

Transcript

Conference Call of Huhtamaki PPL Limited

Event Date / Time : 16th August 2017, 03:30 PM IST
Event Duration : 44 mins 5 secs

Presentation Session

Moderator: Ladies and gentlemen, good afternoon, and welcome to Huhtamaki PPL Limited 2QCY17 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant 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. Now, I would 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 2QCY17 earnings conference call of Huhtamaki PPL Limited. Today from the management we have Mr. Parag Vyavahare, who is the CFO of the company. To start with the call, we will have a brief update from the management on the results, after which we will open the floor for questions. Over to you sir.

Parag Vyavahare: Thank you Jaymin. Good afternoon ladies and gentlemen and welcome to this call and thank you very much for taking out your time to be on this call. The results are there, with you...I mean, this quarter the results have been very, very disappointing and have been unfavorably impacted due to, I think, couple of reasons. One has been the, of course, the GST-related implementation impact, wherein the trade and wholesale trade started reducing their buying and that had a cascading effect backwards. So that was one affect, definitely which we could see in May and June, more so in June. So that is definitely one reason, which affected the quarter negatively. Apart from that thing, the trading conditions in export markets in African continent continue to be difficult and those challenges have continued to affect and may be they have become slightly more difficult in some of the areas. I think, these two factors really played very heavily and because of the thing finally the turnover when you compare to the Q1, '17 was virtually flattish or half a percent down, but compared to the previous year it was much down. So, I think, that's what really has gone and so the fixed cost, though we have tried to contain them quite well, but as one knows, beyond a point you can't contain the cost when the turnover goes down. So that play has come and hit us adversely, and that's where we have seen that the margins and the overall profitability has been down this quarter. So that's the overall situation I would say. With that, I would like to hand over the mike back to the operator so that you people can start asking me your questions.

Question and Answer Session

Moderator: Thank you Mr. Parag. 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 questions. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, we have got the first question coming from Mr. Monish from Equity Masters. Please proceed.

Monish: Hi sir. My question is regarding flexible packaging, so I wanted to ask, what percentage of market share are you aiming in this segment, and what are the competition and the competitive scenario that you are looking at, like, my question I asked is because one of the players TCPL Packaging, they have also entered in the same segment.

Parag Vyavahare: Which player you said?

Monish: TCPL Packaging. And they are saying that they are looking to expand their market share in this flexible packaging. So I wanted to know your views on the same.

Parag Vyavahare: See, I would not like to offer a specific view on a specific competitor on what they comment, because that is not right, because each has their own competitive strategies and it will be very incorrect for us to comment on that thing. However, I will definitely answer your first question, see unfortunately the flexible packaging industry is quite fragmented and to that extent availability of a very, very reliable data is difficult, but still one can say, that the overall size of the industry is roughly around 20 lakh tons, which roughly works out to around Rs.40000 crores. So roughly if you take the overall market, we will be slightly under 5% or ...just around 5% level of the market size. There are roughly, if you take, there are 900 to 1000 players are there in the market and industry is quite fragmented and quite competitive. Does that answer your question?

Monish: Yes, yes. I just wanted to ask regarding the competitive scenario, so are you facing any competition from any players at this...

Parag Vyavahare: Look competition will be there, competition was there earlier also, and today also it is there, so I don't think that's any substantial difference is there between maybe one quarter back and today, I don't think that makes a difference.

Monish: Okay. Thanks a lot.

Moderator: Thank you sir. Sir, we have the next question coming from Mr. Kaushik Poddar from KB Capital Markets. Please proceed.

Kaushik Poddar: There are two questions, a) do you get back to the similar level of turnover this quarter, and b) you said that the exports to Africa is affected. Do you see the same scenario playing out in the next two, three quarters as well?

Parag Vyavahare: See, coming to of course, I will answer first question on the domestic side. See, on the domestic side; post the GST roll out has been reasonably been satisfactory and industry has been responding positively. But, however, definitely the July was a muted month for everybody. But in August some signs of revival, towards the end of July and beginning of August we are seeing a bit of a revival, we are seeing normalcy coming. So to that extent, yes, that gives us a hope that yes, things should improve going forward. But, however, we will have to wait and watch, because it is too small a period at this point of time to really make conclusions. But, we feel that by Q4, the complete negative effect of the GST implementation and whatever destocking and corrections in the trade which occurred, should really go off and industry should be fully back to the normalcy of operations by Q4. Now, coming to the African market, the African markets challenges still continue, the currency availability and the geopolitical

instability in those markets is very much there, and that challenge will continue. So, I don't think, those challenges really have gone off or we don't expect them to go off so quickly in the immediate future.

Kaushik Poddar: Okay. See, I was just going through the presentation of your parent company, that is Huhtamaki, they have publicly said that the targets for EBIT, as a percent of sales is between 8% to 10%. Can we take it that your target is also in similar number?

Parag Vyavahare: No, as an Indian entity, we do not give the guidance and if you see our past, our EBIT has not been that high.

Kaushik Poddar: Yeah. I mean, but your parent company is having that and they have publicly given the guidance, so I am just thinking that aren't you thinking in those lines, because ultimately the same company is managing the Indian subsidiary as well.

Parag Vyavahare: One needs to recognize the fact that the parent company is operating in four segments, if you have seen that presentation, it is operating in four segments and some of the segments the profitability numbers are different, because each segment has its own different competitive position and relative market positions are different. So...

Kaushik Poddar: I am sure, I agree that the markets and everything is different...

Parag Vyavahare: No, so when you are talking of an 8% to 10% whatever number, is a budget average coming from the behavior of the various different segments, but I...as the practice is in India, we do not give guidance, I would not like to comment specifically on those numbers.

Kaushik Poddar: Okay, that's fine. I am through, okay fine.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, we have got the next question coming from Mr. Udit Dokaria from Catamaran. Please proceed.

Udit Dokaria: Good afternoon sir. Thanks for taking my question. Sir, wanted to understand, you mentioned like, apparently you are just 5% of the market, right? But definitely, like, the customers whom you are targeting, like must be, at least like you qualify on the basis that they have to make x crores of sale or something like that, so in that segment what is your current market share and have you lost any customer or decided to walk away from any customer? That's my first question and second question is how are you thinking about replacing this African...are you thinking of utilizing that same facility for some other export markets or you are just waiting for the African market to revive.

Parag Vyavahare: Okay. So first coming to, just one sec...first I will respond to the African question, because that I remember very clearly. See, the African market is one of the important markets for us and one can't immediately think of, within short period of time, one cannot replace such a large market, and there is no question of we giving up that market, so we are following both the strategies, we are trying to grow in other

markets on one side and at the same time we are also trying to fortify our position in the African markets and we are trying to work with the customers, so that we have not lost the customers or whatever, and we are holding them, and still working with them and trying to achieve whatever growth possible within the constraints of operating in that market. So that's on one side. Now, your second question was, I think...I am sorry the first question was on the total domestic market, on the addressable market. See, if you look at the addressable market roughly, out of that Rs.40000 crores, roughly I will say, we will be somewhere between 45% to 50%. So, if you take, as compared to that addressable market, then probably our market share could be around, say, 7-1/2% to 8-1/2%, somewhere between that 7-1/2% to 8-1/2%.

Udit Dokaria: And is the unorganized share in this addressable market also pretty big, like, what could be the, like very small players, and how are you seeing the trend, like, post GST will larger players have any benefit or like, what's the trend that you are seeing, which will help you to gain market share?

Parag Vyavahare: No, I understand. See, at this point of time it is too premature to really say, as to say how the things will pan out... because see, each business when it is working, there is a rationale why they are in the business and when they have gone and achieved certain scale of operation, nobody will just get extinguished because of the one event called GST. The people will adopt it. So it is an evolution, it is an evolution, businesses do evolve as we know, so I definitely see that those businesses also will adopt, evolve, or change their course of action, or maybe adopt some alternative strategies or whatever. But right at this point of time, it is very premature to really conclude or comment as to what will really happen and what kind of (not sure) we will be able to see. Very difficult to say.

Udit Dokaria: Okay. So sir, basically what I wanted to understand is, what are the enabling factors that will require you to grow at much faster rate versus the underlying industry, so that's what I wanted to understand, like, because you are only one of the few big players in this industry, right? So, I just wanted to understand does that enable you to grow faster than the industry or it is not like that?

Parag Vyavahare: No, the GST.... could contribute to that thing you are saying?

Udit Dokaria: No, not in GST. Otherwise as well, like just wanted to understand, are there any certain factors which will help you, like, let's say if you become an x case, you become a lot more cost competitive and that's the reason why you can grow much faster than the industry or similar...just trying to understand what factors would enable you to grow faster than the industry?

Parag Vyavahare: See, it can't be one factor, see, it has to be a product offering kind of variety or the different kind of product offerings that you give to the customer, or the service that you offer to them, the kind of quality that you offer to them, and of course, the right price at the right value of the product that you offer to them, these are the combinations. You have to keep on increasing on all of them. Now, simple situation, can one try to grab the market share by just dropping the prices, yes, that's one option is there, but that will be genuine suicide, right? So that's not something what you would like to go for it; because ultimately you are in the business to make visible money so that you can put that money back into the business for growth. See, if we don't make money,

you won't have capital for the growth. So it is a balancing act, which one has to play within all these factors, I would say.

Udit Dokaria: And sir, what's the internal benchmark for return, like, the return on capital, which you plan to see from your investment in...

Parag Vyavahare: We would like to achieve a return on capital minimum somewhere between 15 to 20%, minimum.

Udit Dokaria: Okay. And sir, like, generally, lot of packaging companies take a debt as well to fund your growth, but so your plans on that?

Parag Vyavahare: See, if the debt is required to finance a certain growth, we would look at definitely at it, but generally what our understanding is that, a normal 10% to 14% growth, which the market is expected to get in a long to medium term, we feel that that much of growth we will be able to finance it with the internal accruals. And if there is a need for a major capex or a major acquisition opportunity or something like that thing, then we may have to look at some kind of borrowings, but otherwise generally we otherwise we will be generally happy to manage that 10%, 12% growth through internal accruals.

Udit Dokaria: Sir, one last question sir. Sir, in the global company presentation, so they mentioned that like they have some target percentage through inorganic growth measures as well, right? So can you just provide some color on like, what's your company's strategy for India?

Parag Vyavahare: No, I would not like to, we would not like to put any specific numbers on that thing.

Udit Dokaria: Okay. Thanks a lot sir.

Parag Vyavahare: Yeah, thank you.

Moderator: Thank you sir. Sir, we have got the next question coming from Mr. Sunil Kothari from Unique Investment Consultancy. Please proceed.

Sunil Kothari: Yeah, good afternoon Parag bhai.

Parag Vyavahare: Good afternoon, good afternoon.

Sunil Kothari: Yeah. Sir, broadly, what is the reasons of this major or substantial fall in your margin, is there any new competition or this volatility in governmental prices, and my second question is, what we are doing to achieve our double digit EBITDA margin, which we were achieving last year and previous to that also. So that's two broad things.

Parag Vyavahare: Understood, right. See, Sunil bhai, if you really see, as I mentioned, in my opening remarks I have said, see when the sales growth does not come and this business is, relatively as I have explained in the past is that it is a low capital output business, which also means the corollary is that, it is also a fixed cost base of this business generally is high, and hence when sales growth doesn't take place, you have a bit of a negative sales growth due to that. That comes and hits you, because the

corresponding decrease in the business, you cannot adjust your expenses overnight or in a short span of time, and that's where your margins come under pressure in that period, when such kind of eventuality happens. So, having said that thing, what we are trying to do, okay, we are trying to do two, three things, one, we are trying to curtail down on our expenditure wherever because always that opportunity for squeezing out extra buck out of the same.....extra output out of the same one rupee or two rupees whatever we are spending, that opportunity is available, then we are also trying to invest in a balanced fashion whereby we invest for the growth, whereby when the growth momentum picks up and the right opportunities come, we are there with our capacities and capabilities, so that we can capture the growth, and overall trying to also spread our geographical spread of the business, in terms of whether domestically or the exports market, so that we can capture more growth rate. But, as you know all these measures do take some time to bear the fruits, it doesn't happen, of course, immediately overnight. I mean, the mitigating effects like, of major events like demonetization or GST coming successively in a short span of eight, nine months, the business really feels it a challenge.

Sunil Kothari: Okay. So sir, this is not because of any unhealthy competition, which is coming with you, whatever competition was there, it is there.

Parag Vyavahare: Competition was there yesterday, today also it is there, so that is not something, which is specifically new situation or worrying factor, I mean, competition always was there and one we will have to (not clear) that thing and manage within that thing, so that whatever was there yesterday, situation continues. So there is nothing which has become undue to worry on that side.

Sunil Kothari: Correct. And sir looking at the normal monsoon and overall situation, how you see onward, I mean, just broad your thoughts of this, what's your gut feel for this volume-type growth, double digit volume growth, can we achieve?

Parag Vyavahare: See, our gut feeling is that, see, if this monsoon remains normal, and the (not clear) normalcy by end of Q4, by middle or so, kind of Q4, by which time the clear effects of the monsoon will be very clear cut visible, plus the GST-related challenges or the imbalances what gets created, should get corrected and the things should become normalcy, and thereafter, I think, we should be able to see somewhere between 7%, 8% volume growth should come back into the FMCG industry and that should correspondingly should give the growth to the flexible packaging industry.

Sunil Kothari: Okay sir. Thank you very much, wish you good luck.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, we have got the next question coming from Mr. Vipul Shah from Sumangal Investment. Please proceed.

Vipul Shah: Hi sir. Can you give me what is our volume degrowth in this quarter as compared to corresponding quarter of last year?

Parag Vyavahare: Just one second, let me see whether I have that data somewhere, anywhere...

Vipul Shah: Because your turnover has dropped almost approximately 10%, 11%. But what should be the volume degrowth, if you can throw any light on that?

Parag Vyavahare: Volume degrowth also is in similar range.

Vipul Shah: And in this quarter turnover of 550 crores, what should be the split between domestic and exports sir?

Parag Vyavahare: The ratio is roughly, I think, continues to be 75, 25 in that range, that continues to be.

Vipul Shah: Export is 25.

Parag Vyavahare: That's right.

Vipul Shah: Okay. And sir, any new product launches are planned in near future where we can expect substantial volume growth from those new products?

Parag Vyavahare: See, some of these products launches etc., are bit confidential information, because they also involve the customers, their own confidentiality, I would not like to comment on that thing, but yes, let me tell you that thing, we are consistently working on various new products to launch, which we continuously keep on engaging with customers and they keep on coming, so it could be customer, something which is new product coming from the customer side and also product coming from our side, which we give new products to the customers, which help them improve this thing, that efforts continuously goes on, so that's the thing. But specific products, I would not like to comment because that has some of the ramifications from competitions side, plus the customer's sensitivity, which we need to maintain.

Vipul Shah: And sir, lastly, what is the GST rate under which our products are falling?

Parag Vyavahare: We are at around 18% rate.

Vipul Shah: Previously also...

Parag Vyavahare: I would say largely we should be almost there, because excise duty was 12.5% and the most of the states the VAT rate was around 4-1/2% to 5-1/2%, so if you add up that thing, 4-1/2 plus 5-1/2, slightly, you know, of course, the tax was there, so we are roughly maybe at around 18-1/2% to 19%, if you take with VAT. If you take with CST probably it would have been lower, maybe around 14.75, but if you take overall average, probably we would have been maybe at 17-1/2%, 18% or so.

Vipul Shah: So, broadly it is neutral for you.

Parag Vyavahare: Largely. That's right.

Vipul Shah: Okay, thank you sir. All the best.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, the next question is coming from Mr. Bharath Bhagnani from Tasha. Please proceed.

Bharath Bhagnani: Yeah, hello Parag sir.

Parag Vyavahare: Good afternoon.

Bharath Bhagnani: Just wanted to follow on from what you just said two questions ago, that you wanted to capture the growth, so I think we have new territory development team, which has been formed last year as per the new customer territory development, as earlier we had the NASP. So can you just briefly explain, what is the function of the new team, that is the new customer territory and how many customers have you been able to add in the last quarter? Just the number of customers.

Parag Vyavahare: I may not be having the numbers in front of me, but I can maybe I will have to find out and this thing. But, the new product development team that really works on developing the new products or improving the existing products, whereby you can give a product which is functionally far better or maybe cost wise or functionality wise it is far better. And then the existing sales team tries to sell this product to the existing set of customers etc. That is on the one side which what we can keep on doing. Or, sometimes customers will come and ask us that, okay, I want something like this thing, can you do something? So, that is what happens on one side. Whereas the new customer and territory development approach what we have taken, that thing will be focusing on, there could be certain markets which could be under penetrated by us or where our existence maybe limited or there could be certain product categories or maybe certain customer categories where my presence would be little limited. And this team really tries to go and focus on those categories and customers and tries to go and focus on them, work with them, identify their needs and present them as to what kind of capabilities we have got and how we can try to service their needs and then tries to evolve a solution to their this thing and tries to convert that into an actual sales.

Bharath Bhagnani: Sir, what kind of incentives are the team provided to, are they given a number in terms of the sales revenue or volume?

Parag Vyavahare: No, they have to, there are two typical objectives that the tracking team works. One is that, how much new number of customers you add and what is the value sales that you are getting from the overall new customers.

Bharath Bhagnani: And that is evaluated on a quarterly basis or on an annual basis?

Parag Vyavahare: No, no, the tracking really speaking is done on a monthly basis to quarterly basis and of course then yearly basis.

Bharath Bhagnani: Okay. So, their incentives depend on the number of customers in the value proposition?

Parag Vyavahare: Incentives structure and all may not be there, because what happens is our business is slightly different, so we really can't give the incentives in the same (not clear) per se. But, prima facie these targets become part of their performance appraisal processes or they become their KPAs, one can say.

Bharath Bhagnani: Okay. Sir, just also want to understand that there were, last time when we had the call, you said the merger integration is still going on of Webtech as well as Positive. So, how far are we ahead on that path?

Parag Vyavahare: The legal and organizational integration if you see that is almost complete.

Bharath Bhagnani: Okay, and the operations?

Parag Vyavahare: The business side we are completely completed. Obviously the one side which is left is that, because three enterprises are operating with three different operating systems or software systems. Now, making that into one, that is something which is more, we will have to go for some kind of a revised ERP system kind of thing. That is the exercise which we have kept pending, because we are waiting for the right time to start that thing, because we felt that the business issues right now are more important than that issue per se as a first priority. So, that is the only thing which is pending, otherwise we are working as a one enterprise completely.

Bharath Bhagnani: Sir, last question I wanted to ask is that, this quarter of course there was the exceptional circumstances that GST came in and due to that demand might have been affected, that is what you said. But, do you see it normalizing over the year, because since the last two years ever since we have taken over these two, taken over Positive, sales have not grown as much as expected. And we are not being able to utilize fully the capacities which we have that way. So, do you think this year maybe, because other companies like, somebody mentioned TCPL Packaging, they have also gone in for a new plant. And some newer capacities are being added by some very credible players. So, just asking on those lines that, they are adding capacities, they are putting up fresh money on today's rates. So, I am sure that today also they are seeing some better demand scenario in the coming future.

Parag Vyavahare: I really don't have access to on what basis the decisions they would have taken. But, I feel that they would have taken the decisions based on very sound logic and sound rational, so definitely I would respect that thing. And similarly, as you have seen that we have been a long term player in this market and we also have been investing for the growth. So, that continues. Now coming back, the effects of the demonetization we have seen, it has taken almost like four-five months for those effects to go off, really speaking. Similarly we expect that this GST effect going off and the things coming to the full scale normalcy, according to us it will take roughly two quarters, minimum two quarters.

Bharath Bhagnani: Two quarters meaning, this current quarter and next the quarter?

Parag Vyavahare: That is right, that means your July-September and October-December, these two quarters it will take minimum for the things to come to normalcy.

Bharath Bhagnani: Okay. And sir, one more thing, since Huhtamaki globally is a very good player in the carton segment, specialized cartons, so we were supposed to decide that whether we were going to go into cartons with expanded capacities there, so has any decision been taken as yet?

Parag Vyavahare: No, not yet.

Bharath Bhagnani: So, by when can we expect, if a decision will be taken?

Parag Vyavahare: No, we still are looking at all those possibilities and at appropriate time once the decision is made, it will be announced. As of now there is nothing, nothing specific.

Bharath Bhagnani: Thank you sir. Thank you.

Moderator: Thank you sir. Sir, we have got the next question coming from Mr. Rahul Khandelwal from Systematix Shares and Stocks. Please proceed.

Rahul Khandelwal: Hi sir. I just wanted to know about the new plants in Guwahati and Sikkim. What could be our utilization rate for this quarter?

Parag Vyavahare: No, it will be quite low, because as we have stated earlier, these plants have been put into production in a phased manner. So, certain equipments are already into production. Few more equipments have yet to go into production, so utilization is still low. Also what happens, we also have to undertake what is known as the customer qualifications for these plants. So, those things are also on. So, it will take time. So, my understanding is that it will for the full fledged, for the plant to really get into the full fledged operation, it will go to the Q1 2018, that is where when the plants will be fully ready.

Rahul Khandelwal: Okay. And at that rate, what would be our revenue potential from those plants?

Parag Vyavahare: Both plants put together should give us a revenue potential of roughly around 60 crores to 65 crores per annum.

Rahul Khandelwal: I am sorry, can you repeat that?

Parag Vyavahare: 60 crores to 65 crores per annum.

Rahul Khandelwal: 60 crores to 65 crores, okay great. Secondly, I wanted to know, are there any more capacity expansion plans in works or are we focused on this new capacity right now?

Parag Vyavahare: Slightly premature at this point of time to comment on that thing, in the sense we still are working. We are trying to evaluate and we are watching the situation. Some of these negative incidences, I will say the setbacks you get because of this thing, so one obviously tries to balance things. So, right now we are trying to complete the existing projects whatever we have undertaken, wherever there may be capacity balancing or some small expansions or adding small products or completing these two projects what we have undertaken. And still new projects are right now are not immediately in the hand, we have still not frozen that. So, once we have frozen them.....

Rahul Khandelwal: Sir, we were also going to relocate the New Mumbai facility, right?

Parag Vyavahare: That project is in the planning stage.

Rahul Khandelwal: Okay, still not done, is it?

Parag Vyavahare: No, still not done. It is in planning stage. It will now, it should move in the next six months into the execution stage.

Rahul Khandelwal: Okay. How are the raw material prices?

Parag Vyavahare: Raw material prices I think have been slightly stable and bit benign I would say.

Rahul Khandelwal: Okay. And sir, I was just wondering, if you could give us the GST impact in terms of value, what was the value hit for GST in this quarter?

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

Rahul Khandelwal: Just the value hit because of GST in this quarter, what was it?

Parag Vyavahare: I would not like to put specific figures, because that poses its own challenges and controversies. So, I would like to stay away from that thing, trying to put a very specific number and then getting into it.

Rahul Khandelwal: Okay sir, great, thank you so much.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Robin from Carnegie. Please proceed.

Robin: Hello. I had some difficulties to access the call, so maybe this has already been answered. But, I was wondering about the GST. And as I understand distributors and trade destocked heavily ahead of this change, July the 1st. Now, I was wondering what are the prospects for inventory fill up by the trade and the distributors now in the second half of this year. You would assume that if your customers and the trade and the distributors destocked ahead of the decision, they need to restock later on. Might this drive your growth in the second half of this year?

Parag Vyavahare: Yes, you are right, there was destocking. And that has had an effect on us. What happens is that, once when one destocks, one likes to or one learns to enjoy the benefits of that thing. And hence one doesn't immediately, when it is unleashed, one doesn't go whole hog in one stroke in trying to going back to the original state of affairs. So, our understanding is that it will take at least two quarters for the people to come to normalcy and to go back to the same level of stocks and same level of servicing practices.

Robin: Right. But, in order for them to get back to the same level of stock, they need to fill up the inventory.....?

Parag Vyavahare: That is right. So, that will take them two quarters. That will take them two quarters. Our understanding is that for them to come to the normalcy and to fill

up the complete pipeline, the way they were operating earlier, it will take them at least two quarters.

Robin: Okay, good. Thank you very much.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, we have got the next question coming from Mr. Lakshmi Narayan from Catamaran Capital. Please proceed.

Lakshmi Narayan: Thanks for taking my question. Sir, just to get a sense of, what is our capacity measure in terms of tons now? And when you say capacity, do you actually segregate between different genres of packaging or do you just give one number?

Parag Vyavahare: We just give one number, because the capacity unfortunately is very misnomer-ish in our industry, because we are producing on the same set of machines for producing different types of products, different build, and different thicknesses. But, what happens is that the products do get sold prima facie in the kg basis and that is why the historical capacity is stated in terms of kg basis. So, roughly around our capacity is roughly around lakh tons per annum.

Lakshmi Narayan: Okay. And when you look at the next organized player, how large is that capacity number two and number three broadly?

Parag Vyavahare: We are there and then one large player who is very close to us will be Uflex. But, unfortunately in their case, not much data is specifically available in public space. But, our understanding is that they will be very similar in capacity to us. Then the next level of players if you are taking, those players will be, most of those players will be typically they would be at around, roughly around maybe 30000-35000 tons per annum max and not more than that.

Lakshmi Narayan: Got it. And this includes some of the multinationals who have come and set up shops?

Parag Vyavahare: Yes. It will include. It will include one or two of those.

Lakshmi Narayan: Okay. Sir, and the other question which I had is, typically how seasonal is your business? Because, last year the first half and the second half were kind of 50-50 in terms of revenues, whereas in terms of profits, the second half was almost 40% of the profits at an operating level. So, for us what is the prognosis for this year?

Parag Vyavahare: It is slightly difficult to say, because the current year has been too much volatile, because the first quarter was badly affected due to the demonetization effects coming and then the second quarter, we have just hardly come out of the demonetization effect and things started coming back to normalcy and then the GST thing came in. Having said that thing, yes, you are right that largely our turnovers are evenly spread throughout the four quarters. However, generally the first two quarters your mix is slightly better in the sense the profitability seems to be slightly higher. However, 2016 was a bit abnormal year in the sense that there I think the first two quarters, especially the first quarter the raw material situation was very, very beneficial

and our margins really went through the roof. So, that was very exceptional and which I don't think one should not take that as a normal.

Lakshmi Narayan: Okay. And the other question is in terms of Africa. Around 25% of the exports is what we have. And I see that at least last year out of 525 crores of the exports, you did close to around 100 crores to Africa. Is that correct?

Parag Vyavahare: No, no, I don't think so. Our exports to Africa will be slightly bigger than that thing. It will be much bigger than that thing.

Lakshmi Narayan: Okay, because I was looking at the related party transaction.

Parag Vyavahare: No, no, that will be only one bit of the portion you are looking. But, also we do sell in Africa directly without going through any intercompany. So, that sale is also substantial.

Lakshmi Narayan: Okay. When you talked about Africa, you mentioned currency issues and also the market softness. Can you just elaborate that a bit more? Is it South Africa or is it some countries like Nigeria?

Parag Vyavahare: No, it is prima facie you are having challenges in the countries like Nigeria you have got problems. You have got some extent of problems with Ghana, Ivory Coast on one side. You have then the issues with the countries like Egypt you are facing challenges.

Lakshmi Narayan: Okay. So, it is just not South Africa, you supply to the whole range of countries?

Parag Vyavahare: No, no, we supply to the whole continent.

Lakshmi Narayan: Got it. And what is the decline you expect this year from exports, from 525 crores?

Parag Vyavahare: I would not like to hazard a guess at this point of time. And I would not like to make a very forward looking clear cut statement as to what exact numbers will be coming. I won't be able to make it.

Lakshmi Narayan: And sir, on the GST what you told is also in line with some of the other talk which I have heard that in terms of matching of the credit, it is taking time, because that is where the delay comes from. So, do you get, are your GST things getting matched with the people who supply to you or they are also facing challenges and hence there is a significant lag as we go forward?

Parag Vyavahare: One will have to really wait and watch at this point of time, because at this point of time the Government for the first two months have said that you need to file only the summary returns. So, at this point of time the people are not trying to focus on trying to, because it is double work as you can understand. One, you will have to do the summary work which is in a different fashion you have to do and other side, you have to do the detailed work. The detailed work anyway you are supposed to do subsequent to your certain days, towards I think the middle and end of the September they have given. So, right now at this point of time our first focus is how do we achieve

our first level of compliance and then we will move to the next level of compliance, because trying to do too many things at the same time, as you can understand it has an adverse effect on your bandwidth. So, at this point of time, that is why we would not like to comment on the second side as to whether we are matching (not clear) etc. is happening at this point of time, because at this point of time the Government is not asking the people to file detailed returns. It is asking us only to file only the summary returns. So, that is why once we have the summary returns, there is no question of matching or mismatch. So, that matching or mismatching issue will really start coming out, when the people will start filing the detailed returns. Because, what will happen, as you can understand, if I am having let's say 500 suppliers and I am having 500 customers, I may file my return in detail. But, out of my 500 suppliers, only maybe 100 will file the detailed returns and out of my customers, so many people are going to be filing returns. You can imagine the match and mismatch has no meaning. But, then the Government says, final due date is in the month of September and everybody, all the 500 odd books will file the returns by that date and then the matching starts. Then you can understand, the whole data will go into the system. And then the matching thing exactly will start making sense.

Lakshmi Narayan: Then what kind of compliance is there in terms of the people whom you supply to? Is there a range you can guide us, whether it is 70% of them are compliant right now?

Parag Vyavahare: No, as of now whatever invoices we have been getting from them, we have not faced any issues on that thing from the supplier. So, generally they have been, (not clear) face of it, we have not found any non-compliance issues. Now, the next stage will come when they will file the returns and when we will upload our returns and when the matching will occur, that is the point of time when we will come to know, are there any other problems which we have not been able to foresee at this point of time. But, as you can understand, any such new kind of initiative when you go through, you will face some initial teething trouble. But, I think that is something which we will have to learn to live with and learn to tide over.

Lakshmi Narayan: Got it. Sir, one last question, in terms of India's revenue, because you actually mentioned in the AGM also that you will focus on value added products etc., so what is that split on value added products in terms of your revenue contribution on the domestic? What is the indicative number?

Parag Vyavahare: We don't push it that way. We say that our overall objective is that the new products or the NASC program what we do, we say that we want to achieve a minimum somewhere between 25% to 30% of our annual turnover from this NASC product and whichever product which we would have launched in let's say, in the current year plus two years back. So, that is what is our overall objective. So, we have to keep on replacing certain products with new products.

Lakshmi Narayan: Okay. And how are we tracking on that? Sorry, if I had missed out that answer earlier part of the answer.

Parag Vyavahare: Tracking means what sense, I didn't get your question, sorry.

Lakshmi Narayan: Because, you said that is your objective, I am just trying to understand in the.....

Parag Vyavahare: We have been generally successful to be in the range in the 25% to 30% year on year basis.

Lakshmi Narayan: Okay, thanks a lot sir. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, we have got a question coming from Mr. P Venkatesh from Optimum Securities. Please proceed sir.

P Venkatesh: Hello?

Parag Vyavahare: I think now your voice is clear.

P Venkatesh: I just wanted to understand, the excise duty figure is higher on lower sales, in comparison to the previous quarter.

Parag Vyavahare: What happens is that in the last year our Parwanoo unit in Himachal and our Rudrapur unit in Uttaranchal, they were enjoying the excise exemption till last year, till the third quarter, whereas after the third quarter, the exemption has gone off. So, now we have started paying the exemption duty there. So, that is why the comparison is not like to like and that is why you are able to see that effect.

P Venkatesh: Okay sir, thanks a lot.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. There are no further questions.

Parag Vyavahare: So, I would like to take this opportunity to thank all the participants and showing your interest in our company. And we hope to talk to you again in the end of the Q3. Thank you very much and over to you Jaymin.

Jaymin: Yeah, thanks sir. And thanks everyone for participating in the call. I think the concall has concluded over here.

Parag Vyavahare: Thank you.

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

Note:

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