

Transcript

Conference Call of Huhtamaki PPL Limited

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Presentation Session

Moderator: Ladies and gentlemen, good afternoon, and welcome to Huhtamaki PPL Limited 1QCY17 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant lines are in listen-only mode. Later, there will be an opportunity for you to ask questions after the presentation concludes. Please note, this conference is recorded. I now would like to hand over the floor to Mr. Jaymin Trivedi of Aditya Birla Money. Thank you and over to you sir.

Jaymin Trivedi: Yeah, thanks. Good afternoon everyone. We welcome you to the 1QCY17 earning conference call for 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 evening gentlemen and we welcome you to this first quarter's earnings call. This quarter as I had mentioned in my last earnings call, was expected to have the effect of the demonetization as I had mentioned in my last earnings call that the effect which was there in Q4 was expected to go into the Q1 and as expected that is what exactly has transpired. So the sales growth has been completely subdued and this quarter the effect was there and that's why the sales there has been vis-à-vis the Q1 of the previous year, we are down on sales by around 2.8%, and vis-à-vis the Q4 we are down by 2.2%. As far as overall margins are concerned, I will say there we have been able to improve compared to the Q4 and that is why it is one of the very, I will say, it is a happy part of the information that we have been able to improve the EBIT compared to the Q4 '16. Of course, the EBIT cannot be compared to the Q1 2016, as you people will recall, that on the earnings call for Q1 2016 we had mentioned that that quarter the earnings were really very fortuitously were benefited by a very benign raw material cost situation and vis-à-vis the sales price lag benefit we have got. So, as a result the margins have got substantially expanded in that quarter and which was not a permanent feature, which I had mentioned at that point of time. And that is what exactly had transpired from the Q2 onwards. And that's why I will say the current quarter margins are really (not clear) comparable largely to the Q4 and reasonable long term average kind of thing, I can say. So that's what it is the situation.

With that I will like to hand over the call to, of course, there is one more positive information, which I would like to share. The impending merger of Positive Packaging Industries Limited and Webtech Labels Private Limited has been completed during this quarter end and also from 1st April 2017 all the three companies are operating as one single entity from 1st April 2017. Further, we also would like to... information has been that on news videos, of course, you people would have read it, but just to recap, our new factory at Guwahati and Sikkim, both have gone into commercial production in the Q1 of

this quarter end, in the month of March 2017. With that I would like to hand over the mike to operator and I am open to the questions. Thank you.

Question and Answer Session

Moderator: Thank you Mr. Parag. Participants, 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.

Sir, we have the first question from Mr. Nikunj Joshi from Bay Capital. Please go ahead.

Nikunj Joshi: Hi, good afternoon Mr. Parag. This is Nikunj Joshi. Just wanted to understand, I noticed excise has gone significantly in this quarter, so percentage-wise also it is significantly high, as a percentage of sales. So what are your...

Parag Vyavahare: Your commenting on Q1 '16, if I am not mistaken, right?

Nikunj Joshi: Yeah, so it is 9% and 7-1/2% yeah.

Parag Vyavahare: Right. See, what you should bear in mind is that our Rudrapur factory and our Parwanoo factory were enjoying the excise exemption and that got over in the Q3 and Q4 of '16. So when you are comparing the Q1 '16, there those factories were not paying any excise duty whereas in the current quarter, the full quarter they have been paying the excise duty. So that is what effect you have been able to see.

Nikunj Joshi: Okay. So, going forward we have to assume the same rate going ahead.

Parag Vyavahare: That's right. And...

Nikunj Joshi: You were saying that demonetization effect is still...was there in the first quarter, but if we notice few of the FMCG companies results, there is still some volume growth in the company, and our sales should be linked to volume rather than value growth for those companies. So, why we still felt the reduction in sales or sales growth was hampered because...just wanted to understand that.

Parag Vyavahare: No, no. See, one needs to see in light of the various things. See, in our case we get impacted... on one side, we have the domestic market where you may have felt that we have done okay, but some customers have not really done okay. Unfortunately as of now, some of the largest customers' results are still not really out and hence we don't have their data in public space whereby we can analyze it. But whatever we have seen of three or four large companies who have come out with their data, where we have seen a...three or four companies, which had come out, and we have seen that their sales growth vis-à-vis Q1, Q4 2016 was negative and sales growth vis-à-vis the Q1 2016 was very, very muted. I mean, you know, we had analyzed some of the companies like Dabur, Marico, they were very muted, Marico was a bit negative, Emami was a bit negative, P&G had become almost negative. So, yeah, so those effects are there. So it really depends on what situation you are entering with the

particular customer and also in exports side, the challenges which we are facing on some of the exports markets, primarily in Africa and Middle East because of the oil situation and the commodity price situation, those challenges continue. So, one needs to look at, in light of these two factors, because the uncertainties have been growing in the world economy. I mean, you have seen especially with the...on one side on the US economy side, with Trump economic policies what he is taking, and on the other side, on the Middle East etc., because of the oil and commodity prices. So those impact also have also been there. So the combined what we have been able to see is that this quarter we have felt an overall impact of the, this thing. And of course, large impact has come also from the domestic market because yeah, the demonetization effect was very clear, we could see it linger around for at least two-thirds of the quarter.

Nikunj Joshi: And now things are normal or you still believe that the impact will be there in this quarter as well?

Parag Vyavahare: See, now the demonetization impact, I don't think, should be there much going forward, but I think now what is really going to be the key point, is going to be that going forward how the industries are going to respond to GST. Because with the impending GST implementation, many of our peers have started taking care of positions and advance planning and advance response planning has been started. So, some impact (audio break) somewhere you are seeing some demand is increasing, but somewhere also we are seeing some of the people (audio break) because they are trying to reduce their pipeline stocks. So, you know, right now it is a very volatile and very uncertain situation. But yes post GST, I think, the things will stabilize much better.

Nikunj Joshi: Okay. Thank you very much; I will come back in queue sir if I have more questions.

Parag Vyavahare: Sure, sure.

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

Vipul Shah: Hi sir. What is the volume growth in this quarter as compared to preceding quarter and first quarter of last year?

Parag Vyavahare: Just one second, just give me a second. See, compared to the previous year, it is down by around 2% and compared to the Q4 it is down by roughly around 6%.

Vipul Shah: This is volume, right?

Parag Vyavahare: Volume.

Vipul Shah: Okay, and sir this new units of Sikkim and Guwahati, do they carry any excise benefits or not?

Parag Vyavahare: See, there is a benefit, but which we will have to apply for and we have to get for it and then only you can start exercising, but yes, it is not an exemption benefit, it is a benefit linked to the (not clear).

Vipul Shah: Sorry, your voice is getting broken sir.

Parag Vyavahare: Sorry, so there the benefit is in the form of the, you get some bit of benefit in the value addition that you have done, right? However, as far as end customer is concerned, you do have to pay the duty. So end customer has to pay the duty.

Vipul Shah: Blanket excise exemption is not there. Right?

Parag Vyavahare: That's right, blanket exemption is not there. That's right.

Vipul Shah: And sir, lastly how are raw material prices behaving? Main raw material prices behaving.

Parag Vyavahare: See, raw material has been hardened, we have been hardening, and we have seen compared to the, I mean, overall if I had to compare the basket, I will say compared to the Q12016 and Q12017 you have seen the RM (not clear) of the basket have gone up by roughly around 3-1/2% and if we compare to the Q42016, they have gone up by roughly around 1.7%.

Vipul Shah: So have you been able to pass on any of this RM increase to your customer or you are forced to absorb due to the circumstances.

Parag Vyavahare: No. See, it varies from customer to customer. I mean, in the current quarter compared to Q4 '16 we have been slightly better off, in the sense we have been largely been able to pass on the impact to the customer. But yes, there will be some pluses, some minuses, but I will say compared to Q4 '16, we have been better off in this quarter. Of course, this cannot be compared to the Q1 '16 because Q1 '16 was a very (audio break) year.

Vipul Shah: And lastly sir, how is export market shaping up and what is the export domestic mix in this quarter?

Parag Vyavahare: Around 25%.

Vipul Shah: Export is around 25 and domestic is 75, right?

Parag Vyavahare: That's it, the export is 25% and domestic is roughly around 75%.

Vipul Shah: And how is the trend for exports going forward?

Parag Vyavahare: The uncertainties are there; very clearly we can see that thing. Because the whole of the African continent is facing challenges because of oil prices and commodity prices being down. The overall the economy is not doing well and dollar (not clear) major challenge, so those uncertainties are there and in light of the things, the demand is subdued.

Vipul Shah: Okay sir. Thank you and all the best for the future.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, we have the next question from Kaushik Poddar from KB Capital Market. Please go ahead.

Kaushik Poddar: Talking of the FMCG industry not doing so well, the other...but Patanjali is doing very well, in fact their turnover has doubled and the fact that the Patanjali doesn't source much of their requirement from you, and Patanjali is growing disproportionately in the FMCG space, do you see it as a problem for you?

Parag Vyavahare: No sir, I didn't, it is a portion of the question I didn't understand very clearly, sir, you said Patanjali is doing something, some sourcing some (not clear), I couldn't understand very clearly, could you explain that?

Kaushik Poddar: Yeah, Patanjali is not sourcing as much probably from you as much as say other multinational FMCG companies and Patanjali is also growing disproportionately compared to these FMCG companies, multinational FMCG companies. So in the light of both these two points, do you see yourself getting hit because Patanjali doesn't source as much as say other FMCG companies?

Parag Vyavahare: I won't really say like that, because many of their products also go in bottles or some other forms, where ideally we may not have much products to offer etc., so really I would not like to compare that just because I am not serving Patanjali in a very, very large way, and because of which I am losing out on the sales or something, I don't believe so.

Kaushik Poddar: Do you supply as much as a percent of the FMCG companies, the packaging requirement...does Patanjali source from you or they don't source from you?

Parag Vyavahare: See, no, we do supply in a certain way to them, but not a very large way, I would say.

Kaushik Poddar: Yeah. If that be the case and since Patanjali is growing disproportionately, do you see that as a threat, because even this year also they are talking of 100%, I mean, they may not do 100%, and all the other FMCG companies are talking a very anemic growth. So if that be the case, do you see that as a threat because Patanjali getting shares at the expense of other FMCG companies, so do you see it as a threat?

Parag Vyavahare: I would not like to really, since I have not done that much of recent study specifically on Patanjali, so I would not like to really put a specific hazard on that, I mean, guess on that.

Kaushik Poddar: See, the reason why I am asking you is that because you have been saying that FMCG industry has not done so well, but Patanjali has done very well, right? So Patanjali is growing disproportionately. Right? So, if that be the case, in that case obviously Patanjali's share in the whole FMCG pie will be much higher this year as compared to last year. So, if Patanjali does not source as much from you, so do you see it as a threat for you?

Parag Vyavahare: I am not too sure of that thing. I am not really too sure of that.

Kaushik Poddar: Okay then. That's it, thank you.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Participants, if you have any questions, please press * and 1 on your telephone keypad. Sir, we have the next question from Saurav Patwa from HDFC Mutual Fund. Please go ahead.

Saurav Patwa: Good afternoon sir and thanks for taking the question. Just wanted to understand, our gross margins have improved in last maybe than what they were two years back, and to that extent even our EBITDA margin has improved, but post this merger, like, now you have been able to consolidate both these companies, so shouldn't EBITDA margins have improved? Why I am asking this question is because in the beginning, opening remarks, you mentioned that current quarter margins are closer to long term margins, so what kind of trajectory you would...

Parag Vyavahare: See, my statement was coming from the fact that now since we have been publishing the consolidated results for now, this is the third year where we are really publishing the consolidated results, so my statement was more from that thing. So whatever trends we have seen over the last two years, have been (not clear) maybe (not clear) that Q1 '16 was exceptionally high margin, which (audio break). My statement was from that perspective.

Saurav Patwa: Okay. So, do you believe that this scope for margin improvement may not, definitely not from March '16 point of view, but from what you have been seeing in last four quarters, because I think it is moving around like 10, 10-1/2 sort of a margins, but I think, in past we used to have margins may be like CY15 our margins were relatively higher, in may be like, three quarters in fact, like we reached, I think, highest was at 12.3%, so is there scope to reach that level?

Parag Vyavahare: See, it depends on many, many factors. It depends on the kind of sales growth and in the kind of particular products, which we are able to sell in that quarter, and also how the raw material prices pans out, it really depends. And yes, if it goes...

Moderator: Participants, we have lost the connection between the management. Please stay connected. Welcome back Mr. Parag. Please go ahead.

Parag Vyavahare: Yeah. So Saurav, so coming from that thing, yes, so to that extent there is probably some scope of improvement in the margins.

Saurav Patwa: So why I was asking you was our gross margins actually have been fairly stable, only it is the, so may be like, I don't want to comment specifically, ask a question quarter-to-quarter, but there have been quarters, let's say, where we had similar gross margins, but EBITDA margins in last four quarters have actually been very, really range-bound, so is this because of external environment or is this...are these the margins, which will be very difficult to beat?

Parag Vyavahare: No, I would not like to say like that thing. See, what I will say is that, the last three, four quarters have been very tough, I mean if you see the...coming from the Q1 '16 you would have seen the Q2 and Q3 were very tough, the way the raw material prices grew and the sales prices behaved, and with the economy not doing well and at the same time the exports market not doing well, the things were very difficult, and then when we thought that the rains were good and the Q4 onwards things should pick up, unfortunately the demonetization kind of thing hit us, and hence what we have seen again is that the Q4 and Q1 have been impacted. Of course Q1 also had a bit of impact, the rupee has appreciated vis-à-vis the dollar, so that also had its own challenges it does create for us, because we are an exporting company. So, you know, these kind of negativity or these kind of challenges have been there. So, obviously, they do put their challenges to the profitability improvement situation and that is what I said that there will be, you know, if the situation improves slightly and the things get slightly better, we do have some scope for definitely improving our performance.

Saurav Patwa: Okay. And how has the environment been in countries where you have been exporting? I believe, in the past you mentioned, the environment is very subdued and like many of these companies don't have cash reserves to...currency reserves to pay, so have you seen some improvement in this trend with commodity prices stabilizing?

Parag Vyavahare: Not substantial improvement, no substantial improvement we have seen.

Saurav Patwa: Okay. Thanks a lot and all the best sir.

Parag Vyavahare: Thanks.

Moderator: Thank you sir. Sir, we have the next question from Naushad Chowdry from Systematic Shares. Please go ahead.

Naushad Chowdry: Thank you for the opportunity. And I am sorry, if I, can you updated about Sikkim and Assam plan sir?

Parag Vyavahare: What I mentioned was that the Sikkim and Assam plants, both have gone into operation during the Q1 2017, towards the end of Q1 2017.

Naushad Chowdry: Okay, so both the plants are operational now.

Parag Vyavahare: That's right.

Naushad Chowdry: Yeah. And what is the CAPEX plan for 2018 and '19 sir?

Parag Vyavahare: No. The 2018 and '19 plans have not been finalized, so I really won't be able to put a number on that thing.

Naushad Chowdry: And what's the current debt level right now, sir?

Parag Vyavahare: Our current debt level roughly is at the level of around 430 crore rupees.

- Naushad Chowdry:** 420 crores?
- Parag Vyavahare:** 429 crores to be precise.
- Naushad Chowdry:** And the tax rates sir, what are you expecting from, you know, next quarter onwards the tax rate?
- Parag Vyavahare:** See, the tax rate will hover around the same level as what it is at presently.
- Naushad Chowdry:** Sorry, I didn't get you sir?
- Parag Vyavahare:** Tax rate will continue to be around the same level as what it has been at present.
- Naushad Chowdry:** Okay. At present you mean to say the current quarter?
- Parag Vyavahare:** That's right, that's right.
- Naushad Chowdry:** Okay. Thank you.
- Parag Vyavahare:** Thank you.
- Moderator:** Thank you sir. Sir, we have the next question from Mr. Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** Hello?
- Moderator:** Yes, sir, please go ahead.
- Parag Vyavahare:** Hello?
- Sunil Kothari:** Yeah. Good after Parag. Basically I just wanted to understand this quarter on quarter degrowth of 6%. Actually what I understood is compared to quarter four we have degrown in terms of volume by 6%. Any specific reason other than demon or lower exports quarter on quarter?
- Parag Vyavahare:** No, no, both the reasons are there. The export challenges is one, definitely one of the reasons also, but demonetization also has been definitely one of the key reason for the slow growth in this quarter. Both had impact on that I thing I'll say, both had, both.
- Sunil Kothari:** Okay. And how do you see overall volume growth in 2017, any idea, single digit or may be double-digit possibilities or how you are planning?
- Parag Vyavahare:** See right now this is slightly, you know, since we're just coming out of this demonetization situation on one side the exports as I mention still continue to haunt us and now we have the GST. Now with the GST many things have not been clear and especially the overall preparedness of the industry being at what stage, whatever we're seeing the reports in the press or the media on one side and the GST rates still not being out, so there is a lot of uncertainty and we do see some impact

coming from the fact that many of the players are trying to reduce the stocks so that, you know, if any adversities are there they want to minimize the impact of that thing, so till the time, I think a couple of months till the GST goes live, till that time there's going to be a lot of uncertainty and I doubt whether if one can look at a very, very robust double-digit growth return kind of a situation, it is very difficult to predict at this point of time, but it looks very, very tough.

Sunil Kothari: Okay. And my last question is we exporting as well we have some imports also, what is the (not sure) net FOREX earning or exposure say in 2016?

Parag Vyavahare: Sorry. Sunil your voice is...

Sunil Kothari: Basically what I wanted to understand is we are exporting so we have FOREX earning and we are importing some material also, some raw material, so what is our net FOREX exposure, positive, negative?

Parag Vyavahare: See, we are a net FOREX export surplus company, yes, which will be not a very large surplus, but it will be fair on, say, I think roughly around say \$4-5 million kind of surplus could be there. Okay?

Sunil Kothari: That is per quarter of per year?

Parag Vyavahare: Per year.

Sunil Kothari: \$4-5 million?

Parag Vyavahare: \$4-5 million we would have over a 12-month range.

Sunil Kothari: Your voice was breaking, so if you could repeat please?

Parag Vyavahare: No, I said we would be surplus on, you know, net of our imports, our surplus will be in the range of \$4-5 million per year.

Sunil Kothari: Okay. Okay. Fine. Thank you. \$4-5 million per year. Okay. Thank you.

Parag Vyavahare: Yeah.

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

Sir, we have the next question from Mr. Dhiral Shah from ASIT Metha. Please go ahead.

Dhiral Shah: Sir, what is the current capacity utilization?

Parag Vyavahare: We would be somewhere between 75-80%.

Dhiral Shah: Okay. And so what kind of synergies, you know, you envisage from this merger?

Parag Vyavahare: See, the thing is though the merger has taken place now legally, but if you see originally for the last almost 27 months we have been continuously working on integrating these three companies. So, you know, the synergies have always been set in whether they are in the form of the better spread in terms of the areas, geographical or the product range on the sales side or whether it is in terms of the better buying capacity in terms of...and has better price for the raw material and also for the optimization of the overall overheads. So those are the three areas and of course the fourth area also has been better working capital management, which has aided us in accelerated debt reduction program.

Dhiral Shah: Okay. And, sir, what is the CAPEX for this year, 2017?

Parag Vyavahare: In 2017 our plan is that we are looking at spending roughly 120 crores.

Dhiral Shah: And this is for what purpose sir?

Parag Vyavahare: This is for the various expansions including the setting up of those factories in Assam and Sikkim.

Dhiral Shah: Okay. And, sir, lastly, what is your current capacity overall?

Parag Vyavahare: Just one second. See, if you take our base flexible laminate material our capacity will be somewhere in the range of around 96,000 to 100,000 ton, in that range our capacity will be there.

Dhiral Shah: And with this addition of two factories how much it will be?

Parag Vyavahare: Addition is around 3000 tons.

Dhiral Shah: Okay. Okay. Thank you sir. That's is from my side.

Parag Vyavahare: Thanks.

Moderator: Thank you sir. Sir, we have the next question from Mr. Anurag Arora from Narnolia Securities. Please go ahead.

Anurag Arora: Good evening sir. Thanks for the opportunity. Sir, my question is the company must be using BOPP and specialty films like metalized films and coating films as the major raw materials, so could you please tell us the breakup of these two films, BOPP and speciality and total raw material in percentage terms?

Parag Vyavahare: See, that's too specific information. Unfortunately I don't have it and I would not also like to specifically give those kind of breakups.

Anurag Arora: Okay. I think from the BOPP to speciality if you could tell us, is there anything from BOPP to speciality films...

Parag Vyavahare: No, no. I didn't get your question. What do you mean by...could you repeat your questions because your voice is slightly coming very low so I couldn't make out very clearly what you have said?

Anurag Arora: I just wanted to ask speciality films are just (not clear) purpose like there is coated films and there is metalized films, and you people use it for large purpose so are you using more of BOPP or are you using more of speciality films these days?

Parag Vyavahare: No, no. See, each films has its own relevance and importance in terms of the applications what you are doing. Speciality films by their nature they cannot be used in too many applications, so they will tend to be used in a certain specific application, whereas if you look at your films like (not sure) films or polyester films or your polythene films there are very general purpose applications, they're very versatile films and they've got many applications. So their usage always will be much higher compared to speciality films.

Anurag Arora: Okay. Okay. And, sir, you had mentioned you have seen 1.5% price hike in the raw material in this quarter, quarter-on-quarter, so what is the situation right now, are they moving up or are they stable? Hello? Hello?

Moderator: Hello? Mr. Parag? Hello sir?

Anurag Arora: Line has been disconnected?

Moderator: No, sir, Mr. Parag is on the call. Hello? Parag sir?

Anurag Arora: I'm Anurag this side actually. Hello? Hello?

Moderator: Participants, please stay connected while we reconnect Mr. Parag on the call. Welcome back Mr. Parag. Please go ahead.

Parag Vyavahare: Yeah. I think I had just finished the last question I believe. Hello?

Moderator: Mr. Anurag?

Anurag Arora: Yeah, yeah. I'm Anurag this side. My question was, sir, you had mentioned that you had seen raw material price hike of 1.5% in the quarter gone by (not clear) seen that polymer prices are coming down, so what is the real situation in terms of raw material prices?

Parag Vyavahare: What is the?

Anurag Arora: Raw material price situation these days as polymer prices have come down April onwards?

Parag Vyavahare: See, it's like (not clear), I mean, see, there are various factors, which really affect the raw material prices, demand-supply factors, sometimes certain manufacturers closing down their factories for plant maintenance or for whatever reasons. So sometimes those imbalances do arise and because of the thing you see either raw material prices are going up or down, so if you ask me to give a prediction on that thing it is very difficult to say whether of course we have seen some softening in the last may be a month or so, some softening, but whether that will last or how long it will

last, whether cycle will reverse and it again will start rising I really can't hazard a guess on that thing.

Anurag Arora: Okay. Thank you sir. That's it from my side. Thanks.

Moderator: Thank you sir.

Parag Vyavahare: Yeah, hello?

Moderator: Sir, we have the next question from Keshav Garg from KJ Equity Research. Please go ahead.

Keshav Garg: Sir, is kraft paper our main raw material?

Parag Vyavahare: Kraft?

Keshav Garg: Yes sir. Is kraft paper our main raw material?

Parag Vyavahare: No, no, no. Rather we hardly use any kraft paper.

Keshav Garg: Okay sir. Okay.

Moderator: Thank you sir. Sir, we have the next question from Aditya Shah from Vikram Advisory Services. Please go ahead.

Aditya Shah: I just have a question about the EBIT margin and the ability to maintain those in the coming years? As I see that the last quarter, which is the March quarter had around an EBIT margin of 6.7 and December had an EBIT of 6.3 odd. I would not like to compare as you said March '16, which was 10.5 something, so do you think that the margins, EBIT margins, are the lowest and cannot deteriorate from there and we would be able to maintain our averages of around 8.5 or 9 or something like that in the coming years?

Parag Vyavahare: Unfortunately, you know, our policy doesn't permit me to do any forward-looking statement on this thing, so I really can't say, but I do tend to agree with you that what the present margin we have been seeing are really in the low range definitely.

Aditya Shah: So there is no further room to deteriorate from here, most likely. And the reason being is also that, you know, the margins that we used to enjoy before positive packaging and the margins, which we enjoy after positive packaging. Common logic just says that because of synergy it has to be better than before, but the scenario doesn't seem like that. So the only question is that would we be able to outperform better than what we did before positive or would we be able to maintain on a similar...

Parag Vyavahare: See, now what will finally happen, you know, as you know is a mix of various factors, which as a management team we work on it, but really it's very difficult for us to say that this is it, you know, because our performance also does get affected by various external factors on which you not be having much control, so I really

cannot, you know, it's very difficult to give a definitive answer to your question, you know.

Aditya Shah: Sir, I agree but my only question is that the synergies from positive are not reflected in the results, that's all, which should be.

Parag Vyavahare: To that extent I'll respond that, no, the synergies are very much there, they have come in but some of the adversities have really hit us hence probably you are seeing a certain impact and hence you are seeing (not clear) that's what I'll say.

Aditya Shah: So it is fair to assume that there is no possible way to deteriorate from here kind of, most likely.

Parag Vyavahare: I'll say you please form your own opinion. I would not like to offer an opinion.

Aditya Shah: Alright. Thank you sir.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, we have a follow-up question from Mr. Naushad Chowdry from Systematic Shares. Please go ahead.

Naushad Chowdry: Just a correction, sir. You said CAPEX plan in 2017 would be around 150 crores, right?

Parag Vyavahare: No, 120 crores.

Naushad Chowdry: Okay. Thank you.

Moderator: Thank you sir. Sir, we have a follow-up question from Mr. Vipul Shah from Sumangal Investment. Please go ahead.

Vipul Shah: Out of this 120 crores any sum will be spent on the Sikkim and Guwahati unit or that CAPEX part is over?

Parag Vyavahare: No, no, 120 crores comprises of the spend on Guwahati and Sikkim projects and apart from that thing some other projects.

Vipul Shah: So after completion of that CAPEX what will be the combined addition to the capacity?

Parag Vyavahare: See, as I told you the net addition to capacity in this area will be around 3000-4000 tons because the rest of the CAPEX primarily are for adding the value-added products to the portfolio rather than trying to add the, you know, add the mainland capacity. The focus is on the value-added products.

Vipul Shah: So last year also we added 3000 and this year also we plan to add another 3000-4000, is that understanding correct?

Parag Vyavahare: Yeah, yeah.

Vipul Shah: Okay. Thank you sir.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, we have a follow-up question from Mr. Kaushik Poddar from K B Capital Markets. Please go ahead.

Kaushik Poddar: Can you give us a sense of the volume going ahead, I mean you are talking of GDP growth of 7-7.5%, so can we expect at least 7-8% volume growth?

Parag Vyavahare: See, it's a future ballgame again. I mean if the economy really grows at that rate and really all the sectors of the economy perform well then, you know, definitely the sector should see that kind of the growth rate, but right now with some of these negativities, especially from the slow down, which we saw in the early part of 2016 and demonetization that's where we're seeing some of the negativities, but yes, once those blackouts, I mean the black clouds are out, yes, we should be back to the growth. How much that growth will be I would not like to put a specific number, but yes, but it will be somewhere in sync with the economic growth.

Kaushik Poddar: Okay. Now, the problem you are talking about is it a problem particular to the industry or particular to the...

Parag Vyavahare: No, the problem is in general to the industry and overall economy. See last year, I mean we saw the first five-six months the overall economy was not doing well, so that had its own effect and then in the last quarter we thought with the rains having given a positive boost to the economy that things should improve, but unfortunately the demonetization kind of hit us, which has hit us on two quarters, which we have seen and now we are heading into the second quarter and as we are heading towards the third quarter we can see very clear-cut, GST situation coming in, which is creating its own uncertainty, I mean, you know, because everybody, you know, because many things are not clear, so everybody is trying to, you know, guess and then trying to take certain actions in anticipation of two things, so it is bound to have some effects.

Kaushik Poddar: Lastly, see, one way to increase the margin is to come out with various innovative products, I mean Paper Boat packaging for example was done by Huhtamaki. So can you just give us a sense of that kind of innovative packaging or whatever, I mean I am sure you cannot divulge specifically the name of the companies, but what is the thinking on the innovation front?

Parag Vyavahare: See, innovation is a key thing for us. Always our focus has been that that minimum somewhere between 20-30% of our turnover should come from the innovative products. Innovative products means it could be absolutely a brand new product completely or it could be product, which is an improvisation on an existing product, which basically gives better productivity to the customer or better cost-efficiency to the customer.

Kaushik Poddar: Okay. Okay. That's it. Thank you.

Parag Vyavahare: Yes.

Moderator: Thank you sir and there are no further questions. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation. You may all disconnect your lines now. Thank you and have a good day everyone.

Note:

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