

13th August, 2018

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Sub: Transcript of Conference Call held on 2nd August, 2018

Dear Sir/Madam,

Further to our intimation dated 30th July, 2018 in relation to the conference call on the unaudited financial results of the Company for the Quarter/Half Year ended 30th June, 2018, please find enclosed herewith Transcript of the said conference call held on 2nd August, 2018 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. (Formerly **The Paper Products Ltd.**)

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Transcript

Conference Call of Huhtamaki PPL Limited

Event Date / Time : **2nd August 2018, 03:30 PM IST**

Event Duration : **30 min 08 sec**

Presentation Session

Moderator: Ladies and gentlemen, good afternoon and welcome to the Huhtamaki PPL Limited 2Q CY18 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant lines are in the listen only mode now. Later there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Jaymin Trivedi of Aditya Birla Money. Thank you and over to you sir.

Jaymin Trivedi: Thanks. Good afternoon everyone. We welcome you to the 2Q CY18 earnings conference call for Huhtamaki PPL Limited. Today from the management we have Mr. Parag Vyavahare. He 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 very much Jaymin. And good afternoon ladies and gentlemen and welcome to this second quarter investor call of Huhtamaki PPL. So, the results are there with you. I hope you had an opportunity going through the results. So, I think the brief salient features I will say this quarter has been on three features I will say. One has been that we have been able to complete the Ajanta Packaging acquisition and Ajanta Packaging has become part of Huhtamaki PPL Limited with effect from 4th June 2018. So, that has added to this thing. So, that transaction has been successfully closed. There are certain closing adjustments. Of course there are still certain closing __01:46__, which will be effected in the second quarter.

Coming to the quarter at hand specifically, if we look at compared to the previous year, same quarter, the turnover has grown by roughly around 17%. Of course one needs to look at the backdrop of the fact that the previous year, same quarter was severely affected due to the GST impact, which had hurt the last year Q2. Whereas, if one looks at it compared to the Q1 2018, which is the March quarter, March 2018 quarter, we have grown by roughly around 7.9%. So, the sales growth has been decent. And overall if you look at the half year, we have grown by around 12.4%. Coming to the profitability, I think the profitability otherwise has been reasonably good. However, this quarter there has been a bit of a challenge on the raw material cost, as oil prices have started going up, the cascading effect on the input price has started coming and that has affected us this quarter. We have tried to minimize the impact as much as possible, but an impact of roughly around 1.4% has been there on the overall margin.

So, that is all with that, I think that is what is my (not clear) commentary. And with that I would like to put the dais open for questions from the participants.

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.

The first question comes from Mr. Vipul Shah, an Individual Investor. Please go ahead sir.

Vipul Shah: Hi sir, congratulations for a good set of numbers. But still sir, if we see the results of frontline FMCG companies, our volume growth, what is the volume growth in this quarter sir?

Parag Vyavahare: If we look at only this quarter, that is compared to the Q1 2018 versus Q2 2018, the volume growth is at roughly around 4.2%-4.25%.

Vipul Shah: Okay. So, we have seen very strong growth by some leading FMCG companies. So, why we are not benefiting to the same extent, why? Is there any particular reason? Are we losing any market share or have we some, means we don't have the entire portfolio? Can you have any comments please?

Parag Vyavahare: I will answer that question in two ways. It is not that we are not getting the volume growth. We are getting the volume growth. But, as I had mentioned earlier in the call, when the raw material prices are increasing, one needs to look at it and conduct the business in a fairly cautious fashion, because you may end up otherwise contracting too high business or taking the business at unlimited finances. So, we had to do a bit of a balancing call. And obviously that has had its own effect. The second thing also has been the fact that the exports continue to be still under the pressure. The exports still continue to be under the pressure. So, that also puts its own limitations in terms of the growth. So, I think those are the factors which have really played. But, otherwise I don't think there is, we are seeing the growth and we are clear cut part of it and we are keen to investing for the growth.

Vipul Shah: What is the domestic export mix in this quarter sir?

Parag Vyavahare: Just a second. Exports are roughly at around 24%.

Vipul Shah: 24% is the exports. And finally what should be the impact of raw material cost on EBITDA margin in terms of percentage?

Parag Vyavahare: This quarter I think the raw material cost impact is roughly around, I will say roughly around 1.4% to 1.5% is the impact of the increase in the raw material cost on the margins.

Vipul Shah: Okay sir, thank you and all the best.

Moderator: Thank you sir. The next question comes from Mr. Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: In your opening remarks you had talked about 1.4% being the impact for the raw material variation. Do you see this continuing this year or this quarter this may not be there, this 1.5% cost?

Parag Vyavahare: We will have to do bit of a wait and watch. It is really bit of a crystal ball gazing when it comes to the raw material prices, because how they really behave, various international event takes place, some trade war tension comes etc., and plus of course the OPEC has its own responses to the various things. So, to that extent it becomes difficult exactly to say as to this thing, but we do expect that the raw material prices will go up, but may not be as sharp, maybe as the Q2, that is what we feel. But, this is what we feel. Of course we may go wrong, having said that thing, our efforts, because in our industry the pass through effect remains of the raw material cost on the selling prices. So, that effect we will be able to achieve in the current quarter and with that we feel that we should be able to contain the effect of the raw material increase on the margins.

Kaushik Poddar: Okay. And just to get the numbers right, this year the volume growth is 17% vis-à-vis the corresponding quarter?

Parag Vyavahare: No, I said the value growth is 17%. I said value growth is 17%.

Kaushik Poddar: Okay. And how much is the volume growth?

Parag Vyavahare: Just a second. Volume growth is around 15%.

Kaushik Poddar: 15, okay. That is a nice growth. And do you see any kind of the export condition picking up in anything on the horizon?

Parag Vyavahare: No, in terms of?

Kaushik Poddar: In terms of export doing better. You are saying export is still under strain. So, do you see that condition improving?

Parag Vyavahare: Not dramatically. Some improvement we do see, some improvements are there. But, we are not able to see a dramatic improvement I will say.

Kaushik Poddar: Okay, great. Thank you. Thank you.

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

Sunil Kothari: Thank you very much sir. Congratulations for good growth in terms of at least top line.

Parag Vyavahare: Thank you.

Sunil Kothari: Sir, my question is, hopefully this cost increase on input cost, by 1½% it has hurt our margin and we will be passing this on to our customer subject to their acceptance and some (not clear) effect, right?

Parag Vyavahare: Right, right.

Sunil Kothari: Right sir. And second, I wanted to know this currency almost year on year depreciated by 10%. So, are we getting any benefits of this exports or we are also importing, so net-net we don't have any benefits of exports?

Parag Vyavahare: You are right. What happens is that on pricing you stand to gain on exports due to the exchange rate variation, yes. But also one needs to keep in mind that you cannot retain the gain infinitely with you, because you are also competing with the many other players in the market, so that is on the one side on the economic play I will say. On the second side you are right, since we are also a reasonably large importer, on the imports you end up obviously on corollary paying higher price for the currency. So, the net-net that is why you see the foreign exchange gain or less for us is net-net is reasonably a range bound figure, if you would have seen.

Sunil Kothari: Okay. And sir, would you like to just give us a glimpse of how you see the economy or.....growing? Apparently what we hear from June quarter numbers from the FMCG, they are growing really good volume, but let us say year on year on the base of, lower base of last June, so what is your thought process for next maybe two quarters looking at the monsoon and overall demand scenario?

Parag Vyavahare: We also are looking very cautiously and optimistically at the growth, because we also think that the growth has started coming. But, it is slightly maybe bit early to immediately express a joy at it that making very confirmed statement that yes, it is finally (not clear). We will have to just wait another quarter or quarter and a half to watch to be able to confidently see a good continuing growth momentum. But yes, there are some early shoots definitely are there.

Sunil Kothari: Okay. And sir, this quarter contains some revenue from Ajanta Packaging also?

Parag Vyavahare: Yes, for one month. One month.

Sunil Kothari: It should be what, some 10 crores-20 crores only?

Parag Vyavahare: No, Ajanta when we acquired if you remember, it was roughly around 80 crores to 90 crores turnover per year in the organization. So, you can probably say, it will translate to around 7 crores-7½ crores per month.

Sunil Kothari: Correct. And sir, just again maybe on the last concall also I conveyed this, this finance cost which we pay on NCDs.....?

Parag Vyavahare: Sunil-bhai, can we keep that question off, I don't want to respond on that question.

Sunil Kothari: Okay, thank you very much. Wish you good luck. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Hi. Thanks for the opportunity. I joined a little late, so sorry if I am asking repetitive question. Only one question I have on the margins recovery as there is a dip in this quarter and as you said, eventually you would be able to pass on this rise in prices. So, what can we expect the similar margin we did in last year should be there in this financial year as a whole or how should we see?

Parag Vyavahare: Naushad-bhai, unfortunately our policy doesn't permit me to give any forecast. So, I can't put down specific numbers. Please you have to excuse me.

Naushad Chaudhary: No, I am not asking the number, but if you can give us some direction, would we be able to recover this loss?

Parag Vyavahare: No, in the outset itself I mentioned that the raw material price increases, the cost increases will be passed on to the customers. But, as that takes time, so there is a lead and lag, so the impact maybe has impacted Q2 adversely. We should see correction in Q3.

Naushad Chaudhary: Okay, thank you so much sir.

Moderator: Thank you sir. The next question comes from Mr. Vipul Shah, an Individual Investor. Please go ahead sir.

Vipul Shah: Sir, what is the time lag between raw material price increase and passing them through to the customers?

Parag Vyavahare: It is roughly anywhere between one month to four months. Some customers it goes on to one month and some customers it goes on quarterly basis and some customers on six monthly basis. That is why I said on an average you can say somewhere between one to four months you can say is more appropriate.

Vipul Shah: So, should we expect directionally better numbers in second and third quarters?

Parag Vyavahare: That is why I said all the actions will be there to recover the margins in the Q3. The effects of all those efforts and the price corrections we should be able to see, unless or until that is again offset by major raw material price increases.

Vipul Shah: Okay sir. Thank you.

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

The next question comes from Mr. Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: Your financial liability is in terms of NCDs that your parent had subscribed to. So, is that in, is the liability in rupees or is it in dollars?

Parag Vyavahare: Liability is in rupees. Liability is in rupees.

Kaushik Poddar: Okay. And when is it to be paid off? Is it a bullet one shot payment, repayment?

Parag Vyavahare: Yeah, it is a bullet repayment in January 2020.

Kaushik Poddar: And is there anything, since you are not getting the proper deduction and all those things to pay, prepay or something of that sort?

Parag Vyavahare: Right now there are no such big plans for that thing. We will be looking at that thing more towards the next year.

Kaushik Poddar: And what was the quantum of the NCD?

Parag Vyavahare: Sorry? What was the question?

Kaushik Poddar: What was the quantum of the NCD that your parent has taken?

Parag Vyavahare: 385 crores.

Kaushik Poddar: How much?

Parag Vyavahare: 385 crores.

Kaushik Poddar: Okay, thank you.

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

The next question comes from Mr. Harish Krishnan from Kotak Mutual Fund. Please go ahead sir.

Harish Krishnan: Sir, I have only one question. Is there any impact of our business due to say, the banning of plastic packaging in select FMCG stroke packaging items? And is there a strategy that we have to counter the same? Thank you.

Parag Vyavahare: As of now in the quarter gone by there has been no impact. And as of now also it really does not impact, because we feel that most of our products are complying to the requirement that they should be recyclable or they should be or they can be used in alternate forms for recovering energy etc., because there are certain conditions which have been given in that this thing. We feel that our understanding has been that we are meeting those norms. And I don't think, so there is a straight impact of that ban we are right now not feeling it is applicable to us.

Harish Krishnan: Okay. And that will be through even in the labels business?

Parag Vyavahare: Yes.

Harish Krishnan: Okay. Thank you so much.

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

Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The next question comes from Mr. Amarnath R from Gomukhi Capital. Please go ahead.

Amarnath R: Good afternoon. I just wanted to get some perspective on this plastic ban issues and plastic waste reprocessing. There are talks of onus coming on FMCG companies etc. So, it is still early days in terms of legislation or guidelines. But, how does it happen globally or wherever such things are implemented already and light on that would be.....?

Parag Vyavahare: Our group companies operate in Middle East, they operate in Germany, they operate in Italy, they operate in Thailand. We have not seen such kind of, of course the drive towards sustainability is there and that is right, because that is for the betterment of the planet, so this thing. But, we haven't seen anywhere one can say, a show stopper kind of thing, a complete show stopper kind of amendment or directives coming etc. The Governments and the regulatory operators are completely seized of the various challenges and that is why they are also trying to work with the industry to find solutions, because they understand that it is easy to ban something, but it may be very, very practically difficult or at times practically it is impossible to replace these things overnight. Because, the usage is so massive and it is so widespread and also there is so much of investment and so much of employment is depending on that thing, that to make that change overnight is going to be virtually impossible.

Amarnath R: I agree with that. It was more the fact that obviously this packaging for FMCG and processed food is not proposed to be banned, but the onus on collecting it back and sending it for recycling or something is supposedly going to be put on the FMCG companies. Yes, so that is what at least is the media reports. So, does that mean that it could come back finally to the processors who sort of prepare the packaging like us?

Parag Vyavahare: Understood. So, it is slightly early in the day in terms of this thing. Everybody is trying to weigh various options and trying to work out various alternatives. So, it is slightly early in the day to really comment as to this is what the FMCG industry is doing and this is what we are doing, it is slightly early, because it has just happened in the last two-three months. So, it is slightly early in the days, because any action to really come to the, from the drawing stage to come to the final fructification, it does take time. So, that is why, it is slightly early in the day to say. But, as of now we haven't seen, the impressions are there that these do not really, are not affecting us negatively as of now at least. That is what is our first impression.

Amarnath R: Okay. Thank you. My second question relates to the technical point, which I am not too familiar with. But, I have heard people discussing that there are certain types of the polymer substrates which are considered to be more eco unfriendly than others. So, some may be phased out or banned. So, is that a reality?

Parag Vyavahare: Let me respond to that. Let me also respond to that way. I am also not a very technically qualified polymer specialist. So, I also would refrain to comment on that thing, because I am not really technically expert on this thing. I would refrain rather than trying to make some generalist statement.

Amarnath R: Okay. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Vipul Shah, an Individual Investor. Please go ahead.

Vipul Shah: Sir, what should be the tax rate we should work with for this financial year?

Parag Vyavahare: Around 45%-46% you can work at.

Vipul Shah: 45%-46%?

Parag Vyavahare: Yes.

Vipul Shah: And we had some new units in North East or Sikkim I think so, even after considering the...

Parag Vyavahare: Those units are very, very small Mr. Shah. Those units are very, very small. And their contribution to the turnover will be very, very low. And when you do, you set up, initially since the investments are high, the new costs are continuously incurred and you are on a learning curve. The profits that you generate from those units are very, very low. And it is a taxable profit, because as you know the tax depreciation is much higher compared to the book depreciation. So, that being higher, the taxable profits are sometimes negligible or sometimes even negative. So, it doesn't really contribute much in terms of trying to give any significant or let's say substantial tax advantage and especially on a larger base, we don't. Does that answer your question Mr. Shah? Hello?

Moderator: Sorry to interrupt you sir. It seems Mr. Vipul Shah's line is not active. Shall we take the next question?

Parag Vyavahare: Okay, sure.

Moderator: The next question comes from Mr. Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: In times of eco friendliness, is there something called biodegradable packaging or something in your technology or something?

Parag Vyavahare: Mr. Poddar, I am really not technically this thing. Biodegradable is a very relative degree and there are too many complications and since I am not a technically expert, I would not like to comment on that thing. But, our teams are working on developing various alternatives and our efforts are on to try to develop, to have sustainable products. And we do have sustainable products ready. We are completely ready with that thing, if something happens, if needed etc. etc. But, that all depends on relative-ness of the situation, relative-ness of the cost structure, relative to

what do you exactly mean by biodegradable and biodegradable meaning how much time and under circumstances or what climatic conditions, so too many technical stuff, so I will refrain from answering that thing.

Kaushik Poddar: Your clients, maybe the FMCG companies, are they also asking you to develop such things, has that reached that kind of phase?

Parag Vyavahare: Overnight, everybody, anybody, press for that sake to change the whole ecological system, because they also would have set up their products, they have cost structures to it, the production lines are there, investments are there, so they also cannot overnight do this thing. So, it is going to be a long journey. So, it is not going to happen in let's say in one month and two months or three months, not even in six months.

Kaushik Poddar: Understandable. Understandable. But, one year or two years, have they sounded you out in these kinds of things?

Parag Vyavahare: No, they also do their own research. They also come back with the various ideas and you work together with them. So, that kind of activities are on. So, it is slightly early in the day to say that, okay, we are getting so many enquiries etc. or exactly this is what it is. It is slightly early in the day. Because, these are preliminary things, so the people are evaluating the various options. So, it is early in the day to say, which authority will you follow is very difficult to say at this point of time.

Kaushik Poddar: Okay. And my last question is with taxation part, you said your tax rate will be around 45%-46%. Now, suppose your PBT goes up sharply, still it will be 45%-46%, because your liability towards your NCDs and all those things, for which you don't get the tax deduction that as a proportion, should it not be coming down as your profit goes up, over the years? I am not saying this year, maybe next year or the year after the next.

Parag Vyavahare: On a conceptual basis you are right.

Kaushik Poddar: Okay. And you also said that January 2020 the repayment is there, isn't it?

Parag Vyavahare: Yes, yes.

Kaushik Poddar: Okay. Thank you. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Ravi Bajaj from Lohia Securities. Please go ahead.

Ravi Bajaj: Sir, last quarter you have mentioned that you have added a state of art digital printing machine. Can you say the utilization of the said machine?

Parag Vyavahare: I mentioned earlier, in earlier part of the call, I think somebody asked me, the digital printer we have put it up. It went into production in the Q1. As you know, these are all innovative technology. And there the market has to adapt to them and that takes longer time. So, trying to talk about capacity utilization on these things, it doesn't make sense. It doesn't make sense at this point of time.

Because, these are bit futuristic and we being the pioneer, have to invest in the ahead of the time of the curve to remain relevant. So, it will be premature at this point of time to talk about the capacity utilization. We will have to give it at least six-seven quarters to be able to see as to how is the market developing on that.

Ravi Bajaj: Okay sir. Sir, what is the overall capacity utilization right now?

Parag Vyavahare: Right now we are somewhere between 80% to 85%, between that, I will say slightly on the lower band of eighty, towards eightyish.

Ravi Bajaj: So, do you foresee the higher utilization in the next few quarters?

Parag Vyavahare: We have some scope. We do have some scope.

Ravi Bajaj: Okay. Thank you sir.

Moderator: Thank you sir. The next question comes from Mr. Mr. Vipul Shah from Sumangal Investment. Please go ahead sir.

Vipul Shah: Sir, I was knocked out of the call when I had asked about that tax rate. You said those North East units were too small. So, can you repeat that statement?

Parag Vyavahare: That is right. Their contribution to the turnover will be under 5%. So, you can imagine their effect on tax rate will be very, very marginal. And in initial stages as you know, because of the higher tax depreciation, the actual profits from these kind of units will be very, very low.

Vipul Shah: Okay. And what is the CAPEX guidance for current year sir?

Parag Vyavahare: We are looking at roughly around 100 crores to 120 crores of CAPEX in the current year.

Vipul Shah: That includes those digital printing machines or that will be separate?

Parag Vyavahare: Yes, yes.

Vipul Shah: What should be the cost for those machines sir?

Parag Vyavahare: No, digital printing machine already has been invested.

Vipul Shah: No, no, but what should be the cost of those machines?

Parag Vyavahare: No, we do not really as a policy give specific project cost or whatever or the specific machine cost. So, we expect that our total guidance for the current year will be somewhere between 100 crores to 120 crores, that is what I expect.

Vipul Shah: Okay sir. Thank you.

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

Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

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

Parag Vyavahare: Thank you very much.

Moderator: You are welcome sir.

Note: 1.This document has been edited to improve readability.
s2. Blanks in this transcript represent inaudible or incomprehensible words.