

Huhtamaki - PPL

13th March, 2019

The Department of Corporate Services

BSE Limited

P J Towers, Dalal Street,

MUMBAI - 400 001

Fax No.: (022) 2272 3121/3719/2037

corp.relations@bseindia.com

Ref: Security Code No.: 509820

Listing Department,

National Stock Exchange of India Limited

Exchange Plaza, Plot no. C/1, G Block

Bandra-Kurla Complex, Bandra (E)

Mumbai - 400 051

Fax. No. (022) 26598237 / 8

cmllist@nseindia.com

Ref: PAPERPROD

Sub: Transcript of Conference Call held on 20th February, 2019

Dear Sir/Madam,

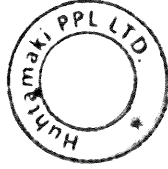
Further to our intimation dated 15th February, 2019 in relation to the conference call on the audited financial results of the Company for the Quarter/Year ended 31st December, 2018, please find enclosed herewith Transcript of the said conference call held on 20th February, 2019 for your perusal/records.

Kindly take the same on your records.

Thanking you,

Yours faithfully,

For Huhtamaki PPL Ltd.,



D V Iyer

Company Secretary & Head – Legal

Encl: As above

Huhtamaki PPL Ltd.

Central Headquarters : L. B. S. Marg, Majiwade, Thane - 400 601, Maharashtra, India.
Tel No.: +91 (22) 2173 5591 / 5551, Fax No : +91 (22) 2173 5599

Reg Off: 12A-06, B-Wing, 13th Floor, Parinee Crescenzo, C-38/39, G-Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051, Maharashtra, India.
Tel No.: +91 (22) 6174 0400 Fax No: +91 (22) 6174 0401 / 2653 1310, CIN No: L21011 MH1950FLC145537, Website: www.ppl.huhtamaki.com

Transcript

Conference Call of Huhtamaki PPL Limited

Event Date / Time : **20th February 2019 3:30 PM IST**

Event Duration : **1 hour 3 minutes 37 minutes**

Presentation Session

Moderator: Ladies and gentlemen, good afternoon and welcome to Huhtamaki PPL Limited 4QCY18 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participants' lines are in listen-only mode now. Later, there will be an opportunity for you to ask questions after the presentation concludes. Please note this conference is recorded. I would now like to hand over the floor to Mr. Jaymin Trivedi of Aditya Birla Money. Thank you and over to you sir.

Jaymin Trivedi: Thanks. Good afternoon everyone. We welcome you to the 4QCY18 earnings conference call of Huhtamaki PPL Limited. Today from the management, we have MD, Dr. Arup Basu along with his colleagues. To start with the call, we will have a brief update from Mr. Suyog on the results, after which we will open the floor for questions. Over to you Suyog.

Suyog Chitlange: Good afternoon everybody. We welcome you all to the earnings call for Huhtamaki PPL for Q4 and full year 2018. We had reasonably good results for Q42018, with sales growth of nearly 1.5%, while for year-on-year we had a sales growth of 11%. As compared to last year (Q42017), our sales grew by 9%, it is also decent growth. Also, our value addition has started improving in terms for Q4 we have value addition of 31.5% vis-à-vis our value addition for Q318, being 30%. And year-on-year, we have a 1% downward trend of value addition, which is mainly on account of increase in raw material prices. Raw material prices like PET, aluminum foils have really gone very high in the current year. We have been able to recover a lot of money from the customer, but still some recovery was pending, which we should be able to recover in the current year.

On the EBIT front, again Q4 has been very good. We had a 7.9% EBIT, which is around Rs.47.6 crores for the Q42018, vis-à-vis Q32018, being only Rs.31 crores, which was 5.3%, mainly on account of increase in value addition by Rs.15 crores, and for the Q417, it was 7.6%, which is again Q418 is higher than Q417. . For full year, we are at 6.5% EBIT vis-à-vis 7% in the previous year, but on absolute terms, we have increased our EBIT by Rs.7 to Rs.8 crores, which is again a 4% growth over previous year, which is a decent growth.

On PBT front, we are at Rs.39.4 crores for Q418, which is 6.5% of the sales as compared to Q3 being Rs.15 crores. Again, in Q3 as investors would know, we had this one time hit on account of the tax provision, which we had done for Rudrapur ATIT matter and along with that we had interest provision of 9 crores, so Q3 was badly hit by that.

So, with that we had an EPS of Rs.2.38 per share for Q42018 vis-à-vis negative EPS for the earlier quarter, due to the Rudrapur provision, and Q417 was Rs.2.77. On a full year, EPS was at Rs.4.62 per share. But if we remove the impact of the income tax provision, the EPS would have been at Rs.8.72 vis-à-vis previous year of Rs.8.42, again a bit higher than previous year.

So, this is from our side. So, Jaymin, we can start on the questions and answers part for the investors.

Question and Answer Session

Moderator: Thank you sir. We will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

First question comes from Kaushik Poddar from KB Capital Market. Please go ahead sir.

Kaushik Poddar: Can you throw some light on the closure of your Thane plant? Was your turnover affected by that, because I guess, you had shifted some of the turnover to some other plant. Yeah, if you can answer that.

Arup Basu: So, Kaushik, this is Arup Basu, I will answer this question. First clarification, we did not close the Thane plant at all. What happened was, we received a closure notice from the Maharashtra Pollution Control Board and we took the matter to the High Court, and from there the matter was referred to the NGT. Further, we had clarified to the Maharashtra Pollution Control Board (MPCB) that the Company is conforming on all the elements relating to Plastic Waste Management Rules, that were raised in the said Closure Notice. Hence, the Company withdrew its application from NGT, while protecting its rights to go back to NGT, as we always do in a legal matter. Further, the Company have also received an All India Registration from the Central Pollution Control Board, Delhi, which is given to companies who have plants in more than two states. In fact, the Company is part of the team that is leading the engagement with government, in terms of how to deal with post-consumer packaging. So, the plant has not stopped for a single day in terms of operations. We have conveyed to the local pollution control board on all the measures taken by the Company in relation to Extended Producers Responsibility. What is pending is, the official formal withdrawal notice by MPCB.

Kaushik Poddar: Okay. So, you haven't lost any production as such, right, if I got your correctly?

Arup Basu: Absolutely. The plant has not stopped a single day's production.

Kaushik Poddar: Okay. And, how are you protecting yourself from such a kind of notice or something of that sort, because plastics and polymers is always very something that environmentalists will always shout against. So, what are you doing

to protect yourselves from such kind of things so that such kind of things do not happen next time?

Arup Basu: So, we have, as I said, the Central Pollution Control Board, which is the apex authority in India on pollution matters, each state has its pollution control board, the apex organization being CPCB, i.e. Central Pollution Control Board, Delhi. What we got from CPCB is, an All India Registration number, and they issue only to companies who already have an approved Extended Producers' Responsibility. So, we are already working with the agencies that are registered with CPCB in reprocessing post-consumer used plastics. And, if I am not mistaken, we are the only flexible manufacturing Company in India to have a CPCB registration number. And, that gives comfort to all the State pollution control board authorities that our company is a good corporate citizen,

Kaushik Poddar: Okay. And, what is the stable EBIT margin you are looking at?

Suyog Chitlange: Kaushik, as a matter of policy, we don't give any guidance, but we see good reasonable growth in the current year.

Kaushik Poddar: Okay, thank you.

Moderator: Thank you sir. Next question comes from Nilesh Shah from MEMG Securities Limited. Please go ahead.

Nilesh Shah: Hello Dr. Arup Basu, pleasure to attend this conference call. I have a couple of questions. The first one is on the net debt of the company, the total borrowings. There has been debentures NCD of 385 crores, which are due for redemption on Jan 27th coming year, so how has the company provided for it, and what is the total net debt of the company excluding that debt? That is my first question. And second one is regarding this pollution control board, the order which you received, and the NGT thing. The land at Thane is a free hold property, which has been revalued, I think, probably around 15, 20 years ago. And it is around 12 acres of prime free hold property, so are there any plans to monetize this land? So, these are the two questions I have right now.

Suyog Chitlange: So, on the borrowing front, other than the non-convertible debentures, we have only small loan from sales tax department, which is interest free loan, which is being repaid as per the repayment schedule. On the non-convertible debenture of Rs.385 crores which is due for repayment on January 2020, we are in the process of formulating our strategy and we will come back to you by may be second quarter on how we are going to repay this debenture. On the Thane plant, currently there is no plan of monetizing it, so we are going to continue our production and sales through this plant. So, there is a status quo in terms of Thane plant, and it will remain for...there is currently no plan, so. as far as the company is concerned.

Nilesh Shah: It is a free hold?

Suyog Chitlange: Yeah, it is a free hold. And on the pollution matter, I think pardon?

Nilesh Shah: On the debenture redemption, you were supposed to have a debenture redemption reserve from 2015, so 25% was supposed to be provided for in it, so I am just asking whether it is going to be cleared this year, or it is going to be renewed or is it going to be, I don't know, you said you haven't formulated a strategy, so there must be some amount in the debenture redemption reserve, which is not reflecting anywhere.

Suyog Chitlange: Debenture Redemption Reserve is reflecting under other equity in the balance sheet, so if you can refer our last year's annual report also, the debenture redemption reserve is there in the other equity portion in the balance sheet. We are creating that we provide it for as of date. As of date, Rs.77 crores has been provided as per the rules laid down in the Companies Act.

Nilesh Shah: Right. So, 385 crores which is up for redemption. Will there be any fresh borrowings?

Suyog Chitlange: No, currently there is no fresh borrowings, so that is what we are telling; we will formulate our strategy by June 2019.

Nilesh Shah: Okay. And, one more question is on the debtors side, you have around 571 crores of debtors, which has increased by 50 crores year-on-year. Why the debtors cycle, payment cycle being extended? The trade receivables is more than 570 crores.

Suyog Chitlange: See, certain amount of increase is on account of the increase in the business, and in certain cases, like in case of exports to Africa region, even though we are exporting to reputed customers, but still there is a currency problem, which is going on in those countries. So, those customers, like Nestle, they are also facing problem in making the payment. So, we are having a certain amount of increase in receivables, but we don't find any issue with trade receivables.

Nilesh Shah: Okay. And one last question I have again is that revenue from your last customer, top customer, had actually dropped down from 258 crores to 228 crores in 2017. What is the revenue from your top customer? It was 10.38% last year, what is it this year from your first largest customer?

Suyog Chitlange: It is 10.5% in the current year.

Nilesh Shah: Okay. It was 10.8, it has gone to 10.5, so around 230 crores or something, it should be, I think, for the year.

Suyog Chitlange: Yeah, it is around 240 crores.

Nilesh Shah: Alright, that's about it. Thank you.

Moderator: Thank you sir. The next question comes from Alana Shah from HU Consultancy. Please go ahead.

Alana Shah: Yeah. Good evening sir. Sir, I have a few questions, first one is, does HPPL use any sustainable or biodegradable raw material option, and if yes, what is the percentage of using?

Arup Basu: So, our raw materials that we use are not biodegradable, but they are all recyclable, and meet the recycling norms as laid out by the Plastic Waste Management Rules that are applicable in India. So, all our packaging is recyclable as per the regulatory norms that have been issued and keep getting revised time to time, as you know. As of now, they are all conforming to the PWM rules.

Alana Shah: So, that would be 100% sir?

Arup Basu: Yes.

Alana Shah: Okay. Sir, the second question is with regards to, has the parent company acquired any other company which is apart from the food division, apart from the flexible packaging division? Because in the past it has acquired Valpack, if I am correct, if I am not wrong. So, has it acquired any other company?

Suyog Chitlange: ValPack has been acquired last year itself. And it has been acquired directly by the parent, so other than this there is nothing in India.

Alana Shah: No other company apart from the company that was acquired last year, has been acquired

Suyog Chitlange: Can you repeat your question? We are not able to hear you clearly.

Alana Shah: Can you hear me clearly now?

Suyog Chitlange: Yeah, yeah.

Alana Shah: So, my question was that last year ValPack had been acquired, which is not a flexible packaging division, it is into paper products. So, apart from this company, has the parent company acquired any other company in India?

Suyog Chitlange: No, not acquired any other company.

Alana Shah: Okay sir. And, also sir, will you be able to tell me what would be the volume sales done by the company?

Suyog Chitlange: Pardon?

Alana Shah: The volume sales?

Suyog Chitlange: We can give you the growth rate. So, as compared to the last year, we have grown in volume terms by 9%.

Alana Shah: Okay sir. And sir, last question, with regards to we have seen the consolidation, I mean, the acquisition in this year Ajanta Packaging had been the sales had been consolidated in this year. So, why would you say the growth would be a little flattish that way? I mean, there has been a growth, but though a marginal one even after the consolidation of Ajanta Packaging as well, so what would your comment on that be?

Suyog Chitlange: So, we had good growth we said, not a sluggish growth. We had a good growth of 11% in sales value terms as compared to previous year. And Ajanta was only there for part of the year, and it is very small in terms of its contribution to revenue. So, even if we remove Ajanta, we have a good growth of 9%.

Alana Shah: Okay fine. All the best, sir, thank you very much.

Arup Basu: Thank you.

Moderator: Thank you ma'am. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Next question comes from Ankur Periwal from Axis Capital. Please go ahead sir.

Ankur Periwal: Yeah, hi sir. Thanks for the opportunity. So, just trying to understand our business a bit better. So, over the medium to longer term, will it be right to say that the volume growth for us will be only in terms of FMCG companies in the overall growth, or probably there are certain other product lines as well, which we plan to add, which can diversify the business as well in the longer run.

Arup Basu: So, our business is in flexible packaging, as you know, and the customer sectors that we serve are FMCG and Pharma. And so, in the Indian economy, the FMCG growth and Pharma growth are the best proxies in terms of the growth of the sector where we play.

Ankur Periwal: And these will be the sectors wherein we will remain present. So, is there any third addition or any other possible scope wherein we see expanding our presence into?

Arup Basu: Packaging of FMCG and packaging of Pharma is where we will play.

Ankur Periwal: Okay, fair enough. And sir, just want to understand on the contractual front, now because of the volatility in the raw material, obviously there has been a hit on the margins, how the contracts are structured, and what could be the time lag wherein the raw material pricing escalation can happen in a contract?

Arup Basu: So, you are right. The volatility of the raw materials does impact our business and essentially there isn't a fixed formula, it depends on the customer, the duration of the relationship, as well as what the customer is willing to work with. But we typically have one-month contracts, quarterly contract, half-yearly contracts. And, there isn't a fixed model per se, because these are customers with whom we have long term relationships. But we are trying, of course, whatever we need to do, to make sure that the increased raw material prices are passed to them. We are at the end of the day, a converting company, and so that's the engagement we have with our customers seeing the raw material risk really ought to pass to them.

Ankur Periwal: Okay. And the duration of the contract as you mentioned is up to six months.

Arup Basu: It can be six, it can be three, there are those with quite a few we have quarterly contracts, and with some it is even monthly.

Ankur Periwai: Sure. Sir, just as a follow-up to this, so in terms of our raw material procurement, so does it happen in sync with the demand? So, let's say you have got a six months contract and you will procure the raw material accordingly, or you have some long term arrangement wherein probably there is some pricing benefit you get because of your procurement?

Suyog Chitlange: So, see, when Dr. Basu is telling six months contract, it is not a volume contract. Six months contract is in terms of price. So, three months contract means, every three months the price is negotiated. We don't have any contract in terms of volume. For volumes, we have to estimate, we discuss it with our customers, customers give us some estimates, and based on that our buying is done. So, it is estimated buying based on estimated sales which we believe, and which our customers give us. But there is no binding contract in terms of volumes with the customer.

Ankur Periwai: Okay, got it, I got it. And sir, lastly, if I may, the working capital over the last probably two or three years, we have been seeing some increase, sometimes because of inventory and sometimes because of receivables. Now, receivables you earlier clarified that this is largely because of the exports and slightly stressed working capital there. Will it be fair to say that the Indian business per se is not facing any working capital related issues, or probably there is some stress in both the legs, India and abroad.

Suyog Chitlange: So, as far as India goes, it is fine, and we have our inventories under control, so there is no issue per se on the working capital on the domestic front. Only in some Africa region, because those countries are facing issue, but our customers are huge. So, we don't have any issue in terms of collectibles.

Ankur Periwai: Sure. But there are just some delays in payment because of the contract issues?

Suyog Chitlange: Yeah. And we are trying to work on penalty payment terms also, but those customers are large, so you cannot insist much, but our collectibles are not at risk, they are safe.

Ankur Periwai: Okay. Fair enough sir. Thanks a lot, and I will get back in the queue in case I have more questions. Thank you.

Suyog Chitlange: Thank you.

Moderator: Thank you sir. Next question comes from Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: Thanks a lot. See, couple of questions, what is the capital expenditure outlays for the current year?

Suyog Chitlange: So, as a matter of policy, we don't give guidance on numbers or capital expendituresowe are sorry about that.

Lakshmi Narayanan: Okay. And, what kind of tax rate you expect for the current year?

Suyog Chitlange: The tax rate for the current year would be around 44% to 45%.

Lakshmi Narayanan: Sorry?

Suyog Chitlange: 44% to 45%.

Lakshmi Narayanan: 44% to 45%, tax.

Suyog Chitlange: Yeah, which is consistent with our past rate.

Lakshmi Narayanan: Okay. In terms of our innovation, what is the revenue contribution from our new products which has been introduced in the last couple of years, because you calculate something called the innovation index, which you actually mentioned in your annual report? And, I also understand that our firm has actually won certain award to the recent IFCA event for innovation, right? So, if you can just throw light upon what kind of innovation we are doing, what is it contributing to?

Arup Basu: So, it is in the range of 23% to 25% of our sales is from innovation products and we are working closely with our customers on a variety of solutions across product categories. So, it ranges in terms of the type of packaging we have and also in terms of the material chemistry, and increasingly on the element of sustainability to increase or improve the efficiency of recycling when we recycle the products. So, that's the theme on which a large amount of focus is there because we want to make it easy for our brands to recycle. So, all of them are recyclable, but the effort is to make it easier to recycle.

Lakshmi Narayanan: And, coming to recyclability lot of our customers also have some end mandate in terms of how they should look for sustainability, right? Now, does that give us some kind of an edge over other flexible manufacturing companies, flexible packaging manufacturing companies? So, can you just help me understand that?

Arup Basu: So, I don't want to comment on competitors. I can certainly comment about ourselves and our customers. We see all our customers are very serious about sustainability and wanting to create flexible packaging that is easier to recycle and meets the sustainability criteria. Because the consumers are increasingly keen that the convenience of flexible packaging is also married to the sustainability element, and I think, there is a lot of communication that we need to do because flexible packaging, by the way, is the most carbon efficient packaging that you can have across the entire options of packaging that you have, more so because of the supply chain challenges in our country, because the products are manufactured in some factory in terms of whether it is a chocolate or whether it is any other food item, and then it has to be transported by truck to the final point of sale and consumption. And, if you take the lifecycle carbon footprint, any rigid packaging that you substitute flexible with, you lose on the carbon lifecycle, because in the truck, a large fraction of your weight then is the package weight, and the product weight is say 65%, 70% in the case of rigids. Whereas in flexible packaging, the ratio changes dramatically to 90% plus percent of the material that is going to be consumed by the consumer and packaging is less than 10% by weight. So, that's where the equation completely changes. And so, what we are really working with closely, is to come up with options for them that allows them to have the

necessary shelf-life, protect the product that's there, keep it hygienic and safe for the consumer, and at the same time, avail all the sustainability and carbon footprint benefits of flexible packaging, particularly in a country of our size. And so all our brands, and actually even the small brands are working on specialist structures, because every product needs a customized structure to protect it. So, a coffee will be very different from a chocolate will be very different from, say, salt. I am just randomly picking up materials. So, our work is to create structures that allow it to be recycled in a very easy way. We are working with agencies to help with the collection and segregation of the post-consumer waste of flexible packaging. Because, then you really...as long as you don't have the littering and clogging of drains etc., you really have a fantastic packaging solution already in place. And on this, I don't think we will be selfish, we would like other packaging companies to also get on to this bandwagon. Because this has a bigger cause than just one company or two companies, because it is meeting consumer needs in the most benign way possible.

Lakshmi Narayanan: Sir, there is something called multi-layer flexible packaging, which it is being contested and some companies don't want to do it, right? So, within flexible packaging, is there any regulation you are actually foreseeing, which is being globally done and it may come into India at any point in time. And what is the regulation and if it comes how we are poised on that front?

Arup Basu: I think, on, if I may say, on sustainability, India is actually far ahead of the rest of the world, because our packaging layers are probably at least in the thinnest bracket vis-à-vis anywhere else. So, we are making every square meter go much further in terms of what we pack. We also probably have the smallest sized packages that you get anywhere and that itself is also a wastage reduction technique. Because when you have this small sachets, you really are not wasting the product that's inside. And, in terms of this multi-layer, multi-layer is as recyclable as a single layer, so I think the number of layers is not an issue in terms of recyclability. What it does is, it really optimizes the material that we are using and the technology that we are using to protect the product from getting contaminated or from getting spoilt. And, you will see, basically the materials under use is a combination of paper, foil, and polymers. And, people are working on permutations and combinations across these three. So, you might have paper packaging, you might have polymer-based packaging, you might have foil-based packaging, and a combination of all three. Net-net, what you are trying to do is, really minimize your environmental footprint in packaging it, without harming the properties of whatever you have packed. Especially in the case of foods. And so, I think, on this India is actually something that others need to follow, because if you just go anywhere overseas, say, in Europe, or US, you will find that the pack, thickness of the laminated pack of anything, whether it is a packet of peanuts or anything else, is much thicker than what you have here. And to that extent, India is far ahead on the sustainability curve. As I mentioned, we haven't marketed this capability in terms of these dimensions, but really on environmental matters, I think, India is anyway ahead of the rest of the pack. And now we are trying to do is, just make sure that the last mile, in terms of post-consumer use, back to the recycling ecosystem is handled well.

Lakshmi Narayanan: Got it, got it. I also understand a lot of our customers do the reverse bidding process where the pricing power of the converter dramatically goes down. What percentage of our revenues are coming through the reverse bidding process and has it increased in the last few years? Some kind of a number as to what it was five years ago and what it is now?

Arup Basu: I can say qualitatively the frequency of reverse options have increased from customers in terms of discovery of suppliers. I don't have a ready number that we have computed in terms of what fraction of our sales are being now obtained through the reverse bidding process. But I think customers also understand the value of the other aspects that a packaging company brings because we are a humble product. A consumer will take the packaging, look at it and throw it before they use what is inside but it's one of those essential things that you need to get the product out of the factory to reach the customer. So I think there are many other attributes to it. We've taken the reverse options as a new norm for people wanting to discover cost effective customers. But this whole game is not only about price, it's about the value that we bring to the customer and whether we are able to work with them to kind of anticipate their needs and help them sort of win their battles. Every company has its own strategy of getting its cost down. We work on the value part and so it will reach its own equilibrium. But to answer your question, I don't have a number thing how much is on reverse options but we certainly see an increasing trend of people wanting to use that to discover new customers or new suppliers whether it might get value. The other aspect also that's happening is sometimes this happens for a short while and then some of the customers do carry out a second round of cost benefit analysis of working with a variety of suppliers of varying degrees of capability and whether it is really worthwhile in terms of maybe a little cost or a price recovery that they have overall in terms of the long-term attributes of the business and very often they decide this adventure perhaps did not yield the desired value in all its senses and then they go back to really a partnership model.

Lakshmi Narayanan: Okay. Sir one last question related to the exports. two parts. One is what percentage of the revenues come from exports? Second, Huhtamaki has actually expanded into Africa also. how do you think our exports into Africa whether it is going to get augmented or it is going to get suppressed and is there a kind of target for exports in the next couple of years.

Arup Basu: Our exports to answer your question is about 20% to 25% of our sales...closer to 20%. Being part of an MNC there really isn't a concern around the parents' presence in Africa because we allits one entity really and if we have some certain competitive manufacturing capabilities, the parent is keen to use that to go elsewhere. So we see that as a benefit rather than as any issue.

Lakshmi Narayanan: What kind of volume growth we got in exports this year?

Arup Basu: It is about the same. It's about 20 odd percent of our sales.

Lakshmi Narayanan: I am saying volume growth when compared to last year?

Suyog Chitlange: In terms of volume growth we are nearly at the same, so we did not have any significant volume growth in export market because of the challenging situations in Africa and hence we have sold only where the collections were not at risk. So we were cautious in terms of our exports. So in terms of volumes, there has not been any major growth in volume terms in export market.

Lakshmi Narayanan: Sorry one more question. In terms of our new clients, I see we are getting a lot of new age FMCG companies and it is quite evident when I visit the

modern trade store, be it GRB or whatever it is. So what is the revenue contribution from new clients as well as new product lines from an existing client for this year?

Arup Basu: Our overall innovation products which is the new products line or renovation of new products etc is as I said about 23% to 25%

Lakshmi Narayanan: And new clients per se because we see a lot of new clients are getting added especially the new food companies coming up? So what has been the traction there, what's the revenue growth or revenue percentage from new clients?

Arup Basu: The new customers, they need to reach a certain size because the order sizes aren't very large when they are in the launching stages and so that's....probably I would say around 20%.in that ballpark. I will have to come back to you for the precise number.

Lakshmi Narayanan: Okay thank you so much for answering all my questions.

Moderator: Thank you sir. Ladies and gentlemen if you have a question, please press * and 1 on your telephone keypad. Participants are kindly requested to restrict with two questions in the initial round. The next question is from Naushad Chaudhary from Systematics. Please go ahead.

Naushad Chaudhary: Hi, thanks for the opportunity. Again I have the same question on the export side. Will it be possible to share the absolute numbers....in value terms how much export revenue was in this financial year 2018?

Suyog Chitlange: It was around 20%.

Naushad Chaudhary: Okay and vis-à-vis last calendar year sir?

Suyog Chitlange: Last year was around 22%.

Naushad Chaudhary: Okay. Is there any margin difference between your export and domestic business?

Suyog Chitlange: Exports are a bit more lucrative in terms of margin.

Naushad Chaudhary: Okay. What about the working capital cycle there sir? I mean in terms of overall trade terms how is it in export market versus domestic?

Suyog Chitlange: There is no major difference in terms of working capital, but as we have told on the call, due to certain currency issues in Africa it has increased a bit. Otherwise there is no major difference in terms of working capital.

Naushad Chaudhary: So would that be a reason to have a little bit better margin because we are having higher receivables than export market?

Suyog Chitlange: We factor that in our pricing.

Naushad Chaudhary: Okay and lastly on the margin side, I understand you don't give any guidance but just wanted to understand from the current level, do you see any

scope for improvement from this level 10.7 which we have reported in this quarter? Do you see further?

Suyog Chitlange: There is always scope for improvement and as a company we will always focus on improving the margins.

Naushad Chaudhary: Okay. Last on the capex side sir if you can guide for the capex of 2019 and 2020?

Suyog Chitlange: As told earlier we don't give any guidance in terms of numbers.

Naushad Chaudhary: Thank you so much sir.

Moderator: Next question comes from Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir as the raw material cost is increasing, how is it having effect on the margin of the company?

Suyog Chitlange: Pardon? Can you repeat your question? Your voice was not clear.

Aman Sonthalia: Sir, since the raw material price is again rising, what will be the effect on margins since we have a contract for six months, three monthssso how will it impact the margin?

Suyog Chitlange: See, it is a cycle and we as a company try to recover as much as possible.the raw material cost from the customer. Sometimes if the raw material cost increases beyond a point, then we go back to the customer, even if the contract is for six months, we try and negotiate with the customer and try to increase our selling prices. So it all depends on what negotiations can do and the intention of the customer and their willingness to give the price increases also. And it is a mixture of a lot of factors in terms of what products also go into our base.so all of these have an impact on the margins.

Aman Sonthalia: And sir one more question regarding what is the long term growth in the flexible industry in India?

Arup Basu: That is linked to the long-term growth expectations that you have for FMCG, pharma and overall the Indian GDP. But FMCG and pharma will probably give you a sense of how flexible industry will grow because they all get packed largely in flexible packaging.

Moderator: Thank you sir. Participants are kindly requested to restrict with two questions in the initial round and join back the queue for further question. Next question comes from Anshul Sehgal from Kotak Portfolio management. Please go ahead with your question.

Anshul Sehgal: Thanks for the opportunity. I just want to understand what the capacity utilization is today and in which regions do we have capacities which are

underutilized? I do know that we set up a plant recently in I think Guwahati in the East and that may not be fully utilized. So to what extent is capacity utilized and how much is available?

Arup Basu: So our current capacity utilization is about 75% and we have headroom available for growing it a little more. This business needs a certain amount of additional headroom because the demand cycle from our FMCG customers are isn't always line of sight on that because the volatility and variability that they have in demand gets passed on to the packaging people and as of now, while this is our current numbers, there is headroom to grow and take it to the high 80s level which is what we are after as well. And you are right, Guwahati was the newest plant; we are in the stage of building a supply base around the North east because that's what it was designed for and we are still in the process of reaching capacity utilization there as we work because the backend is not very well connected yet. We have put in the printing lines there but the materials all needed to be carted to the factory and then taken to the customer's premises.

Anshul Sehgal: So does that mean that majority of the under utilization is in that capacity....the Guwahati capacity?

Arup Basu: We won't put it as underutilized because that's just one linethere is room to grow in all our other plants as well. And probably from a new plant model there is little bit of headroom there to just bring that one line fully capable.

Anshul Sehgal: Sure and you mentioned that in the exports that we have our margins are slightly higher than our domestic sales. If we assume that this is part of the value added product category, how much of our total sales would be value added and thus would be higher margin sort of business?

Suyog Chitlange: Are you talking about the innovation front or what do you mean....?

Anshul Sehgal: Yeah I mean innovation only. Obviously innovation leads to some uniqueness in the products and hence probably higher margins so to that extent how much would you suggest would be the value added product category?

Suyog Chitlange: It will be around 25% as mentioned earlier by our Dr. Basu.

Anshul Sehgal: I may have missed that. Okay so 25% does not include exports?

Suyog Chitlange: No, no. Exports are separate.

Aman Sonthalia: Okay. In that conversation on exports, was there a target given on where you want the exports to be 30%, 35% of our revenues or that's not something that you want to declare?

Suyog Chitlange: As a matter of policy, we would not like to declare any target but our focus would be on increasing exports.

Aman Sonthalia: Okay.

Moderator: Thank you sir. The next question comes from Mr. Sunil Kothari from Unique Investment Consultancy. Please go ahead sir.

Sunil Kothari: Thanks for the opportunity. Sir my question is regarding this NCD we raised from our parent and I think that comes to payment for due in 2019 or 2020. What I know is that the interest on that payment is not deductible as an expense for income tax purpose and so that's why we are paying this 50% of the tax. So can you say some of your thoughts on what we are thinking about this?

Suyog Chitlange: Hello? Interest is it is a contestable issue and it is not that interest is not deductible...it is a debatable issue and we will fight for this with the income tax department. But since this is a debatable issue, in terms of accounting we have taken this stand in consultation with our auditors. On the re-financing of debentures I had mentioned earlier, we will formulate our strategy for that.

Sunil Kothari: Which is the due date for that?

Suyog Chitlange: January 2020.

Sunil Kothari: What you are saying is, we are paying full tax as per the income tax department but we are contesting their demand right?

Suyog Chitlange: Yeah.

Sunil Kothari: And sir, my question is regarding volume growth. I joined the call late so I am sorry if I am repeating. what's the volume growth we have done in 2018 for the whole year?

Suyog Chitlange: 9%.

Sunil Kothari: Thank you very much sir.

Moderator: Thank you sir. The next question comes from Mr. Nilesh Shah from NEMG Securities, please go ahead.

Nilesh Shah: I have two questions; one is from the investment side and one from the product side. On the investment in debt fund, where has investment of 137.49 crores as of last year has there been any hit on the debt fund investment that you have on the books? What is the value of the debt fund as of 31st December? That's the first question.

Suyog Chitlange: So to answer your first question, on the debt fund there has been no major hit because these are sort of liquid excess funds which we hold. As of December we have 21Rs. crores in those debt funds.

Nilesh Shah: So it has dropped from 137.49 crores to 21 crores this year? So as investments you have only 21 crores in debt funds as of 31st December?

Suyog Chitlange: Yes, because as you would be aware we have acquired the business of Ajanta Packaging for around 90 crores and that is where our money has gone.

Nilesh Shah: On the second question on the product side, on the pharma industry side, the push tab which has been selected as one of the best packaging products, is there any plans to manufacture and launch it in India? If so what is the size of the product here? Is there any analysis made in terms of what is the opportunity size in that product?

Suyog Chitlange: Can you repeat? Your voice was not clear.

Nilesh Shah: On the product side, you have a new innovative product called pushtab in the solid dosage packaging category for pharmaceutical companies. So are there any plans to launch this product in India?

Arup Basu: In pharma there is a fairly rigorous approval process that they have because of the sensitivity of the product that is getting packed. So we are first going to evaluate if there is an appetite to buy this because it has a sustainability angle and also in terms of the quality of the product. If there is an appetite, I am assuming they will go through an internal approval process to qualify the product, but if there is a significant demand that gets created; we will certainly look at manufacturing it in India.

Nilesh Shah: Okay, thank you so much that's it.

Moderator: Thank you sir. The next question comes from Himanchu Jadha from Arth Capital. Please go ahead.

Himanshu Jadha: Yeah I have one question. What are the reasons behind (not clear)?

Suyog Chitlange: Your voice is not audible.

Himanshu Jadha: I want to know the reason behind the high tax rate of around 45% compared to the (not clear) of 35%, so what's the reason behind this?

Suyog Chitlange: So there is a debate in terms of allowing one of our major expenses and that is why the tax rate is high.

Himanshu Jadha: Is this related to the interest payment on the NCD or is it on some other....?

Suyog Chitlange: Yeah it is on interest payment on the NCD.

Himanshu Jadha: By when can we assume the convergence of the two rates in future?

Suyog Chitlange: Pardon?

Himanshu Jadha: When can we expect the rate to converge to the statutory rate of 35%?

Suyog Chitlange: It will take some time for us also to comment on that because these NCDs are due for repayment in 2020. Till then the tax rate would be high. Once we formulate our strategy for the repayment of these debentures, we would definitely comment on this.

Himanshu Jadha: Okay that's it from my end, thank you.

Moderator: Thank you sir. The next question comes from Varun, an individual investor. Please go ahead.

Varun: Thank you for the opportunity. I just wanted to ask that I can see from our numbers here that we've grown by 9% in volume and 11% by revenue. I don't see any operating leverage with any reduction or increase in the margins. So what are we doing on the cost side? Where are we trying to reduce our cost and how are we going to go about it in the future?

Arup Basu: Okay, let me comment on the cost perspective. We have....if you see with our volume growth the absolute EBIT has also grown from last year. If I remove for a moment the exceptional tax provisions that we have to do, but let me comment on the specific cost dimension. There are a whole host of steps that have been initiated in the cost area. One is first of all the layout in terms of where we produce which product and making sure that we work on the utility cost reduction – power, fuel etc. So there is a whole host of capex projects underway to reduce the cost of power. The second is the way we have been manufacturing our portfolio in terms of the technology that we are using based on the size of the order etc. which has an impact on operational efficiency. And the third is in the way we are using our materials; in terms of the plastics we use or the polymers, in terms of the adhesives, ink and so on. So there is a significant focus on operational excellence with a focus on increasing capacity utilization through a more effective operation of plants and also in terms of where we place our hardware so that we are able to manufacture the materials in the most cost effective way possible without a sacrificing the customer comfort in terms of how quickly we are able to respond to them. The other aspect also in term of the commercial side of the negotiations so that as a company we at least get....we do not suffer the effects of rampant raw material escalations as and when it happen. So it is a combination of looking at material costs, it is a combination of the way we utilize our assets and also increasingly the way we manage our working capital because that's the other dimension of what we are doing and also in terms of the way we are....the manufacturing foot print that we have and what's the most optimal way to run it. And these will all play out as they get executed.

Varun: Okay and the second question is, you had different product lines right? It will be laminate, it will be pouches, it will be sachets etc. In the organization, are you manufacturing all of these product lines in one facility across all the 17 or 18 facilities or each facility dedicated towards one product line?

Arup Basu: It is neither, it is somewhere in the middle. These facilities have come up organically so there are some capabilities only in some of the units but it's not that everything can be made everywhere, but certainly there is a backup. There isn't anything that's made exclusively only in one plant and this is actually a source of comfort to our customers because they always worry about the business continuity risk specially

if they have one supplier for something. The location of our plants the fact that they are located in diverse parts of our country gives them some comfort that for whatever reason internal or external, if there is any disruption or potential disruption in supplies from one location, we will be able to make good their needs from some other plant. So we have to do a balance of getting our cost structures right but also meet the customer's sense of comfort for whatever reason.... In India things can happen which are not in your locus of control. We are hedged that way across the geographies so that the customer does not suffer if something were to go wrong around one of the plants. And it can be a simple thing like a rasta roko kind of thing on one plant, where if there is a risk of supplies being disrupted, we will send it from some other plant.

Varun: Okay, so will that affect operation efficiency a little bit?

Arup Basu: It could potentially but actually when you look at the end of the day a customer is paying a certain price and so that kind of sets a threshold in terms of how much you can do but we really believe a customer is partnering with us for this service and for all the risk mitigation attributes that we offer. So that is part of the package of working with Huhtamaki PPL. We don't think we will become so inefficient that the negatives outweigh the positives of this.

Varun: Okay. This is a more specific question. In terms of the number of shifts that are running in the plant....is it two or three shifts?

Arup Basu: Three shifts.

Varun: All the facilities are running three shifts 365 days?

Arup Basu: Most of them I would say run three-shift operations.

Varun: Okay, then how do you say that capacity utilization is only at 75%?

Suyog Chitlange: Capacity utilization is at 75% to 80% We don't receive our volume order from our customer on continuous basis i.e. there is no stability of volume. Just giving you an example....first week we may not have volumes, but our plants also are designed in such a way that you have to keep them running otherwise the set up time is quite high

Arup Basu: Also if you see, the customers want us to have a certain amount of headroom for sudden spikes in order. So if you are running completely....first of all we don't run on a very uniform level because it is not a commodity product, it is all specific SKUs for customers. If they suddenly have a spike in demand, their expectation is that we will meet that spike. So we have to keep a balance between the additional capacity that we create and the efficiency with which we convert. These are the two levers we use for making sure that the spikes are addressed. Say during a festival time, suddenly one SKU for a customer has a huge demand and they know that if their demand is not met, that opportunity cost lost cannot be made up and so we have to be mindful of designing our supplying capability in a manner that meets their spike requirements and that's why there is this continuous rebalancing of creation of capacity and fulfilling of that capacity utilization.

Moderator: Thank you sir. Participants are kindly requested to restrict to two questions due to time constraint. The next question comes from Hiten Boricha from Joindre Capital. Please go ahead sir.

Hiten Boricha: Hi sir good evening. So as you told the raw material prices are going up in the last six months so I just want to know, are there any chance to hold them down like the raw material price may come down in the next six months? What's your view on that?

Arup Basu: I wish we had a view on that.

Hiten Boricha: Can you tell me what is the capex we have done for the first nine months in FY19?

Suyog Chitlange: For the first nine months of 2018, we have capex of around 51 crores.

Hiten Boricha: Okay thank you very much sir.

Moderator: Thank you sir. The last question comes from Mr. Lakshmi Narayanan from Catamaran. Please go ahead sir.

Lakshmi Narayanan: Thanks again. Sir two questions, one is in terms of tax, I see that the actual tax outflow the cash outflow of the tax is also higher. So you don't withhold on protest and you pay also on protest? How does it work? When 2020 comes, how will this change? Just to get a sense of if I remove the interest related one, and then the regular tax, what is the split?

Suyog Chitlange: The regular tax we are paying at around 44%. This year we had this Rudrapur issue, so we had to pay some tax on account of the Supreme Court's decision which was around 30 crores. That is why in the current year the tax is high; otherwise it is in the range of 44%.

Lakshmi Narayanan: Okay. And sir you mentioned in terms of your large client is around 10.5, if I just look at your top 3 or 4 clients, what is the wallet share you have with them in terms of the flexible packaging procurement those top 3 clients do? What is your share of their procurement?

Suyog Chitlange: We would not like to comment on that because that's a bit of confidential information so

Lakshmi Narayanan: Okay thanks a lot sir.

Moderator: Thank you sir. The last question comes from Mehira Dagar from Pratvi Simart. Please go ahead. Sir the participant got disconnected from the call. There are no further questions sir.

Suyog Chitlange: Okay.

Moderator: Thank you sir. There are no further questions. Ladies and gentlemen, this concludes the conference call for today. You may disconnect your lines now. Thank you and have a pleasant day.
