

Transcript

Conference Call of Huhtamaki PPL Limited

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Presentation Session

Moderator: Ladies and gentlemen, good afternoon. And welcome to the Huhtamaki PPL Limited 3Q CY16 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant lines are in the listen only mode. Later there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Jaymin Trivedi of Aditya Birla Money. Thank you and over to you sir.

Jaymin Trivedi: Thanks. Good afternoon everyone. We welcome you to the 3Q CY16 earnings conference call for Huhtamaki PPL Limited. Today from the management we have Mr. Parag Vyavahare, 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 again this third quarter investor call. This quarter, the results have been there with you. It has been a mixed bag. We had a bit of a value de-growth during this quarter, because some of the businesses which typically do very well in the Q2, which are seasonal products like personal care and soft drink, beverage industry, which typically goes down in the Q3. So, that effect got bit accentuated. And also the headwind challenges what we have been facing on the exports and also in the domestic market, where the growth has still not really fully recovered, those challenges have continued. The trading conditions were still bit challenging and uncertain at times and we also had the challenges coming from the Brexit and related all those things, what we saw. So, with that backdrop one needs to see the performance.

So, we have really de-grown in the quarter, compared to the Q2 by 2.8%. But, if you compare it to the last year same quarter of the Q3 2015, then we have grown by 6.9%, so which according to me is a reasonably good sign that still we are able to capture some portion of the growth. So, with that the profitability had its own challenges. Still I think in the given circumstances, I think we have improved our EPS compared to the last year, same quarter from Rs.2.30. Hello? Hello? Operator, am I audible? There was some music in the line.

Moderator: You are audible sir. Please go ahead.

Parag Vyavahare: Yeah. So, our EPS was Rs.2.30 in Q3 2015 has gone to Rs.2.31, because of the various challenges which I explained and hence our inability to pass on the cost increases to the customer. So, the margins have continued to be rather flat in the Q3 2016 vis-à-vis Q2 2016.

With that, I would like to throw open the floor to the questions from all of you. Thank you very much.

Question and Answer Session

Moderator:

Thank you Mr. Parag. We will now begin the question and answer session. If you have any 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, the first question comes from Mr. Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar:

How do you see the conditions? Has the conditions improved this quarter?

Parag Vyavahare:

Which conditions are you referring Mr. Kaushik?

Kaushik Poddar:

You were saying that there were problems with exports and there were other problems also....?

Parag Vyavahare:

Export problem will still continue. The export volumes, one needs to really view, what has happened is that the whole of Africa and the Middle East market has really got very badly hit, because of this decrease in oil prices and that is what has been happening from 2015 mid or something. And that really is unfortunately continuing. And what has happened, the earning capacities of those economies have completely gone down. There are good customers there, who are willing to buy. They have the cash to pay for. But unfortunately there is no foreign currency available in those countries, whereby they can buy the foreign currency and pay us off. So, that really is putting those buyers into difficulty. And plus what has happened, the overall earnings in the society have gone down because, whatever oil sector earnings which were there coming and as a correlation, the various downstream activities which were leading to the income in the societies of those countries have taken a hit. So, the spending power of those economies has really gone off. And we have seen the Middle East like Saudi Arabia, Dubai; we have seen the expats have been sent back, the laborers. Of course initial stages, this is all basically the blue collar laborer have been shunted out, because there are no jobs or there is no growth or there is no money to pay for the projects or the various activities. So, I think that is one thing which really is putting a bit of a challenge. And I think that is something which is continuing still. It is not and the end for that is not so easy to sight.

Kaushik Poddar:

Okay. And as far as the FMCG products, FMCG companies to whom you supply and as well as for the personal care products specifically, do you see the conditions improving this quarter?

Parag Vyavahare:

If one sees the large ten to twelve companies who have published the results so far, if you exclude the exception of the Nestle, since Nestle was a very exceptional situation, because in 2015 they were very badly declined due to the Maggie issue. And currently they have grown substantially by something like 35%, because they were operating in 2016 onwards, with very low base of 2015. This was for

Nestle. The other big companies like, if I take a mix of ITC, HUL, Marico, Dabur etc. they have roughly grown by 5.7%, compared to Q3 2015. So, one needs to look at our 6.9% growth compared to the same quarter, in sync with that. So, there definitely is we are also thinking in domestic economy also. The FMCG companies, the FMCG sector has not been booming like anything. There is a clear cut signs of slowdown.

Kaushik Poddar: Do you see the conditions changing in the third quarter and the fourth quarter or are you getting an inkling of that?

Parag Vyavahare: There are various different, different theories going on. So, it is very difficult to say. But, the improvement will occur. But, it will still take some time, that is what is our understanding. It cannot improve radically so quickly, especially now with some of, yesterday there were those two developments, they are also going to play on the minds of the people.

Kaushik Poddar: Absolutely. And you have also publically announced that you are setting up some new factory. So, how will it change the contour of the company? Are you doing something different or you will be doing the same thing, but in a different factory maybe for tax reason or whatever, if you can tell me the rationale for setting up those factories?

Parag Vyavahare: Primarily what is happening is, the HPPL is having factories largely if you see today, in the Northern part of the country, Southern part of the country and the Western part of the country. We have not been having any base in the Eastern part of the country. And with the Assam and Sikkim and those regions opening up, and the Government trying to increase industrialization of that area with various incentives or whatever we can say, many of our customers have been going and setting up shops there. And that is what where, in our business you need to be reasonably close to your customer. And that is what is really prompting us to go and set up a unit in the North Eastern zone. So, the activities will be largely similar. Always one keeps on doing one plus or minus etc. etc. But, one does that after one gets some more clarity. But, initial phase it will be almost a very similar kind of facility which we are having in other units, which we will be setting up, which will be primarily for the manufacture of the flexible packaging material.

Kaushik Poddar: Okay. And do you see the margin at the same level or it is changing or it will be at the same level for the next few quarters?

Parag Vyavahare: Margin is something which is always a challenge here. And as a policy, we do not give any guidance; I really will be constrained to comment on that thing.

Kaushik Poddar: Okay. Thank you. Thank you for answering all the queries. Thank you.

Parag Vyavahare: Thanks.

Moderator: Thank you sir. The next question comes from Mr. Ankit Gor from Systematix. Please go ahead.

Ankit Gor: Hello?

Parag Vyavahare: Yeah, Ankit.

Ankit Gor: Am I audible sir?

Parag Vyavahare: Yes, very much, very much.

Ankit Gor: Yes sir. What would be the cost of setting up that factory? And when will the operations commence on that?

Parag Vyavahare: We have said, basically we are undertaking three projects, if I am not mistaken, we have said. One is that we are setting up a small label manufacturing facility in Sikkim. Then we are setting up one flexible packaging factory in Assam, in that region. And we also are looking at relocating one of our factories, which is in New Bombay region, slightly in the outskirts of Mumbai. All this projects, total cost expected is roughly around between Rs.60 crores to Rs.65 crores is what we have stated.

Ankit Gor: And when will, this entire capacity expansion will get over, by what time?

Parag Vyavahare: The complete capacity expansion will get over by the end of the 2017.

Ankit Gor: Sorry, this label, this Eastern part of the country will get over by what sir?

Parag Vyavahare: The Eastern part of the country, the expansion what we are doing, it is expected that it should get over by the first half of 2017.

Ankit Gor: Sorry sir, you are not audible sir please.

Parag Vyavahare: I said, the Eastern part of the country expansions what we are doing, they should get over by the first half of 2017. And relocation of one of the existing units in the Western part, but that we expect to complete by somewhere towards the end of the 2017.

Ankit Gor: Okay. And sir, in this case, the Eastern part of the country, the plant we are opening up, what kind of revenue we are expecting? And second question is with regards to that only, is it entirely funded by company and any tax exemption on that part?

Parag Vyavahare: These units should roughly add somewhere between around 80 crores to 100 crores of turnover as per expectation, at a full scale utilization that we will reach after a couple of years or so, somewhere between 80 crores to 100 crores. And these units we are primarily setting up by using the internal accruals. And depending on how the timing wise we work it out, we are able to, because there is certain tax benefit available in that area on the tax exemption, but that is time based. So, that it really depends on whether we are able to complete the expansion by certain date. So, it really depends on that thing. So, right now I would prefer to abstain from commenting on the specifics of that thing.

Ankit Gor: Okay sir, no problem. My next question is with regards to this Indian operation. Our Indian operations have grown by double digit. Revenues have grown by double digit. So, is it mainly contributed by Webtech or is it by Huhtamaki PPL, if you can throw some light? And what is the volume growth domestically sir?

Parag Vyavahare: Volume, domestically if you are asking, over the Q2 2016, there is a bit of a de-growth has been there. There is a bit of a de-growth, because some of the products which sell typically high in the Q2, typically as the season changes in Q3, there is a bit of de-growth expectation has been there. So, that is one of the reasons has been there.

Ankit Gor: YoY growth?

Parag Vyavahare: YoY, just one second. No, YoY I don't have it Ankit readymade with me.

Ankit Gor: Okay. But, revenue has grown by double digit sir. So, in that case if you are saying that demand was muted, then was it the realization growth or was it Webtech has come to.....?

Parag Vyavahare: Are you comparing the growth vis-à-vis the last year, nine months versus nine months?

Ankit Gor: No, this Q3 CY16 versus Q3 CY15.

Parag Vyavahare: Yeah, there is a value growth roughly around 7%.

Ankit Gor: That is what, yes, value growth.

Parag Vyavahare: 6.9%. Value growth is around 6.9% and volume growth is slightly higher. Volume growth is higher.

Ankit Gor: Volume growth is probably near to ten digits, near to 10%, sorry.

Parag Vyavahare: Yeah, it is slightly more than 10%.

Ankit Gor: So, isn't it good in that case, isn't that cheerful volume growth and revenue?

Parag Vyavahare: Yes, definitely, definitely. What has happened is that, because of the raw material prices have gone down, so obviously the selling prices go down. So, that is why we are able to see that there has been the volume growth, but the value growth has been bit muted. Value growth has been muted. Value growth has been muted because of that thing. So, that is a good part of the story, I will say.

Ankit Gor: In that case sir, growth was around 10% and while as you mentioned all these FMCG guys except Nestle, volume growth is around 5% to 7%.

Parag Vyavahare: It was just value growth I said. That is value growth. Value growth is 6.9%.

Ankit Gor: Even value growth for example, HUL personal care, they have done around 2% I guess. So, even a personal care segment, in that case if you are clocking 10% kind of a volume growth, then it is good I guess. Then what is the future outlook of the quarter going ahead, if you can give some sense, if you can give some sense on that?

Parag Vyavahare: Ankit, as a policy we are forbidden from giving any forward looking statements or any guidance. So, unfortunately I am constrained on that thing.

Ankit Gor: No problem sir, I respect it. Sir, with regards to Webtech revenue, what was the Webtech revenue for the quarter sir?

Parag Vyavahare: Just one second. Webtech roughly is around 25 crores-26 crores, between 26 crores-27 crores, I will say.

Ankit Gor: 26 crores. And sir, in this case, our overall consolidated margin have clocked around, OPM clocked around 10%, while Indian operations clocked around 7.8%.

Parag Vyavahare: Sorry, I didn't get it, where you are getting the Indian operations and overall, I didn't get that thing, I am sorry?

Ankit Gor: Standalone, I am just talking about the standalone business. Standalone business has clocked around 7.8% margin, so it is including Webtech and Huhtamaki PPL, right?

Parag Vyavahare: Okay.

Ankit Gor: And overall consolidated business has clocked a margin of 10%. So, where is the gap sir? In that case, though the global, though the domestic scenario looks brighter in terms of volume growth and even you have a chance to have a value growth as well. But, is it just the raw material prices which have pulled down our OPM or anything else is there?

Parag Vyavahare: No, no, the raw material prices definitely have pulled up, but also what has happened, please remember in Q2 to Q3 our sales value have de-grown. The value growth has not been there. So, that also when you are still operating in an inflationary situation, the cost increases are still coming and hitting you. And when the overall volume growth is muted and value growth is also muted, that starts putting the pressure on your profitability.

Ankit Gor: Okay. And sir, my second last question is with regards to interest. On a consolidated basis, interest would actually have declined by 27%. So, what is the current debt we are sitting on? And second, have we started paying debt which was funded by parents or probably the high cost that we have started paying, so if you can give some sense on interest and debt?

Parag Vyavahare: As far as the interest is concerned, of course the interest has gone down primarily because of the debt repayment what we have done. Now, if you look at it as a consolidated entity, our debt today is at around roughly about, is at around 450 crores, 450 crores. Now, out of that thing 385 crores is the debt which is from the NCDs for the acquisition of Positive Packaging. As of now we have not started repaying any of that portion. Right now our focus has been to repay any external borrowings, which we have received and which are either following queue or which are slightly high cost, so those are primarily we are repaying.

Ankit Gor: Okay. So, this should be the normal repayment which we expect going ahead also?

Parag Vyavahare: That's right.

Ankit Gor: And sir, last question is with regards to this diversifying. As the Huhtamaki Oyj has acquired or got into Indian operations by acquiring one of the paper company Valpack. So, why don't they, now they have acquired this via Huhtamaki PPL. I understand that there is a greater interest in flexible packaging in India. So, is it just to maintain a line between flexible and paper or what is the sense about that group thing?

Parag Vyavahare: Exactly. The group if you see operates on a set of vertical segmented approach, where the flexible segment, molded fiber segment and food services segment, they operate as virtually you can say within the main company as divisions. So, each of the divisions goes and sets up its own facilities and companies in different countries separately and independent of each other. Following the same strategy in India they have acquired the Valpack through an independent structure and flexible business as such has nothing to do with that thing.

Ankit Gor: Okay sir. So, in that case is it fair to assume that Huhtamaki PPL will never get into business apart from flexible packaging, be it paper or anything?

Parag Vyavahare: That's right.

Ankit Gor: So, we will be the flexible packing / plastic BOPP or BoPET guys, right?

Parag Vyavahare: I will say not even, we don't manufacture the BOPP.

Ankit Gor: I totally agree with that. But, I am just processing on BOPP and processing on BoPET, right?

Parag Vyavahare: That's right. That's right. So, we will be a flexible packaging. We have focused on flexible packaging and we will continue to be focused on flexible packaging, unless or until the Huhtamaki group also decides to change the strategy and wants to bring something else into that thing, then that is something different. But otherwise we are only focused on flexible packaging.

Ankit Gor: Okay sir, thank you. Thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Chetan Thakar from ASK. Please go ahead.

Chetan Thakar: Good afternoon sir.

Parag Vyavahare: Good afternoon.

Chetan Thakar: Sir, I just want to understand, your standalone performance has remained weak in this quarter. So, is there any particular reason? Is it domestic or export that has been hurting standalone?

Parag Vyavahare: What happens is that, one needs to bear in mind that we are going through this process for the merger and we are trying to do the integration activities. Many of the cost have been incurred and obviously they will get incurred primarily at the parent company level, so whereas many of the cost savings are occurring at the subsidiary level. So, that is why you are seeing the separations on the profitability at the parent company are slightly higher.

Chetan Thakar: Okay, I get it. So, that is why the margins look depressed for the time being, till the.....

Parag Vyavahare: Substantially the interest cost burden which we have taken for the acquisition, against that I don't have, on a standalone basis; I don't have any profits corresponding to that thing to show.

Chetan Thakar: Sure. And for the three new plants, one is re-location and the two new plants, all put together is 60 crores CAPEX is what you have guided, right?

Parag Vyavahare: Yeah, 60 crores to 65 crores.

Chetan Thakar: 60 crores to 65 crores. And sir, in terms of the pass through of raw material prices, so the adjustment downwards has happened. And when do you think we will move back to the level of 11%-12% on the margins, in the next couple of quarters or it is broadly in this range now 10% to 11%?

Parag Vyavahare: I think the present level where we are operating, that is what I can really talk of. It is very difficult to guide. As a policy we don't give guidance on the margins specifically. So, I won't be able to comment as to that.

Chetan Thakar: So, even this quarter we have seen downward pressure on selling prices for us, because of raw material prices which had gone down, is that correct?

Parag Vyavahare: Yes, yes. The growth has been, there have been challenges and there have been pressures. So, customer pressure or the price decreases or not increasing prices have been there and that is what is really causing the pressures on the margins.

Chetan Thakar: Okay. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Jaymin Trivedi. Please go ahead sir.

Avinash: This is Avinash. Thanks for the opportunity. You had mentioned that the volume growth for this quarter vis-à-vis last year the same quarter was something slightly ahead of 10%, correct?

Parag Vyavahare: Around 10%, yes. Around 10% or so.

Avinash: So, what would be the volume growth for the nine months for this calendar year vis-à-vis the last year?

Parag Vyavahare: I said I don't have those numbers. What has happened is that there is a bit of a challenge we are facing, because Positive when we acquired last year, since there are only eight months numbers we have consolidated, so on a comparative basis, it is becoming a bit challenge to compare that kind of a volume growth. That is why I don't have the data readymade with me.

Avinash: What is your ballpark? We don't want the exact this thing.

Parag Vyavahare: Since I don't have something in front of me and I am not really comfortable. I don't want to hazard a guess really speaking.

Avinash: What would be that for Huhtamaki, nine months?

Parag Vyavahare: Huhtamaki, just one second. Just one second. It is around 14% to 15% plus.

Avinash: Okay. Sir, in terms of both Huhtamaki and Positive Packaging put together, market share of this organized place would be ballpark?

Parag Vyavahare: It will be less than 10%.

Avinash: Both put together?

Parag Vyavahare: Yes, both put together.

Avinash: Okay. Yeah, that is all from our side.

Parag Vyavahare: Thanks.

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

Vipul Shah: Good afternoon sir. Can you give me the volume growth, de-growth as compared to the Q2 of this year?

Parag Vyavahare: Yeah, I said it is roughly around, just one second. It is roughly around 5% to 6%.

Vipul Shah: 5% to 6% de-growth. So, mainly it is due to seasonal factors?

Parag Vyavahare: One is seasonal factor and also some amount of, some of the market challenges we have been facing. So, both factors are there. But, primarily I will say, seasonally it is the major factor.

Vipul Shah: And sir, can you break up the sales for domestic and exports, total consolidated sales, can you break it up?

Parag Vyavahare: Roughly on exports as combined, today we are at roughly at around 24% or so. And exports are 24% and domestic is roughly around 76%.

Vipul Shah: Okay, 76 domestic and 24 exports. So, can you give any color on what should be the margins for domestic and exports? Are they converging or are they different?

Parag Vyavahare: I would not like to comment on this thing, because this is a very.....

Vipul Shah: Okay sir. Sir, as far as the margin is concerned, March quarter was peak. So, can we return to that kind of margins anytime soon? What is your take on that?

Parag Vyavahare: That will be very difficult, because March was really an exceptional quarter, where all the favorable factors have really fallen in one place. So, that kind of all nine by nine matrix one can say, that rarely happens. Once in a while you really get into that kind of a beneficial situation. And it is very difficult to predict as to when that kind of situation will really occur or whatever.

Vipul Shah: So, as far as the EBITDA margin is concerned, should we expect this trajectory of around 10% plus or minus 1% here and there?

Parag Vyavahare: That will be more realistic to consider.

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

Parag Vyavahare: Thanks.

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

Sunil Kothari: Good afternoon Parag-bhai.

Parag Vyavahare: Good afternoon Sunil-bhai.

Sunil Kothari: Sir, if you can qualitatively talk something on Webtech and Positive Packaging for nine months, how they have performed volume terms, value terms, any strategic change that you are doing, something qualitative, whatever you would like to talk on this both the units which we have merged now? Paper Products we

have grown 14% volume growth nine months, almost 9%-10% plus this quarter also. So, what is happening at Positive and Webtech, just broadly?

Parag Vyavahare: Positive, if you ask me, it has largely been flattish I will say, very marginal growth, because major portion of the business has come from the exports. So, there have been challenges in the exports market. And also in the domestic market we do have seen some challenges, because the product portfolio has been a bit different in some of the areas. So, that has been putting a bit of a challenge. So, they have been very flattish. As far as the Webtech is concerned, I will say, Webtech has grown by roughly I think overall in the nine months basis roughly by around 10% or so.

Sunil Kothari: Okay. It has grown 10%.

Parag Vyavahare: Yeah.

Sunil Kothari: And Parag-bhai, any strategic benefits are yet pending of integration and productivity improvement and all these things? Or, almost all the benefits which are supposed to be there, is already there?

Parag Vyavahare: Major benefits have come in, I will say. Now the only the benefits which will come strategically because of the ones we get merged as a one legal entity, those some benefits will come only when the merger takes place, when the legal merger goes through. So, those would be pending. But otherwise operationally the major portion of the benefits have really come in.

Sunil Kothari: And Parag-bhai, we are relocating this Webtech's Mahape unit to new facility in Greater Mumbai, that is what, Thane?

Parag Vyavahare: Not to physical Thane. It will be the outskirts of this thing, outskirts of Bombay.

Sunil Kothari: The logic of this, just to understand, Mahape is also now little bit outside this Greater Mumbai?

Parag Vyavahare: So, what has happened is that Mahape unit what they are having is a bit old unit. And there is no further scope for expansion. So, looking at that we need to undertake any future expansion of that business and of that facility, if it has to grow in the next ten-fifteen years, so they need a bit better place, whereby they have normally the infrastructure is more modern, but also there is a space and opportunity for further growth and considering that we are taking this decision.

Sunil Kothari: This will be at any part of existing plant of Paper Products or Positive Packaging or it is a very new facility, new site?

Parag Vyavahare: We are still working on that thing, still working on that thing.

Sunil Kothari: And Parag-bhai, we have grown 13%-14% plus volume growth in Paper Products, 10% this quarter also, so this is what we are gaining market share or we are adding some new products or new customers or something more on this?

Parag Vyavahare: No, we have been able to make headway with certain customers etc. or certain opportunities we have been able to squeeze quite well. That is what has really helped. So, that is why you are able to see that kind of volume growth. But, otherwise nothing, something dramatically different I will say. And the incremental improvements or the incremental activities or new products etc. that is catering, but I will say nothing really dramatic I will say, dramatically is different.

Sunil Kothari: And the last one is, this tax rate what should we count? Consolidated, almost it seems to be 35% plus, so will it remain like that only?

Parag Vyavahare: Yes, it will remain high. It will remain high, because there are certain contentious issues, where we are taking bit conservative view and that is why the tax position continues to be slightly high. It will continue to be high. Most of the income tax exemptions are already over, the Rudrapur or the Parwanoo, whatever the exemptions we were enjoying, they are over. So, right now we are really sticking to the marginal tax rate and plus there are certain contentious issues, that is what is keeping the marginal tax rate at a very high level.

Sunil Kothari: Thank you very much and wish you all the best sir.

Parag Vyavahare: Thank you. Thank you.

Moderator: Thank you sir. Sir, 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 good day everyone.

Note:

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