SATIA INDUSTRIES LIMITED
An ISO 9001, 14001 & 45001 company
CIN : L21012PB1980PLC004329
Manufacturer of Quality Writing, Printing & Speciality Paper with ECO MARK
GST IN : 03AACCS7233A1ZZ
www.satiagroup.com
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Date: 11.11.2023

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Scrip Code: 539201	Symbol: SATIA

Dear Sirs/Madam,

This is in continuation to our earlier notification dated 26.10.2023 and 31.10.2023 regarding schedule of earning call on Q2 FY24 and H1 FY24 . We are attaching herewith the Transcript of the above conference call held on Monday, 06th November, 2023 and the same is also being uploaded on the website of the Company.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For Satia Industries Limited
RAKESH KUMAR DHURIA
Digitally signed by RAKESH KUMAR DHURIA
Date: 2023.11.11 10:56:35 +05'30'
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"Satia Industries Limited Q2 FY24 and H1 FY24 Earnings Call"

November 06, 2023

MANAGEMENT: MR. R.K BHANDARI – JOINT MANAGING DIRECTOR, SATIA INDUSTRIES LIMITED
MR. RACHIT NAGPAL – CHIEF FINANCIAL OFFICER, SATIA INDUSTRIES LIMITED

Moderator: Ladies and Gentlemen, Good day and welcome to the Satia Industries Limited Q2 FY24 and H1 FY24 Earnings Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions post the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Runjhun Jain. Thank you and over to you, ma'am.

Runjhun Jain: Thank you. Good afternoon, everyone. On behalf of Satia Industries Limited, I welcome all of you to the companies Q2 FY24 Earnings Conference Call. I'm Runjhun Jain from EY IR Practice and we manage Investor Relations for the Company.

We hope you would have got the chance to review the results which are available on exchanges and on Company's website. To discuss the Company's performance in the quarter gone by, we have with us Mr. R.K Bhandari – Joint Managing Director and Mr. Rachit Nagpal – Chief Financial Officer of the Company.

Before we proceed with the call a disclaimer. Please do note that anything said on this call during the interaction and or in our collaterals, which reflects the outlook towards the future or which should be taken as a certain forward-looking statement must be viewed in conjunction with the risk the Company faces and may not be updated from time-to-time.

More details can be found on the Company's website that is www.satiagroup.com. Should you have any queries or need any further information at the end of this call, you can reach out to us on the e-mail addresses mentioned in the Company's collaterals.

With that, I would now like to hand over the call to Mr. Rachit Nagpal. Thank you and over to you, sir.

Rachit Nagpal: Thank you and warm good afternoon to all. Ladies and gentlemen, we extend a warm welcome to our Q2 and H1 Financial Year '24 Conference Call. Let's begin with an overview of recent industry developments. The previous quarter presented formidable challenges for the sector with paper prices witnessing a notable decline and cost of raw materials, especially wood chips, surged. This stark contrast in pricing dynamics had a significant impact on almost all industry players including ourselves. Consequently, our revenue saw a year-on-year decrease of 19% amounting to Rs. 3,734 million. However, when viewed on a half yearly basis, our production sale realization and revenue remain stable.

Despite our scheduled renovation shutdown on two of our paper machines, our production volume was slightly more than that of H1 Financial Year '23. We anticipate a volume upswing in the second half of FY24 and we remain confident in our ability to achieve our stated guidance of 5% to 7% volume growth for Financial Year '24 compared to Financial Year '23.

Despite facing the challenge of dumping of cheap imports with most major consumers for their requirement till December 2023 and lack of a strong pull in the market due to festive season, we at Satia Industries are well positioned to navigate these challenges. Thanks to our strong relationship with state textbook boards and we have got good orders which are under execution in the current quarter.

Our H1 FY24 EBITDA margin grew to 27.6% against 18.7% in H1 FY 23 and PAT stood at an impressive Rs 1,321 million against Rs 811 million in H1 FY23, reflecting a substantial 63% year-on-year growth.

Regarding our ongoing CAPEX initiative, we have successfully completed the initial phase of the wood pulping CAPEX, which entailed the installation of DDS in four wood pulping digesters to reduce steam consumption and enhance wood pulping capacity. Both these objectives have been achieved.

Looking ahead to Financial Year '25, we have planned two major CAPEX initiatives which include the upgradation and modernization of PM3 to enhance its production capacity and optimize energy consumption and a new soda recovery boiler. We anticipate that these steps will further bolster our economies of scale, ultimately leading to improved profitability.

Thanks to our strong cash generation capabilities, we have continued to reduce our long-term debt in addition to regular debt repayment, we proactively prepaid Rs 284 million during Q2FY24 and Rs 626 million in H1FY24.

We appreciate your participation in today's call and extend our Season Greetings in advance. We will now proceed to the question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aman from Aman Investments. Please go ahead.

Aman: Sir, first of all, if you can just give me the order book which we are seeing for the current quarter?

R.K Bhandari: Other book is almost 35,000 tonnes from different textbook close and open market.

Aman: Sir, for the past two years we have made a substantial investment in our capacities. When this comes to a completion stage and commissioning, what kind of capacities are we looking at per day tonne or per annum, how are we looking to go for?

R K Bhandari: Last year we did almost 2,10,000 tonne and we, as Rachit ji told another 5% to 6%, we may be increasing this year in the volume and the management is looking to add minimum 100 tonne per day additional capacity.

Aman: Is it good to assume that now 650 is there so probably we'll be reaching 750 and by when do we plan to reach that stage, any timeline?

R K Bhandari: If we look at the figure of 220, if we achieve anywhere near this, this comes to almost 600 tonnes which is our present finished paper capacity. So, if we add another 100 tonnes, we will be doing anywhere between 650 to 700 tonne per day. So, which could mean if we do 650, so it should be almost 2,35,000 to 2,40,000 tonne which has been the guidance we have been giving earlier this will be after the FY25.

Aman: And sir after commercialization of this CAPEX, when do we see, what will be the optimal capacity utilization overall within six months or in any short-term period?

R K Bhandari: Always been in the range of 90% to 100% only.

Aman: So, the additional capacity also will be the same. Sir, also how are we planning ourselves to supplement this additional capacity? How are we marketing ourselves or how are we placing ourselves better and also sir your line is very unclear if you can just speak a little clearly, or you can just check your signal. It will be much better sir?

R K Bhandari: We have been saying this that our main focus, is on the photocopier paper, which we have been selling earlier, but the percentage was very low. But now a new target has been given to the marketing team and a major thrust on photocopier. Number two, we are adding some other high-end printing paper which we have already introduced and done successful trials. So, that will be 100% wood base paper. So, we are looking to high end quality paper segments in the coming time. So, that will be totally different from our present product line.

Aman: Sir, you have mentioned the Plant-4 you wanted to add high-end premium products, high quality paper. So, which products are we targeting sir, any particular segments in hygiene or any other products absorbent paper or kraft paper, what type of new products are we targeting?

R K Bhandari: These are as such Maplitho paper which are used in high-speed multicolor printing machines and as I mentioned earlier, photocopier paper. So, these are the two premium products and within that high end printing paper we are adding two, three different products. So, the two products have already been launched and we are looking to add one or two more products to that segment, but they will all be in the printing segment.

Aman: Sir, one more thing, what mix are we looking for going forward in near term for board and non-board sectors?

R K Bhandari: Our textbook board, because our overall production will increase, so it will come down to almost 30%, 35% and open market will increase to almost 65% to 70%.

Aman: So, is it right to estimate that it is in the mix of 35-65?

R K Bhandari: Yes, it could be that.

Aman: Sir, and your guidance for the coming half yearly H2 EBITDA per tonne because we have seen little bit downside this time and your guidance for H2?

R K Bhandari: As we explained earlier in the last call that normal EBITDA in the paper industry with integrated units is anywhere between 20% to 25%, which is considered to be a good EBITDA margin. So, the first quarter was extraordinary because of the high prices, but since prices came down, the EBITDA margin further reduced from almost 30% plus to 24%. So, it will remain within this range only 20% to 25%

Aman: Sir now the prices are corrected, and we are seeing an uptick on the prices. So, going forward are we confident on the cementing on the quarter 1 performance going forward for our coming years to come, like what we have done for Q1 and then growing on that pace?

R K Bhandari: Q1FY24 needs to be kept apart because prices are definitely correcting as you said. Prices have corrected upward by 5% to 6%, but again, as I said earlier our guidance is that EBITDA will remain within the range of 25% plus minus for the whole year.

Moderator: Thank you. Next question is from the line of Narendra from Robo Capital. Please proceed.

Narendra: So, just wanted to know what was the realization in Q2 and what was the change YoY and QoQ, if you could throw some light?

R K Bhandari: No, we normally don't give specific number, but in the Q1 it was above Rs 90,000 and in Q2 it was almost less than Rs. 75,000 a tonne. So, the prices were down by almost 20%.

Narendra: You said you have seen an uptick of 5% to 7% in Q3?

R K Bhandari: Yes.

Narendra: So, is it sustaining at that level, or do you see any further pressure or uptick going ahead?

R K Bhandari: After Diwali and starting from December, prices may further go up because international pulp prices have seen upward trend in the last 2 months, 3 months. So, we hope that another 4%, 5% may increase.

Narendra: And also, if I'm not wrong, we had target of say Rs 1,700 to 1,800 crores revenue in FY24, so are we on track for that or is there any change?

R K Bhandari: Yes, we have already done almost I think ~Rs 870 and H2 should be better. So, I think we'll remain within that range of almost Rs 1,700 to 1,800 crores.

Narendra: And regarding the margins you said 20% to 25% should be a sustainable range, right?

R K Bhandari: Yes, that's true.

Moderator: Thank you. We have a next follow up from the line of Aman from Aman Investments. Please proceed.

Aman: Sir, I just wanted to understand on the export side of our business, any guidance which you can give going forward in our revenue mix of what exports will play a role because I think more of margins has been seen in Europe, U.S segments and their consumption is also high.

And also, we have a model where we can plug and play industrial customers outsource business in India as well given our geographical and demographical advantages we have, sir any comments or any positive signs are you seeing or are we planning in those approaches?

R K Bhandari: Exports prices, as is the normal trend, are almost always 5% to 10% lower than the indigenous market. So, we have some liabilities also to export. So, our exports will remain within the range of 5% to 10% for the year.

Aman: And sir, being a business cyclical in nature because we're majorly depended upon paper and alike products. Sir, how are we trying to diversify our hedging these risks?

R K Bhandari: We don't find the paper cyclical because as you have seen that our production has been increasing in the past, demand has been increasing and as far as commodity is concerned certain factors always command demand and supply which determines the prices. So, that change in prices in abnormal times goes up and down, but otherwise more or less if we look at the prices, they remain in the stable range.

Aman: Sir and the issue last year we were facing of high inventory and first quarter industries destocked in large quantity also are we seeing those coming to an end and also so are we facing issues in unorganized sector because whether there is a shift coming from being unorganized to organized in paper sector?

R K Bhandari: No, there is no such issue because the range we are in. So, to enter that segment it takes number one you need to go into lot of formalities and if you want to do some investment, it is a major capital investment, and all permissions are very difficult to get in integrated pulp. And paper and to match the quality and to match the costing of integrated units is quite difficult. So, there is no challenge to the unit from any unorganized sector.

Aman: And very hard fact about that India being largest demographical and geographical, 15 kg’s per capita, do you envisage or what do you think whether this will go to 30 kg's per capita by 2030 or some big visions you have or if such why are you optimistic about, I just wanted to understand?

R K Bhandari: If we look at our domestic pulp paper and paper product market, we are just 4%-5% of the world market while China with same population is almost 28% because of the high per kg per capita consumption and that too because of the high literacy rate and number two high GDP rate.

So, both these things government is focusing by their education policy, they are going to increase the literacy level number one and number two GDP focus you already know, the government wants to be third largest economy in the world, that target is there. So, as far as India is concerned, I think another 10 years, 20 years the market is going to grow at a good pace and future is bright for paper industry.

Aman: The last quarter, we have received some order of Rs 350 crores from our government tender, sir is it the new education policy which is playing out or is it a casual order on need basis we usually get?

R K Bhandari: These are textbook orders, but the quantities have increased this year then over the last year because of the new education policy.

Aman: And sir I just wanted to get your idea in cutlery space going to de-risk our business or it is a space which we are very much interested about independently planning, executing it in a passion or independent way. What is your view on this cutlery space which we have added?

R K Bhandari: The market is not very right to accept pulp molded products because government implementation of ban on single use plastic is not that strict. So, the prices are not very encouraging and technology to make the product is not very sound at the moment, which has caused us some loss in the past also. So, we are going very slow on that because of these two reasons.

Aman: Sir, these all CAPEX by when do you see it to b,e any particular month or any particular time like by March any guidance on completion of our CAPEX being booked in the fixed asset account, any particular timeline?

R K Bhandari: New paper machine modification and recovery boiler we'll be doing in FY25. All order has been placed and the execution machine shut for PM-3 will be in FY24-25, which could be a shut of two to three months and the recovery boiler is just a new boiler. So, that doesn't require any shut. Yes, it will be completed in FY25.

Aman: Sir, just wanted to understand your rationale with taking short term debt and paying of long-term debt. Any particular objective which we are meeting?

R K Bhandari: We have already prepaid in H1 over Rs 62 crores as we mentioned in our previous call. So, presently our long term that is just Rs 305 crores only and I think another two to three years we can pay that debt at any time that is not a big issue.

Moderator: Thank you. Next question is from the line of Mr. Narendra from Robo Capital. Please proceed.

Narendra: So, the next question is regarding the debt free payment. So, are we planning any further reduction or repayment in the coming future?

Rachit Nagpal: So, as Bhandari sir told we have already prepaid the debt of almost Rs 62 crores as prepayment. Apart from that we have made a normal payment of Rs 42 crores. So, almost Rs 105 crores debt has been repaid this year and in the remaining 6 months, we have a normal repayment of Rs 36 crores. So, no such plans as of now, but still, it depends on the cash flows. But as of now, no such plans of prepayment.

Moderator: Thank you. Next question is from the line of Somnath Paul from Relay Investments. Please proceed.

Somnath Paul: I just wanted to understand we have this state boards-based orders or tenders which we received. So, just checking on the numbers for the price and the volumes which we got in January versus the one which we got latest, I think there's about 20% gap. So, can you just throw some light on how this particular process works in the sense of the pricing and then of course on the payment, is this basically tender based or there is what kind of competition do we faced and what is the kind of pricing that you foresee given the fact that there will be curriculum change in the coming times that is the first question I'll follow up?

R K Bhandari: Textbook tenders, they are all done now on the GeM portal Government of India GeM portal where whosoever meets the condition of that tender, because the conditions are set as per the quantity and the time period in which that quantity is required to be fulfilled.

So, like if you have a 30,000 tonne and they want that in let's say three months, you should have that kind of capacity to supply the paper. So, there are certain conditions to that. So, whosoever is able to fulfill those conditions, they can quote on the GeM portal and after the bidding they select as you all must be knowing certain number of people for reverse option and then the prices are finalized.

So, it comes from an open competition, open tender competition number one and prices we normally quote looking to the future scenario, everybody does like that. So, if we expect to be the present prices are on the lower side and prices are likely to go up by another let's say 5% to

10%, 15% in the coming season and looking to the time of execution of that order, if it is going to be executed in the lean period, we may quote less than the current price. If it is going to be executed in the high season, we may quote higher prices also.

So, that pricing everybody quotes as per his own calculation, but everybody knows the industry well. So, they come almost within a range and then quantities, because quantities are big, no single mill within that time span of the textbook board maybe can supply that big quantity. So, they normally distribute that tender in the range of 50% to the L1 original, 30% to the second and 20% to the third lowest in the array. So, that is how that is done. I hope that clears your question.

Somnath Paul: So, what I understand is that it's distributed between the industry. So, do you generally see some kind of pressure in terms of pricing given the fact that the other players also try to compete and a lot of it will also depend on the pricing which we get so that will definitely come into directly into the margins because our fixed cost will be covered by a certain cost and the remaining comes in the margin.

So, just trying to understand because we are the publication business for the state boards is one of the major driver of the business, so just trying to see through that length so how do you see that going forward in sense of the curriculum getting changed for a lot of boards?

R K Bhandari: Actually, everybody has his own forte in the market. We have been doing this textbook business for the last 25 years, 30 years. So, we feel comfortable there and maybe those players who are not doing government business, they do the same thing with the big publishers like Navneet Publication people book their quantity for another 3 months, 4 months, 5 months.

So, even international player, they book quantity of the indigenous players for 3 months, 4 months, 5 months they make certain commitments on prices. So, it is wherever you find depending upon the product line, your sources, how much you can invest in the textbook board, depends on everybody and everybody would like to have a secure business.

So, those who can supply it on All India basis more than almost 20, 25 big mills they are participating in different tenders and getting businesses on regular basis, we are not the single party. There are TNPL, Seshasayee, JK, Ballarpur in cover paper, they are the only two big suppliers. Shreyans Industries and Trident, all these players are getting textbook board orders.

Somnath Paul: So, the reason we're trying to understand is that I think the names which you mentioned are all big integrated mills and they have decent capacity as well as size. So, we don't foresee any kind of gaining share as such. So, this will remain a space where everybody has their own market share

R K Bhandari: Because we have a bigger capability to supply. So, we normally wherever we quote, we get a good-sized order that's the only factor.

Somnath Paul: Another question I wanted to ask is that your mill is based in Punjab, so which companies do you consider as your competitor maybe in Punjab or otherwise of your size, capacity and integrated plantation at mill and alongside I also wanted to understand what is the general spending for our distributors on marketing compared to the mills of our size? Is it more or is it mostly in line with what the other people give to their distributors or partners?

R K Bhandari: All mills will sell paper to distributors their own price. So, normally distributors sell with their own calculation of the margin depending upon the urgency of the customer number one. Then the payment terms of customer-to-customer. So, that is their domain. So, we do not give any fixed commission to any dealer. We fix our own price and then the dealer decide where they can sell that product.

So, as far as we are concerned, we have all the people there we don't consider anybody as our competitor. We are working in our own domain, and we are trying to do our best while other people they are trying to do their own best, but the mill that is closest to our model is Kuantum number one and then Trident, then KR and these are the 3 people, 4 people who are Shreyans Industries, so they are almost of similar nature as we are.

Somnath Paul: And the final question is that you mentioned about getting into photocopier and some other high end product. So, photocopier if I'm not wrong is more of a commoditized business, but as a common person, I mean, I don't find any of the user would distinguish between other than the credit terms which normal shopkeeper would get, so I just trying to get your understanding on the capital and the inventory cycle, will it not get prolonged or do you have a balanced approach to this?

R K Bhandari: No, actually photocopier and has very consistent demand in the open market that is number one and it can give a consistent tonnage, our target is to have minimum 15% to 20% in our total production segment from 30,000 to 40,000 tonnes and because price realization in the photocopier is on the higher side.

And the quality of the product is also on the higher side, which we can make on our PM4 as we have been saying earlier because it will be almost 100% wood-based product and second as I said, we have recently introduced prime print paper which is the high brightness multicolor printing paper.

So, that product we have introduced in comparison to the product placed by A grade mills in the market in that segment. So, that too is successful we have already got the first repeat orders and the response is encouraging. So, that too we are targeting on PM4 by another 20%, 25%. So, that is how we are trying to make out three four products, we are making a slot so that fixed tonnage return we should get.

Somnath Paul: The final question can you just help me with the understanding of raw material percentage consumption in terms of wood pulp legacy and imported paper if you have and do you foresee that any change of agricultural commodities will kind of impact you or you remain mostly insulated and because this is a percentage which mostly the mills use as a percentage depending on their mill design and configuration. So, can you throw some light here?

R K Bhandari: We use more than 50% agro pulp and 35% plus minus wood pulp on total tonnage and 5% to 10% imported hardwood or softwood pulp and whenever there is economy in using imported wastepaper then we use the option of reducing our in-house wood pulping capacity, and we use imported pulp substitute, good quality wastepaper pulp also. So, that is how we normally do. And presently if you look at the wheat stalk prices, they are almost quite stable for the last almost 6 to 8 months there is not much variation and though wood prices are going up.

Somnath Paul: So, overall, you see as a blend your proportion should be stable for you because there are a lot of ups and downs?

R K Bhandari: Lots of flexibility in controlling the cost of raw material.

Somnath Paul: So, overall, as a blend, you think it should remain stable for you, right?

R K Bhandari: Yes, because like last year if we look at the cost of raw material, though price is reduced by 20%, we could reduce our cost of raw material and chemical consumed also by 20% by doing certain mix and match amongst the different inputs for the pulp. So, the overall cost of production decreased by 10%, but the cost of raw material and chemicals we could reduce by almost 18% to 20% that flexibility we have.

Somnath Paul: Can you just throw some light on the elasticity between the price change of the finished goods and the change of raw materials both on when it goes higher as well as lower, so the time lag basically how is the elasticity like you see that immediately there is or there is lot of supply I mean given the Indian scenario?

R K Bhandari: Yes. If you look at our situation in particular, as I said, we have orders of 35,000 tonnes plus, which includes some orders from the open market also. So, that execution is for almost 2 months. So, any price change that will come will affect me in the 3rd Quarter.

So, normally 30 days to 45 days orders, most of the mills they carry minimum 15 days order and those who are into the government business, their average goes up to almost to 45 days. So, accordingly for me it could affect me after two months and those who are in the open market, the affect to them may come anywhere after 15 to 30 days also number one.

And secondly the prices of the raw material that is sale price of the paper, presently the pressure is more from the imports and since now pulp prices have increased by another $200 plus. So, that is why from December onwards the incoming sale price of imported paper should also go up, so that could be one reason giving leg-room for industry in India to increase their prices by another 5% to 10%.

Moderator: Thank you. Next question is from the line of Samarth Lawand. He's an individual investor. Please proceed.

Samarth Lawand: Sir, you mentioned about the imports, so I just wanted to know how the Chinese imports have been impacting us and if you could give a number like the landed cost of the imports, that would be helpful?

R K Bhandari: Chinese import is more in the region of coated paper, and both chromo and hard paper and writing printing though some is coming from China also, but mainly Indonesian, Asian countries, Indonesia and Brazil these are the two countries which are dumping a lot of paper into the indigenous market.

And the disturbing factor is that now they have a good setup in India, and they are trying to enter the market by taking delivered price orders also. So, presently the order they have booked in the range of Rs. 70, Rs. 71 Rs. 72 a Kg depending upon different GSM and where geographically you are placed.

So, that was the one factor which brought the prices down from the high level to this range, but since as I said earlier, the pulp prices have increased. So, next pricing deliveries may come with an increase of $50 to $100 per tonne of paper. So, that will decide that will be one of the factors other than the demand in the season that will decide the increase in prices in the coming months.

Samarth Lawand: So, you mentioned Rs. 72 per kg, so they are almost like selling that let us say 10% to 20% discount of the prevailing prices at which we are selling right now. So, any plans to tackle this?

R K Bhandari: Pardon, I could not get to your question.

Samarth Lawand: So, you mentioned that the Indonesian and the Brazilian players are selling at Rs. 72 per kg your standard cost?

R K Bhandari: Yes.

Samarth Lawand: And the current for this quarter, our prices were around Rs. 90 per kg is that correct by any chance?

R K Bhandari: It was Rs. 90 plus in the first quarter, but in this quarter 2nd Quarter they are in the range of 70 to 75 for different players for different qualities, yes.

Samarth Lawand: For this quarter you mentioned, right?

R K Bhandari: 2nd Quarter.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comments.

R K Bhandari: Thank you everyone for your wishes and for participation and for taking interest in the Company. We wish you all a very, very Happy Diwali. Thank you very much.

Moderator: Thank you. On behalf of Satia Industries Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

This document has been edited to improve readability