please go ahead.

Vipul Shah: Sir, can you clarify your position on how do you divide the export territory between the parent company and you? That was the question, but I could not get your answer.

Parag Vyavahare: Basically what happens is the, it is not that we try to divide or something like that thing. Some of the territories operate, all the entities can operate there. But, depending on the guy who ended up first and he is servicing X customer or X product line, then you will not try to venture into that. We will not go to the same customer and try to lower the price and try to snatch away the business. So, generally when his presence is at a market or his present with certain customer and if we know that thing, even if the customer tries to come to you or by chance you end up going there or something and you realize, you typically will check with them that if this customer are

you servicing? Or, in this customer market, are you servicing? Can I go? Can I not go? That is how you check with each other and then you operate like that thing.

Vipul Shah: Okay. So, there is no formal distribution of areas or territory?

Parag Vyavahare: Very, very formal, it is not possible. It is very difficult, because the product portfolio is neither 100% same or neither 100% divergent, completely. It is not that the one entity is producing steel and one entity is producing aluminum. So, they both have no problem and still claim it, I can go and sell the aluminum every year. It is not like that thing. Company may be selling, let's say to give an example, somebody is selling let's say, I am the flat and somebody may be selling the long. So, one has specialized in one and one has specialized in the other.

Vipul Shah: Okay. And sir, you said your raw material import is around 500 crores, right?

Parag Vyavahare: Roughly, 450 crores to 500 crores, I said.

Vipul Shah: So, that roughly matches our export, right? Roughly?

Parag Vyavahare: Right.

Vipul Shah: So, both are in the same currency? Both are in dollars?

Parag Vyavahare: Largely in dollars. Largely in dollars.

Vipul Shah: Largely in dollars.

Parag Vyavahare: Largely in dollars. 100% you cannot, because certain customers may or certain customers may want to (not clear).

Vipul Shah: Means, from imports and exports perspective, we will not get much of the heat that was what I was trying to understand?

Parag Vyavahare: Largely balances out. Largely we will balance it out.

Vipul Shah: Okay, thank you sir.

Moderator: Sir, shall I move to the next question?

Parag Vyavahare: Yes, please.

Moderator: Yeah. We have our next question from Mr. Nikhil Upaday from Securities Investment Management. Please go ahead.

Nikhil Upaday: Hi, good evening sir. And thanks for the opportunity.

Parag Vyavahare: Nikhil, could you talk slightly loudly? Your voice is very faint.

Nikhil Upaday: Okay sir. Is it audible now?

Parag Vyavahare: Yeah, now it is better.

Nikhil Upaday: Sir, just two questions. One was, you mentioned on, basically we get the order on a hand to mouth basis; on a regular basis you complete the order and deliver it. So, that does explain our inventory days. But, if you look at our receivable days, generally it is in the seventy to eighty days, so how does the payment cycle move? Or, is it because of the exports that the payment cycle looks elongated?

Parag Vyavahare: Yes, yes, export does have some impact in that. Export does have impact. Definitely. Because, in exports, the payment cycle is slightly longer, in the sense typically it will take anywhere between 60 to 100 days or so. And similarly in the domestic market also, certain segments the payment cycles are slightly longer.

Nikhil Upaday: But, what would be the average payment cycle for domestic then?

Parag Vyavahare: Domestic will be, I think is around 65-70 days.

Nikhil Upaday: Okay. And sir, basically if we look on the standalone basis, on our gross margin as of now, you mentioned that we need to pass on most of the benefits to the end consumer. So, but how is the lag generally? So, as and when we get the orders on a weekly or a two to five days basis, as and when, so we have to pass on the pricing subsequently or is it a lag? So, how does that work, if you can just say?

Parag Vyavahare: Typically it works on three models. One, what is known as the every month or every quarterly revision. So, whatever the changes in raw material, in a template you have to feed those changes and positive, negative, depending on that thing, you will get the increase or you have to pass on the decrease. That is one model. Second model is going to be a slight variation of this model, wherein a certain range, within the range if certain movement takes place, then there is no change. If the change is outside that range, then you have to pass on or pass on the increase or pass on the decrease. And third one is on the negotiations. Customers are operating on all these models. And hence typically, the impact will keep on moving between, anywhere between one month to three months. Maybe I will say four months will be on the outer side; anywhere between one month to four months will be your implementation cycle of the pass through.

Nikhil Upaday: Okay. So, just to get this idea clear, so as of now if we see crude, if it remains in the band of 35, then the gross margins which we clocked in December, that should be the base gross margin which we should report over the subsequent quarters, because then.....?

Parag Vyavahare: May not be. May not be, because what happens is that, in the Q4 the raw material prices went down. And the complete pass through of those reduced prices would not have occurred to the customer. So, some of that portion will pass through will occur in the current year's first quarter. So what happens is, if you see, I think the crude declined very substantially from November-December. October I think it was okay, but November-December were very bad for the crude.

Nikhil Upaday: Okay. But sir, post that decline of 28 now, it is settling to 35. So if we consider from October to February, the price of crude is largely again in the same band. So, do we need to again pass on the benefit, because largely we are on the same price as of now? Are the cost at which we would be buying....?

Parag Vyavahare: No, it doesn't work exactly like that way. Because what happens is, you have to take a price, so you don't go everyday to the customer for the new price. It is not practically feasible, because the business will not function. So, you go at typically at a certain difficult point, either at the month beginning or the quarter beginning or when there is a major impact. Now, various quarters the price has been lower, those effects which have not gone to the customer will go this quarter. You can't retain the major reduction in the raw material cost forever. Because tomorrow the converse will happen, when the raw material price increase, the customer will not entertain me. Hello? Hello?

Moderator: Sir, he has left the queue sir. We have our next question from Mr. Anuj Sharma from AM3 Investments. Please go ahead.

Anuj Sharma: This is M3 Investments.

Parag Vyavahare: Anuj, your voice is very faint. Please speak loudly.

Anuj Sharma: Is it better now?

Parag Vyavahare: Yes, now it is better.

Anuj Sharma: Okay. So, this is regarding the point which you said about the order cycle for five to seven days. Has that been the trend for past many years or is it a recent trend?

Parag Vyavahare: No, no, when the, certain products as I told you it is five to seven days and certain products will be two weeks and certain products could be (not clear), if it is a new product or a slightly complex product or with a long manufacturing cycle, you will get somewhere between three to four weeks. So, generally the cycles have always been like this thing. But, only as the times become tough or as the technology or the people's expectations or the market response has increased, so there always is some reductions. So, maybe today what I am expected to supply in five to seven days, maybe actually I was having maybe seven to ten days to deliver that.

Anuj Sharma: But, just to understand the nature of this business, because FMCGs have continuous production, why is the order for such a short notice? If let's suppose, it is a six months, the production manager in FMCG has six months visibility, why isn't he giving you a five to seven days order cycle?

Parag Vyavahare: No, no, he also may not have six months visibility. He himself is not having six months visibility. I don't think any FMCG will be operating on six months kind of production cycle. No way, they cannot afford. Because, they also have to provide for the changes in the product line. They have to have their (not clear) changing every month. MRPs are changing every month. Manufacturing licenses could be changing. There are seasonal factors in their product. So, none is having that comfort.

Anuj Sharma: Okay. And just again on this point, (not clear) cycle of five-six, seven days, does he negotiate with other vendors as well or does it comes to one company.....?

Parag Vyavahare: No, this five to seven days that I mentioned is, that is after the price negotiation is over. That is the point when I am saying five to seven days, then is when he says, okay, we have settled everything now, this is my order for X quantity, deliver the material in five days or seven days, depending on the product or some other product he will say two weeks.

Anuj Sharma: Okay. Right sir, got it. Thank you.

Moderator: Thank you sir. There are no further questions. I would now like to hand over the floor to Mr. Parag. Over to you sir.

Parag Vyavahare: Thank you very much all the investors and analysts for taking interest in our company and participating in this call by taking out your valuable time. And we hope to talk to you again at the end of this quarter. Thank you. Over to Shreyans.

Shreyans Mehta: Thank you very much everyone for your participation. Thank you sir for giving us this opportunity. Thank you.

Parag Vyavahare: Thank you. Bye, bye.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. You may disconnect your lines now. Thank you and have pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.