

18.11.2024

| | |
|--|--|
| BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001 Scrip Code: 532937 Scrip ID: KUANTUM | National Stock Exchange of India Limited Exchange Plaza Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051 Trading Symbol: KUANTUM |
|--|--|

Sub: Transcript of Q2/H1-FY25 Earnings Conference Call of Kuantum Papers Limited

Ref: Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

Pursuant to Regulation 30 & 46 of SEBI(Listing Obligations & Disclosure Requirements) Regulations, 2015, please find attached herewith, transcript of the Earnings Conference Call conducted on 14th November, 2024 to discuss Q2/H1-FY25 earnings.

It is hereby confirmed that no unpublished price sensitive information was shared/discussed in the call.

The above information is also available on the website of the Company i.e. www.kuantumpapers.com

This is for your information and record.

Thanking you,
Yours faithfully,
For Kuantum Papers Limited

(Gurinder Singh Makkar)
Company Secretary & Compliance Officer
M. No.: F5124



Kquantum Papers Ltd Results Conference Call

Event Date / Time: 14/11/2024, 12:00 Hrs.

CORPORATE PARTICIPANTS:

Mr. Pavan Khaitan
Vice Chairman & MD

Mr. Vikram Kumar Khaitan
Chief Financial Officer

Ms. Prachi Sharma
VP Corporate Strategy

Q&A PARTICIPANTS:

- | | |
|--------------------------|-----------------------|
| 1. Kunal Thacker | : Fair Value Capital |
| 2. Jiten Parmar | : Aurum Capital |
| 3. Bharat Gupta | : Fair Value Capital |
| 4. Sanjeev Damani | : SKD Consulting |
| 5. Rohit Kapoor | : Individual Investor |
| 6. Runjhun Jain | : Rcher Advisors |

Moderator

Good afternoon, ladies and gentlemen, I am Sowmya moderator for the conference call. Welcome to Kuantum Papers Limited Q2 H1 FY25 results conference call. As a reminder all participants will be in a listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Tanuj. Thank you and over to you sir.

Tanuj

Thank you. Good day ladies and gentlemen. On behalf of Ventura Securities Limited, I welcome you all to Kuantum Papers Limited Q2 and H1 FY25 earnings conference call. The company is represented by Mr. Pavan Khaitan, Vice Chairman and MD, Mr. Vikram Khaitan the Chief Financial Officer of the company along with Ms. Prachi Sharma, VP Corporate Strategy. I would now like to hand over the call to Mr. Pavan for opening remarks post which we can start the Q and A session. Thank you and over to you sir.

Pavan Khaitan

Thank you. Good day everyone and welcome to our earnings conference call for the second quarter and first half of the FY25. Let me first start off by thanking our host Ventura Securities for hosting today's earnings call. I will be taking you through the operational highlights following which Mr. Vikram Khaitan our CFO will take you through the financials. The second quarter of the FY25 under review was a challenging period for the paper industry. We faced high levels of imports, which put pressure on domestic demand leading to a decline in market operating prices. Despite these headwinds we managed to maintain healthy EBITDA margins of almost 22% for the Q2 and 23.64% for H1 25.

Our operational income saw a YoY decline of 6.5% in the quarter. This was mainly due to a drop in the net sales realization by INR 6000 per ton. Looking ahead we are hopeful that demand for writing and printing paper will pick up by Q4 and the resultant NSRs will improve especially with the publishing season and the anticipated release of government tenders. At our manufacturing facility, we have made some key upgrades. We installed a chip washing system at our pulp mill, which is helping improve pulp quality and yield by removing dust and sand from the veneer waste chips that we use as raw material. In August of 2024, we also commissioned a dedicated clarifier for canal water treatment allowing us to treat water more effectively for our operations.

As part of our project Nirman initiative focused on industry 4.0 integration, we successfully installed online sensors and control logic for the wood bleach section marking a significant step forward in terms of automation, AI and efficiency. Finally, we are pleased to report that the financial closure for our mill expansion project is completed and we have placed orders for all major equipment of our paper machines, DDS system for the pulp mill, lime kiln and other related utilities. We are on track to complete this project by March 2026 and are excited about the improvements that this will bring to our operations.

We have relaunched Konquer copier paper with a fresh and vibrant packaging. It's a premium quality A4 paper product designed for high performance and excellent print clarity and has found a good offtake in the markets. Now I will request Vikram Kumar Khaitan our CFO to brief on the financial performance of the company.

Vikram Kumar Khaitan

Thank you, sir and good day, everyone. I would like to provide a summary of the financial performance for the second quarter and first half of the FY25. For the quarterly review, operating revenue is to date INR 279 crores which declined by around 6.5% YoY with EBITDA reported at INR 61 crores and EBITDA margin of around 21.8%. Net profit for the quarter was INR 30 crores and profit margins were reported at 10.7%. On half yearly basis operating revenue was reported at INR 560 crores which declined by 8% on YoY basis and EBITDA was INR 132 crores with EBITDA margin of 23.64% for the period. Net profit was INR 68 crores with PAT margins reported at 12.17%. With that we can now begin the question-and-answer session.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have any questions, please press * and 1 on your telephone keypad and please 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. Our first question comes from Kunal Thacker from Fair Value Capital. Please go ahead.

Kunal Thacker

Hello Am I audible?

Moderator

You're audible. Please go ahead.

Kunal Thacker

Okay a few questions sir. First, you've thought about how imports have affected the industry and domestic prices so if you can compare imports to say a five-year average or the historical average and also how have the imports been in Q3 lately?

Pavan Khaitan

I think last five-year average if you see, the imports in the current year are more than that. Imports are showing an increasing trend over the years and the increasing trend continues for the Q3. I think these are on account of kind of favorable output that we are witnessing in the exporting countries and the way they are able to export and create a market for their product in India. I think it will all turn around and balance out with the demand for this paper increasing. As I said, government tenders are going to be launched in the country and of course the printing and publishing segment will restart and start demanding the paper product in future. So, I think it's going to balance out in the succeeding quarters and we are going to see a better operational part for paper industry around the corner.

Kunal Thacker

Are these imports at lower prices compared to domestic prices, are these happening because exporters are selling at sort of taking a margin hit or is it because of an oversupply in the global pulp capacity which is allowing the global paper mills to produce paper at much lower prices compared to the Indian mills?

Pavan Khaitan

I think you're right on the fact that these are getting imported at lower pricing but not because an overcapacity is leading to lower costs. I think they are taking more of a marginal costing into consideration and are operating at much much lower margins. They are being able to sell their overruns in our country and not being able to maintain their margins but maintaining through higher volumes.

Kunal Thacker

So, they are trying to play out the economies of scale factors there?

Pavan Khaitan

Yes.

Kunal Thacker

Okay and are there some considerations of negotiating with the government to have a tariff for duties imposed on these imports by the industry?

Pavan Khaitan

Yes IPMA, which is our organization which we have for the industry, we have initiated an anti-dumping investigation into imports and we have approached the government to take this initiative and have this verified and look at how we can balance it out and this notification we've submitted and this come out on

30th of September 2024 and I think some bit of work will be required before we see some kind of result coming in.

Kunal Thacker

Okay and sir if you could also explain if there is a price differential in retail prices in the inland areas of India and the coastal areas which might be more affected by imports.

Pavan Khaitan

Yes, that's correct. You rightly said that the coastal areas are impacted more because there the landed cost of these imports which are already on the lower side do not take much of a freight cost or increased cost to get sold in the coastal areas. By the time they turn up and come up in the northern sectors- northern part of the country which by the way is the biggest market for paper products. Delhi and surrounding areas support almost 40% of the paper consumption in India and by the time it comes up here up north there's an added freight cost of almost 7-8% in the cost of paper so that comes as a relief to us. We are operating more in the northern parts of the country, where again almost 45% of our production gets sold and we have a kind of a delta in our favor and working to our advantage in the northern markets.

Kunal Thacker

Another factor mentioned in the press release for the muted performance was and this factor has also been mentioned in some articles is the graphic increase in the price of wood raw material, what is the trend there and what is the outlook there?

Pavan Khaitan

I think wood is not really seeing a declining trend in pricing. In fact, it's either stable or showing an increasing trend. It's the agro raw material primarily wheat straw which is showing a declining trend and helping and aiding in reduced cost of operation. That situation is something which is likely to continue and is going to help in maintaining reduced costs for us as well, but the wood raw material unfortunately is on a stabilized -- higher stabilized rate and that is primarily because of the huge advent of the MDF and board industry which is also procuring huge quantities of wood for their product so we are in competition to them for securing our wood raw material supplies.

Kunal Thacker

Do you think this situation is likely to persist for one or two years more?

Pavan Khaitan

Yes because until or unless an additional supply of wood gets created for which we are also making quite an effort, we've started our own social forestry program and we have already reached a level of 20 lakhs saplings and by next year we will reach 40 lakh saplings and it's only going to grow. We have targeted reaching 1 crore saplings in the next three years, which is actually going to help improve the wood supply in the area and help keep the pricing in a tempered state.

Kunal Thacker

Indian paper mills can also work on imported wood chips right to produce pulp?

Pavan Khaitan

Yes. I think you're very right on that the industry which is located in the coastal areas will and is I believe clearly looking at importing wood chips and so that will sort of set off and reduce the impact on wood availability and reduce the impact of higher pricing on wood availability and that should help the industry per se.

Kunal Thacker

And just the last question sir, what is the capacity outlook in India for the industry how much capacity is getting added beside yours

Pavan Khaitan

As I understand there is not much addition in the writing and printing paper segment, the segment which is attracting most capacity addition is the Kraft and packaging segment where we are not at all a player and that's seeing a lot of investment and a lot of capacity enhancement largely because of packaging requirements getting enhanced quite a lot because of e-commerce and all such e-commerce and retailing increasing to higher levels but writing and printing segment is on a stable ground and I think we will be able to reap better benefits being where we are and we are also increasing our capacity by about 50% which will happen over the next 18 months or so and we'll be able to sort of operate that and offload that in the market very successfully.

Kunal Thacker

Why don't you think the Kraft and packaging paper segment is attractive why many other players are going there?

Pavan Khaitan

Well actually we focused ourselves on the premium segment. Kraft for us is a lower value added segment and so we know our paper trade of writing and printing paper far better very well and we would like to focus our energies over here and that's where and in fact there are offshoots and tailwinds coming in by way of single use plastic ban leading to a huge opportunity in specialty paper segment catching on in a big way. The investment and addition and modernization to our plants will allow us to look at this food wrapping segment in quite a big way and currently our specialty paper which is about 18-20% of our entire production, we are targeting that it will increase to 30% and beyond in the coming years.

Kunal Thacker

Just last quick question if I may.

Moderator

I am so sorry to interrupt you sir, can you please come back in the queue for more questions?

Kunal Thacker

Okay I will do that thank you.

Moderator

Thank you so much sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad and please wait for your turn to ask the question. Our next question comes from Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Sharma

Yes, good afternoon, Pavan Ji. My question is on margins for remainder of FY25 that is the second half, I think previously we had thought that we will be able to do around 25-26% but with half year can you hear me? Sorry.

Pavan Khaitan

Sorry I didn't get you

Jiten Sharma

Now can you hear me?

Pavan Khaitan

Yes please

Jiten Sharma

Okay so regarding margins, I think our previous guidance was that we would be able to do around 26% but with half one at around 23%, Do you think we can make up for that or are we going to lower the guidance for current year and also my follow-up question on that particular margin front is that FY25 how does it look? I know it's a bit far out but are we going to go lower or are we going to go back to the 28-29% margins which we use there?

Pavan Khaitan

Jiten Ji 28-29% seems to be not in the reckoning at all. Performance for the H2 is largely going to remain muted because of these kinds of headwinds of imports and lower priced imports coming in. I think what will offset is in future with demand growing gradually but continuously and surely that should help in offsetting this larger volume import and we should be able to maintain our margins for at least FY24-25 at about between 22% and 24% and if I may say that we are amongst the highest if not the highest EBITDA returning company in the paper industry for H1.

Jiten Sharma

Yes, definitely I mean that's I think the company has done a good job about that compared to all the other players which I am talking. Now my next question so I mean the question is how long do you expect this situation to continue is it like couple of quarters or do we look at like kind of a one-year phenomena for these things to last where things change and how dependent are we on the anti-dumping duty coming on how important it is for the industry?

Pavan Khaitan

I think we should see a kind of a reversal and betterment by Q4, Q3 may not happen but by Q4 the reversing trend for the better should start happening and I think we should look at a better future '25- '26 onwards. In any case for us particularly, we are not so reliant and dependent on anti-dumping because we've been able to create a specific network of consumers for ourselves. And in any case the imports are affecting the coastal areas and the industries located and the markets located near the coastal areas more so and the impact is lesser in the regions where we are located.

So, in any case we've got a shield against the imports coming in and the twin situation and the twin status of both shielding from imports and the kind of network that we have, the impact for us is lesser and we are being able to maintain a premium on our pricing vis-a-vis our competitors in the industry and I think that is something which we will clearly retain going down into the future.

Jiten Sharma

Great so if you can throw some light on what is the demand growth which we expect in the coming years for writing and printing in India especially also with [Inaudible] coming into picture and so on. So, what is the anticipated demand growth and how much is the capacity addition and what is the capacity utilization of the industry if you have those figures?

Pavan Khaitan

Sure, so writing and printing the normal grades are growing at a consistent CAGR of about 6-7% which based on the current volumes is not a small volume it's a decently large volume and it's giving a good opportunity for the industry players to grow. On top of this if you add the opportunity that industry is sitting on from the specialty segment which is the food wrapping segment the growth could be almost 15-20%. The industry currently is working on how to create the rightful barrier coatings to be applied to paper enabling it and making it conducive for food wrapping purposes. So, if you imagine I will just give you an example that the biscuit industry today which uses plastic for its packaging if we are able to make a dent out there, we will not be able to meet the demand.

Jiten Sharma

Absolutely. So yes, I think work is going on there but I think a sustainable solution still has to be developed for that. So, you are saying that I think holistically if you look at the kind of demand which our products can have would it be like more towards 8-9 or 10% if you combine both the opportunities?

Pavan Khaitan

Yes, sure absolutely why not and I think the government's focus on promoting education is still on a high and with increasing outlays in the education sector with more and more schools and educational institutions opening I think the demand is going to remain. It's going to only increase even if it's gradual, it's going to increase.

Jiten Sharma

Yes so, my question on like what is the size

Moderator

So sorry to interrupt sir, can you please get back in the queue?

Jiten Sharma

No, it is good yes sure okay no issues.

Moderator

Thank you so much sir. Our next question comes from Bharat Gupta from Fair Value Capital. please go ahead.

Bharat Gupta

Hi thanks for the opportunity, sir. I hope I am audible. A couple of questions sir first with respect to the increased amount of imports which the country is witnessing. So just wanted to understand like primarily which are the countries through which the import is currently happening across the region because you will be knowing about the red sea issue which is happening so do you think there is a good amount of diversion which is happening in the country particularly from the South Asian countries?

Pavan Khaitan

Yes, you're right on that majority quantities are coming in from Southeast Asia primarily Indonesia and China also through Indonesia.

Bharat Gupta

Right and sir like post the US elections as well like with the expectation of tariff hike which I think probably will be majorly focused by US so don't you think the increased amount of imports are likely to continue with China dumping on the paper particularly with respect to the Indian market?

Pavan Khaitan

Well, I think that is only time will tell, no doubt tariff import indicators are already there in the US but US has no way out it still is a country dependent on imports and because the costs are so associated it will end up increasing cost for its population there. So the cost of wages there, the cost of workers there, the salary component on US is still much higher than in other parts of the world and so they don't produce everything and they are dependent on imports. So even if tariffs increase it's going to translate into higher costs for the citizens of America so I think the balance what it is today is not going to get disturbed to a larger extent, a small impact here or there may occur but it's not going to sort of offer much.

Bharat Gupta

Even if China continues to dump in the Indian market so for a company like us the particular mode comes in with respect to specialty or like because we are majorly in the writing and printing side, so we are not that much kind of impacted?

Pavan Khaitan

Yes, our focus is going to get sort of reflected and deflected in terms of creating specialty papers sort of taking on the opportunity which is created by the single use plastic ban and the opportunity of creating food wrapping paper and the kind of network that we already have and have created that will continue to support us positively.

Bharat Gupta

Right just on the margin trend sir like with respect to the specialty bit what kind of EBITDA metrics do we generally follow out there and versus the likes of the writing and printing side?

Pavan Khaitan

I reckon that the specialty segment will give a better margin EBITDA margin of between 5-8% as compared to writing and printing data.

Bharat Gupta

Okay and sir last question like in terms of the order book positioning so how can you quantify how big can the opportunity be with respect to the national education policy and also with respect to the plastics replacement because I reckon some companies which are like we are also coming up with the bioplastics which can be a substitutable for the plastic oriented kind of a product so for us how big can this be an opportunity?

Pavan Khaitan

We are working very successfully towards that we are maintaining our policy and ethos of collecting orders in advance and running our machines to produce to order I mean so we collect enough orders and keep our machines running that is a situation which continues for us and I don't think there is going to be any change in that going down into the future. As far as you mentioned bio enzymatic plastics replacing plastics coming in that's the technology upgrade that I already mentioned that the industry is on the verge of creating the rightful product creating the rightful barrier properties to creating a product which would be amenable to food wrapping grades and food wrapping paper and as and how this kind of success is coming that is going to create the rightful opportunity and rightful volumes for us as an industry.

Bharat Gupta

Right sir with respect to overall market size which is there because 40% of the paper consumption as you mentioned happens in the NCR or the northern region so with respect to whatever the opportunity is

there so just what kind of a market size are we currently working upon like what can be a suitable amount of market target market for these kinds of products?

Pavan Khaitan

At the moment it's in a very very nascent stage it will all depend on how and when a successful product is created how does the consumer sort of accept that as I mentioned earlier, the only one industry the biscuit industry in India is so large that if they start accepting and our product starts working well with that industry, we do not have enough capacity in India to fulfill their needs.

Bharat Gupta

Right and sir last bit like in terms of moderation are you seeing some sort of a moderation out there in the imports because I think some of the companies have also referred that red sea crisis which were there because of the container availability issues so that is getting the results so are we seeing less amount of imports particularly with respect to the months which we have witnessed post September.

Pavan Khaitan

Well, the impact will be there but not on account of the red sea crisis because that is one situation which may take longer to resolve the reason why imports could get impacted is because of our submissions and dialogues which have started with the government to look at imposition of anti-dumping and the situation of anti-dumping in the country with respect to paper.

Bharat Gupta

That's it from my side thank you so much.

Pavan Khaitan

Thank you.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Our next question comes from Sanjeev Damani from SKD consulting. Please go ahead

Sanjeev Damani

Namaskar sir if I am audible, I continue sir?

Pavan Khaitan

Yes please.

Sanjeev Damani

Thank you, sir. Actually, I joined a bit late around 12.15 so many things I could understand from that questions that were asked by the participants. Sir I wanted to know mainly about the consumption of Purali our company had started using Purali in our processes of making paper so I mean I want to classify whether it is used for burning in the boilers or it is also used as a raw material for making pulp?

Pavan Khaitan

Mr. Damani actually Purali is not at all a good fiber for making paper this was used in the early 80s only and we stopped using Purali and we've not used for the last 30 years because wheat straw which is the alternate agro material is the rightful material for making paper and we are making full use of that material for making paper. Purali is a good component for burning as fuel in the boiler but you have to have boilers specifically designed to enable you to use Purali. We don't have that at the moment we are using biomass and a little bit of coal we are using rice husk so not Purali which is rice straw but instead we are using rice husk as a biomass in our boilers and that is what is giving us the required efficiencies.

Sanjeev Damani

Sir I am going to understand that Purali is being used as fuel I mean as a burning material in so can we make some adjustment and is it feasible if we start using this saving our energy cost?

Pavan Khaitan

Mr. Damani as I said boilers have to be specifically designed to use Purali as fuel. Our boilers cannot be adjusted no kind of adjustment will allow us to use Purali. At an appropriate time, I think in the next round of modernization and expansion when we do and we need to increase our fuel requirements and steam and power requirements that's the time when we will look at setting up a Purali run boiler.

Sanjeev Damani

Actually, I also wanted a confirmation I am given to understand that many paper industries are now using Purali as fuel so I mean do you endorse if they install right kind of boiler can they make some savings sir using this as raw material well?

Pavan Khaitan

Well, my information is not many industries are using it because they are all traditional industries already having boilers based on biomass which is rice husk and coal. There is only one paper industry here in the state of Punjab which is using Purali based boilers and yes it does make sense. I think it's more so sugar industry and distilleries which are using Purali based boilers for fuel.

Sanjeev Damani

I know your trend that you are strong on the northern market which is not affecting the pricing because you mentioned in the last all about so sir, I mean are we going to raise the prices by 2-3 rupees in coming months or after November because these are good reasons we are starting.

Pavan Khaitan

Yes, we will not shy away from raising our prices Damani sir as and how the market allows us and the environment improves, I assure you we are going to be first off, the charts to increase our pricing

Sanjeev Damani

Sir last question is regarding one thing it was mentioned in some of your earlier calls that you are doing some research in Europe so is there any good development that side sir?

Pavan Khaitan:

Research in Europe for what purpose?

Sanjeev Damani

I mean are we setting up some facility there or we have acquired something there in Europe am I wrong when I recall this that you are trying to get some technology and make use of it for reduce cost?

Pavan Khaitan

No, I am sorry we are not looking.

Sanjeev Damani

Then I am so sorry.

Pavan Khaitan

No see these are European technology is being adopted to upgrade our machines, our paper machines are getting upgraded from technology bought out in Europe but yes and we have concluded, we have sort of processed buying of these technologies to upgrade our machines that has already happened.

Sanjeev Damani

Okay thank you very much and all the best.

Pavan Khaitan

Thank you

Moderator

Thank you, sir. Our next question comes from Rohit Kapoor an individual investor, please go ahead

Rohit Kapoor

Yes, am I audible?

Pavan Khaitan

Yes, please go ahead.

Rohit Kapoor

Yes, first of all I would like to congratulate you on your strong results especially considering the challenge that paper industry is facing with the issues like dumping so I have a few questions to better understand the company's performance. I noticed that paper prices were reduced in Q2 compared to Q1 yet your top line remains relatively stable. So, could you please clarify whether this is due to an increase in volume or did you manage to maintain consistent pricing in Q2?

Pavan Khaitan

Yes, you are right there our volumes are the same we are already running to our one 100% capacities which was there in both Q1 and Q2. So, the reason for our top line remaining almost constant is because we were able to not allow the decline in market operating prices to affect us and through a judicious mix product mix that we've maintained, we were able to maintain the similar realization for ourselves in Q2 compared to Q1.

Rohit Kapoor

Okay and what is the guidance for Q3 in terms of volume, is there any decline expected or the prices will remain stable?

Pavan Khaitan

Volume is not going to decline Rohit we are going to maintain our one hundred% capacities both in production and sales however market operating pricing could see a muted notion and come down somewhat only time will tell by how much and by when. So, I think Q3 is going to be muted but I think we are going to see an upswing and a reversal starting in Q4.

Rohit Kapoor

Okay and could you please share the current total capacity of your existing machines I mean consolidated one and I understand there are some modifications going on and what would be the proposed capacity after that

Pavan Khaitan

So, we are currently operating at 450 tons per day and we are planning to increase it by 50% and go up to 675 tons per day.

Rohit Kapoor

Okay. Thank you, sir this is from my side.

Pavan Khaitan

Thank you

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad and please wait for your turn to ask the question. We will wait for a moment until the queue assembles. Our next question comes from Runjhun Jain from Rcher Advisors please go ahead.

Runjhun Jain

Thank you for the opportunity. Just a follow-up the earlier statistics. You said that volumes are not likely to come down which is a very encouraging thing but now we are in the middle of the Q3 do you see that

the pricing pressure on sequential basis also and do you see that this is happening and that is why you think that the future could be little muted?

Pavan Khaitan

Yes, it's largely mainly due to the pricing pressure that we could see a further reduction in the profitability going forward in Q3 and but yes volumes we are very confident are not going to fall we have enough strength in our network to be able to sell our entire production and I think going forward Q3 could be a little different but Q4 going forward should see a reversal towards the positive.

Runjhun Jain

What could be view on the raw material prices on the sequential basis? is this going in line with the market pricing or they are still stable and only the pressure will be there on the top on the pricing?

Pavan Khaitan

I think by now pricing are largely bottoming out, there is not much scope for pricing to go further down maybe a few percentage points here or there so I think we've reached the bottoming out in terms of pricing in the market one can only look for and look forward to a reversal and a price increase in Q4 and in terms of raw material also the wheat straw pricing is performing well for us. It's on the lower side compared to the previous year's coming in and that is what is helping us keep our and maintain our costs in control. I hope I have been able to answer your question.

Runjhun Jain

Yes, thank you.

Moderator

Thank you, sir. We have a follow-up question from Kunal Thacker from Fair Value Capital please go ahead.

Kunal Thacker

Sir Am I audible?

Pavan Khaitan

Yes please.

Kunal Thacker

When we first saw you said that the exporters of paper from Indonesia, China they are taking a hit on their margins and you also said that the situation will be eased only when demand catches up with supply so this leads me to believe that there is an excess capacity situation in Indonesia or China so is that true?

Pavan Khaitan

Yes, it's not extra capacity they have been supplying to the Indian market in the past years they've only strengthened their positioning here and are being able to offload more paper here into India because I think markets for them evaporated, they were earlier supplying in big volumes to both Europe and USA. Europe as a market probably saw a huge decline because they are shifted to more gadgetry methods and electronic modes for their reading purposes and I think that is what is the reason why they are deflecting all those volumes into India even Africa and gulf is taking a large volume gain from these countries as it exports. So I think this region is taking the fallout of Europe declining its consumption in paper.

Kunal Thacker

I assume that there wouldn't also be any capacity additions there in China or Indonesia?

Pavan Khaitan

No, I think it's going to be very very tricky for more additions to come in. I think it's only the packaging segment which could look at an increased capacity because with e-commerce coming in the world and in global operations demands on packaging paper will certainly increase and with differential grades coming in and trying to make a space for themselves that quality of paper could see an increase in capacities.

Kunal Thacker

Is there any threat from South American players like Brazil, I think they have a good plantation industry over there and pulp capacities as well?

Pavan Khaitan

So that is Brazil is largely known for creating pulp not paper and I think an increase in pulping capacities would eventually help us in keeping a control over our costs, pulp costs could see a reduction and that is only going to help industry and not be a detriment.

Kunal Thacker

Okay sir. Thank you very much.

Pavan Khaitan

Thank you

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. There are no further questions, now I hand over the floor to Mr. Pavan Khaitan from the management team for closing comments

Pavan Khaitan

Thank you all for participating in this earnings conference call. I hope we were able to answer your questions satisfactorily and at the same time offer insights into our business if you have any further questions or would like to know more about the company, please reach out to our investor relations managers at Valorem Advisors. Thank you and wishing you all a great day ahead.

Moderator

Thank you so much sir. Ladies and gentlemen this concludes your conference call. Thank you for your participation. You may all disconnect your lines now, thank you and have a pleasant day

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