

# Huhtamaki

24<sup>th</sup> July 2023

Department of Corporate Services  
**BSE Limited**  
Phiroze Jeejeebhoy Towers  
Mumbai – 400 001  
**Security Code No – 509820**

The Listing Department  
**National Stock Exchange of India Ltd**  
Exchange Plaza,  
Bandra Kurla Complex  
Bandra (East),  
Mumbai 400 051  
**Security Code – HUHTAMAKI**

**Sub: Transcript of the Earnings Call for the quarter ended 30<sup>th</sup> June 2023.**

Dear Sir/Madam,

This is further to our letter dated 21<sup>st</sup> July 2023, whereby the Company had submitted the link to the audio/video recording of the Earnings Call held post announcement of the Unaudited Financial Results for the quarter ended 30<sup>th</sup> June 2023.

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the Transcript of the said Earnings Call, for your information and records.

The transcript of the earnings call shall also be available on the Company's website at [www.flexibles.huhtamaki.in](http://www.flexibles.huhtamaki.in)

Kindly take the same on your records.

Thanking you,

Yours faithfully,

**For Huhtamaki India Limited**

  
**D V Iyer**  
**Company Secretary & Legal Counsel**



Registered Office:  
Huhtamaki India Ltd.  
A-802, Crescenzo, C-38/39,  
G-Block, Bandra Kurla Complex,  
Bandra (E), Mumbai-400 051,  
Maharashtra.

Tel: +91 (022) 6260 6800/6260 6900  
CIN: L21011 MH1950FLC145537  
[www.flexibles.huhtamaki.in](http://www.flexibles.huhtamaki.in)

# Huhtamaki

“Huhtamaki India Limited  
Q2 CY '23 Earnings Call”  
July 21, 2023

Huhtamaki



**MANAGEMENT: MR. DHANANJAY SALUNKHE – MANAGING DIRECTOR  
– HUHTAMAKI INDIA LIMITED  
MR. JAGDISH AGARWAL – EXECUTIVE DIRECTOR &  
CFO – HUHTAMAKI INDIA LIMITED**

**MODERATOR: MR. SANJESH JAIN – ICICI SECURITIES**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Huhtamaki India Limited Q2 CY '23 Earnings Call hosted by ICICI Securities. As a reminder, all participant lines will be in the 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 star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities Limited. Thank you, and over to you, sir.

**Sanjesh Jain:** Thanks, Yusuf. Good afternoon, everyone. Thank you for joining on Huhtamaki India Q2 CY '23 Results Conference. We have management on the call represented by Mr. Dhananjay Salunkhe, Managing Director; Mr. Jagdish Agarwal, Executive Director & CFO. I would like to invite Mr. Dhananjay to initiate with opening remarks, post which we will have a Q&A session. Over to you, sir.

**Dhananjay Salunkhe:** Yes. Thank you. Good afternoon, everyone joining on this call. So before we start our discussions and the presentation on the company's performance, let me start with our Safe Harbor statement that this information is basically what we are talking about represents the current situation on the business and does not really give an indication of a future.

So coming to the last quarter's performance, we continue to face a challenging environment externally in terms of food inflation, unseasonal rains and certain downturn in terms of consumption pattern. What we have observed in the personal care as well as in the beverage segment, our challenges remain from a volume point of view. At the same time, we continue to work towards creating a sustainable long-term and profitable growth prospect for Huhtamaki India.

So in line with the challenges in the market, our second quarter sales, net sales, it was lower than the previous year same quarter as well as the last quarter of January to March. However, there is a marked improvement in the bottom line in terms of EBIT, PBT as well as earnings per share, improved year-on-year basis. However, as compared to quarter 1, there is a slight decline.

At the same time, overall, the focus currently is to invest in technology and innovation which will help us to be a player who wanted to be a number one choice in terms of sustainable packaging. Clearly, looking at blueloop as one of the offering in the marketplace which we will discuss during the call. At the end, we continue to drive business transformation, decide clearly on where to play in terms of our key segment products and categories and how do we play to create a sustainable growth for Huhtamaki India.

So this is what is our overall business situation. I would now hand it over to Mr. Jagdish Agarwal, our CFO and Executive Director, to take us through to our financial review.

**Jagdish Agarwal:** Thank you, Dhananjay. Good afternoon, everyone. To start with -- I would like to say that it really gives us, Huhtamaki great sense of satisfaction on continuing this call for the second quarter in a row after a long lag in the past and this reflects upon the commitment of the company to engage into a continuous dialogue with all the stakeholders of the Company.

As regards to the second quarter of the half year performance, while the volumes continue to remain under pressure in Q2, impacting the top line, the bottomline has shown remarkable improvement for both second quarter and H1 Y-o-Y basis. This is a result of continued focus on operating efficiency and mix and partially due to stabilization in the input prices. In spite of the top line contraction by around 22% Y-o-Y coming to INR 6.06 billion in Q2, the EBITDA has actually increased by 4.4% in the second quarter, and the EBITDA for Q2 was INR 421 million.

For first half '23, the top line has contracted by 16% year-over-year to INR 12.5 billion. The EBITDA has not decreasing in that sense. The EBITDA decreased by 3.8% and EBITDA for H1 was INR 996 million. However, EBITDA as a percentage of sales has increased by 1%. So overall, the quality of business has improved in H1 and in the second quarter.

During the second quarter, we are relocating some of its smaller sites to a larger site. This has been done with the objective of achieving economies of the scale, optimize production processes and reduce overall operating costs. The expenses pertaining to the relocation is around INR 21.6 million have been disclosed in financials as the excessive expenses for the second quarter 2023.

EBIT for the quarter was INR 305 million and for first half, INR 725 million is significantly higher on Y-o-Y basis. Similarly, PBT for the quarter at INR 206 million and for the first half was INR 558 million is substantially better on Y-o-Y basis. The improvement in EBIT and PBT is majorly driven by lower depreciation due to revision in useful life of the fixed assets effective Jan 2023.

Net profit after expenses and after tax for the quarter at INR 145 million has improved to 2.4% of sales for the first half of the year. Net profit has improved INR 500 million, though driven by one-off reversals of accruals for tax provision in first quarter. EPS for the quarter stands at INR 2.19 per share, again, substantially higher on Y-o-Y basis. For the half year, EPS stand INR 6.89 per share. Again, this is significantly higher on Y-o-Y basis.

Now moving on debt and liquidity position. Net debt has reduced by almost INR1.64 billion Y-o-Y basis and this direction has helped improve overall liquidity of the company. Debt equity ratio of 0.4 is almost consistent with the previous few quarters and moving in this range only. Debt-to-EBITDA ratio has increased to 7.6. Certain borrowings and marginally reduced on account of repayments. Our liquidity is strong as we have a sizable credit lines which were mostly utilized at end of the quarter.

We talk about our overall cash position has improved marginally. Though net cash flow position from operating activity as well as substantial improvement. This has been achieved by improvement in the working capital, majorly on account of decrease in receivables, though partially offset by increasing inventories or decreasing payables. However, on account of higher capital expenditure, free cash flow has been impacted to some extent.

To sum up, I can say that financial position has stabilized in the last 1 year. Operating working capital improved marginally due to decrease in receivable and overall health of their business is improving. The company has always remained committed to stakeholders focused on technology-enabled innovation and operating performance and realization of value for its

products by engaging constantly with our customers. We believe this will help our company remain competitive in the long term to drive responsible and profitable growth while upholding highest risk standard of corporate governance. With that, I'll hand over to Dhananjay.

**Dhananjay Salunkhe:**

Thank you, Jagdish. I think this is a good summary. So those who are on the call, if you are referring to the investor presentation, which is uploaded on the site. And I'm referring to that presentation to get you through a very exciting information about our upcoming projects or upcoming innovation, which we have globally branded, and this is called blueloop. And blueloop is our enterprise-wide sustainability brand, which is aligned with our 2030 strategy which is basically to become a first choice supplier in the sustainable packaging solutions, which will be basically driven by technology and our ambition in operational excellence.

So if you are able to refer those slides, I think I would be requesting everyone to refer slides, and I'm on Slide 11 because I would like everyone of you to see as what we are talking about. So Huhtamaki Global as well as India ambition is to move from our packaging core or as a packaging converter to a solution provider. Basically, from a packaging converter, we want to add a capability in the phased way in terms of improving our offering in our packaging technology innovation and then to a packaging solution provider and that thereby increasing our value proposition where we were today and we want to be in 2030.

And in line with that, we have invested in the technology and innovation and the project is coming up well in our site located in Silvassa. And what are we offering? We are offering through that project, 3 different product streams and which are basically developed around 4 work streams. So from a very complex and non-recyclable packaging solutions -- flexible packaging solutions, but we are trying to develop is basically a mono material laminate, which are basically designed to recycle.

So there are four streams or four products or which we are offering, which is one, we call mono PP which is like a single material. Second is mono PE, again a single material and then mono paper solutions and then PET. So the product projects which are basically driven from India are basically based on PP, based on PE and based on PET, whereas any solution required paper base will be resource from our overseas plant from Germany.

So with these propositions, what we are offering to our esteemed customers are basically simple but effective mono material solutions, which also enables weight reduction, the carbon footprint reduction and enhancing the recyclability of the laminate. And those laminates have a clearly, a unique combination of features, which we call Power of 3, which is their ability to provide required protection, ability to get recycled and then affordability because the affordability is very much important in the price-sensitive market -- competitive market like India.

So keeping those in mind, our products coming out of this innovation guarantee protection and the shelf life. So there will be no compromise on the shelf life where customers start using it and it keeps the content, which will be backed by our end customers hygienically safe and safe to use. Recyclability, which will be an important parameter for our customers to achieve even their sustainability agendas of 2025 and 2030 because if you see what many of our customers as well as consumer packaging good companies have taken a pledge to move to the recyclable packaging

by year 2025 to year 2030, as well as regulation also is making the changes in line with recyclability agenda.

So this is what we are offering, and we are really excited that project is coming up very well the trialing, which are happening in the customer place is also progressing in a good pace. So this is one on the offering on the innovation. The second part is on our business transformation and in that, we made a good progress in last quarter. So as Jagdish indicated in his commentary that these 3 sites, smaller sites on our PS label portfolio were kind of consolidated or moved to the larger site within India.

And now we have an agile and a very focused approach in terms of servicing our customer which has changed a bit in the last few years. And considering that in mind, we have initiated these optimization initiatives in terms of improving our customer relevance, cost effectiveness to the end customers.

So -- and this will definitely start giving us some improvement in terms of our competitive offering to our end customers. So this is what we had to update. And now with this, we kind of can close our presentation part of it, and then we can open this up for a question-and-answer. Thank you.

**Moderator:** Thank you. We will now begin the question-and-answer session. First question is from the line of Khush Gosrani from InCred Asset Management.

**Khush Gosrani:** Sir, I wanted to understand that over the last 1.5 years, have we lost market share to our competitors? Or have we vacated the market because it was at the lower end of the margin or and we wanted to move towards our new sustainable product offering?

**Dhananjay Salunkhe:** I think this is a good question. So here, three things are happening - One, of course, there are changes in the segment offtakes, as indicated earlier that we service primarily to the food, beverages, personal care businesses. And so there, what we saw was there is challenges in largely in personal care and beverages because of the market conditions. So that is one aspect. Second, as you indicated rightly, yes, we are in the process of reviewing our portfolio and the lower strata of the business, yes, we are taking a view on it.

And that is what you would see that the quality of business is improved over a period of time because we definitely are optimizing our portfolio which will help us in concentrating on the specific targeted markets and push for the competitive offering and then gain the share.

**Khush Gosrani:** Sure, sir. So how much of the contribution would be coming from the blueloop products and by 2030, what are you envisaging the contribution from blueloop?

**Dhananjay Salunkhe:** So today, month-on-month, it varies. But at the same time, we are on an average around 22% to 25% blueloop products are serviced currently. And you asked the timeline is 2030. So 2030, we are targeting around 60% to 65% from blueloop.

**Khush Gosrani:** In terms of margin differential between the current packaging and blueloop, what would be the differential roughly?

**Dhananjay Salunkhe:** Yes. So it won't be right in terms of putting a number. But yes, this is a very much innovative offering, I would say, competitive in the marketplace from a customer point of view. At the same time, because it has been invested very well. And if you see there are 3 or 4 features of this. They are simpler, they are giving the same effectiveness at the same time, weight reduction. So overall, from a customer point of view, it will be still a competitive offering, while it will be a premium offering.

**Khush Gosrani:** Got it, sir. And final question, any time lines that internally have been discussed for the land sale roughly, not with the buyer, you have a definitive buyer in place at this press for the exchange lease. Any time line as to when things can get finalized?

**Dhananjay Salunkhe:** So as you know, we work in a landscape on -- in March itself, we have already informed stock exchange, and our teams are working on the things. So we have a definitive party identified and the due diligence is in progress. And it's just like -- considering everything which need to be covered, can't put a time line to it.

**Moderator:** The next question is from the line of Madanlal Jain from Individual Investor.

**Madanlal Jain:** Hello. Sir, good afternoon. Sir, I want to know that 8-9 years ago, there was such a continuous acquisition in Huhtamaki, so much change in the sale that the company that was turning INR 1,000 crores slowly reached INR2,700 crores, but it never reflected such a big expansion in the bottom line. In the last two and a half years, the same thing was seeing the same thing again and again that the lag effect, that is, the prices of raw material, BOPP, or whatever you used to use, were increasing. So you did not see anything in the EBITDA, nothing special.

The EBITDA that used to come on sale of INR 1,000 crores, today it comes on on a sale of INR 2,600 crores. And it is also praised again and again that we did well in the last quarter. If closing the plant in this way and shifting it to another place, all these expenses, all these problems, we never even had debt.

Today we are sitting on debt, creating such an environment that how long will we come out of this environment, today raw material price is at such a place where you should get a benefit in the lag effect, that too is not visible anywhere, whenever your result came this time, I saw some headwinds, so how long will we mean?

If you look at the shareholder in the form of return, then in the last 8-9 years, there was such revolution every year. Sir my question is little tough and I don't understand that in any other quarter, there will be an indication of revolutionary change. Yes, we are doing so much turnover that our EBITDA is 12%. Sir, by investing so much money, by doing so much acquisition, sir, what kind of acquisition was this that we never could do anything for the investor.

Maybe if I have left anything out in this question, then I would like to apologize for that. And sir, the payment that we have to get is always 600-650. Such a big payment, why is our outstanding always? Our sale is only INR 600 crores, so our payment that so our payment is always INR 600 crores, INR 650 crores. Why is it so? What business does Huhtamaki do that it is not able to compete anywhere, that means without profit, with very reasonable profit, how long will we keep going like this? This was the only question.

**Dhananjay Salunkhe:** No problem Mr. Madan. You can ask your questions. You have talked about flexible packaging for 10 years. If we look at it in the right way, there have been many changes in the past 10-12 years in flexible packaging industry. 15-20 years ago there were many packages which were packed in rigid after that there was a movement of rigid to flexible conversion and that started from 15 years because of that every flexible packaging company had something for everyone which has changed in the last 4-5 years what has changed?

Competitive rivalry has increased that is one thing, second is Hutamaki is very ambitious in India because in India next billion consumers are from India. So, globally, as well as our belief that India is the country which will grow and that is where we want to invest our money. So, that is where you can see that. We are still facing challenges but we are trying are doing now is we are also thinking about the market long-term success.

Third, too many acquisition and GST happen so India is also becoming one market. So keeing in that mind – market landscape change, customer landscape has changed, India's infrastructure has started improving now transit time has reduced so we are keeping this in mind and consolidating it. This consolidation is to increase competitiveness and to increase the relevance of the customers.

So we are doing this to increase competitiveness and to increase customer's relevance so we hope that we will definitely get improvement in this and it will definitely be beneficial in future.

You have also connected two, raw material pipe, blueloop, there is a big change in it. We are going to make our own film. So the lag effect is going to be very less. You asked about receivable. You are right. The competitive rivalry in the domestic market. Most of the competitors have their own base. We have to be competitive. We have 30% coming from our exports. The impact of exports is going to be very less.

We have to keep in mind that 40-45 days is the transit period. At the same time, we have to improve on all aspects of our business, be it a top line, be it a cost, be it a bottom line and at the end of the day, the value to the shareholders. And if you see, in the last three quarters, except for the volume, all three of us are improving on this and we hope this will continue. Jagdish, do you have anything to add?

**Jagdish Agarwal:** Dhananjay, I think you covered everything. I guess one thing I can add - I think for the same thing, what you say on India. The quality of business, model, if you look at like EBITDA margin, if you talk about the first half of this year, we are trading around 8% EBITDA margin. I agree if you go fast, we used to had a good EBITDA margin and all. But again, if you look at 2021, and there were a lot of dips in 2021 and we are trying to conclude from 2021. So the performance of 2022 was better than 2021 and then look at the performance of 2023 is better than 2022.

So we are in that trajectory. And whatever the things which is happening to the company when we talk about a sustainable innovations product or when you talk of a locations of smaller units are going to drive a long-term sustainable growth and competitiveness.

**Madanlal Jain:** Sir, can I ask one more question? Yes. Sir, in the bottom line, sustainability, as long as you, sir, Dhananjay ji and Jagdish ji, the way you have taken over the command of this company, we are



very happy with your way of working and the way you are doing concall for investors, I would appreciate it a lot that in the beginning itself your style is very good for investors.

And sir, I have only a small request that until there is no big effort for sustainability in the bottom line, till then a MNC share on the Indian stock keep ruling and trading at very low prices on Indian stock exchange. So my request is that you should make a sustainability plan in the bottom line. This is my small request. Sir, thank you very reply. I am very satisfied. Thank you.

**Dhananjay Salunkhe:** Thank you. We take your suggestions on sustainability. You will definitely get some. We will do short term and long term on it.

**Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company.

**Saket Kapoor:** Namaskar Sir. Thank you for answering my question in detail. Sir, from the point of view of the shareholder, it is correct that what are the key headwinds in our business model, what are the bottom line due to which we are not able to convert the top line into a profitable bottom line. You have talked about your blue loop, which will bring a margin improvement and a new technology. But it is very important to reflect in the bottom line.

My first question was, when we look at the other operating revenue, that constitutes a majority part of the PBT number. So what does the other operating revenue constitute? And when I was looking at the cash flow part, we find here an inventory provision of 116 million, that is around closer around INR 12 crores. So if you could explain the reason of the thing, what is the nature of it?

And sir, last you said, there will be a lot of checks and balances in running the organization. So, for the last 3 years, we have continuously requested the AGM to call you, to pressurize you. So, I am very grateful to your senior team that you have paid attention to these aspects and you are also delivering. So, you should continue this process, no matter how the response of the investors is. Otherwise, there should be no break in the system that after 2 quarters, 3 quarters, if you don't get the right response from the investors or participation, then you should drop the con call.

Don't think like that. Plus, the investor presentation should be a little more elaborate, keeping in mind the competitive landscape. it will be better. That means you are facing more hurdles in the business. So if you could dwell whether this understanding is correct. How things are shaping up? What are the key points, the key areas of concern areas which needs to be addressed so that this segment can start supporting sustainable profitable numbers?

And lastly sir, Mr. Dhananjay, the technology that you mentioned that we are bringing, which will be our backward integration process, can you dwell on that a little more, sir, how and when we will be able to do it? When will it come into effect? 2030 is a long period, sir, 7 years down the line. So if you could give us some more color on the same.

**Dhananjay Salunkhe:** Sure. You want to start?

**Jagdish Agarwal:** Okay. So maybe I can answer part of the question. So first point, you've asked, Kapoorji, is about what do we include into other operating revenue. So in other operating revenues, that

majorly is scrap which is a by-product when we do our production. And it includes export benefits as well. Second point you had asked about inventory provision that there's increase in the inventory provision and if we talk about inventory provisions, which is roughly 2% to 3% of my inventory, and we grew up on sort of policies where we do an aging-based provision into the inventory so that's the process we follow as a good governance.

So inventory problem what we are talking about is that aging-based provision. So these are the two questions you had from financial point of view, if I remember correctly. So apart from the...

**Saket Kapoor:**

Sorry, inventory parts, come again, sir. I missed your last point.

**Jagdish Agarwal:**

Inventory aging these provisions and our policies that, okay, certain materials are having aging of like more than 3 months, 6 months, 9 months. So every company, you have a policy on making a provision for that. This provision or a contact in the hedging policy.

**Dhananjay Salunkhe:**

Okay. So thanks, Jagdish for this. So you also touched base on the hurdles and the technology toward and invite 2030. So let me start with the hurdle. Yes, we are in the process of innovating the products which are first to the market and this mono material or recyclable project, which are basically the barrier properties, which we are introducing in our laminates are definitely first with the market through a mono material solution. So yes, customers are also taking time to evaluate those products because they also pack their -- I would say packaging, which is very sensitive, like, for example, food contact. So there is a packaging which goes for food. It goes - - undergoes a very long shelf life testing and so on. Similarly for personal care and so on.

So the one of the hurdle -- it is not hurdle, but it's a requirement for many customers is that they would like to test this product under severe situations, shelf life testing and so on. So that is one thing which we kind of see that is important to kind of hurdle, other requirement to pass. The second one is, of course, if you see in India, regulatory environmental is also changing. So that is also changing at a pace, right? So there are certain changes in the regulation, but also there are provisions given. So our end customers also are using that as one of the important aspect of pushing our blueloop for this recyclable solution.

So more and more regulatory clarity comes in, I think customers also will push towards that direction. And lastly, our ambition is to achieve 65% to 70% -- 65% of our sales through this innovation but if you might miss that. Already, we are selling around 22% to 25% product through this technology and it will be kind of improved over a period of years. So already we are doing. So it is not 2030, we are already right now doing and it will be increased the share of business from this innovative products will be increased now year-on-year going forward.

**Saket Kapoor:**

Sir, a small point on it and then I'll join the queue. First is on the pricing front. What are the key differences? And since you are telling that it's a very hypercompetitive market and even there are smaller players who are strategically competing with you and are not into that regulatory framework as has been the case with agencies like you.

So how do we position ourselves with this blueloop product in terms of the pricing part and in acceptance. And does the ESG norms also give an extra edge to us going ahead where the acceptance and the percentage, from 25% to 65% would be faster later.

**Dhananjay Salunkhe:** So from a pricing point of view, I think explained in the previous questions, that see our innovative -- these products are going to be simpler with mono material and most of the time will be also coming up with a weight reduction. So it will be from a customer point of view, they will be competitive. At the same time, we'll be able to justify our investments. So that's the thing.

On ESG, see, we are a company which is into manufacturing and servicing the packaging products. So more and more, our customers use these materials. For them, it will be a beneficial, no doubt from a sustainability index. For us, of course, as a company, we also have our sustainability targets. So there are 2 things. One is the sustainability and sustainable packaging products. So we are into manufacturing and supplying of sustainable packaging product and how do we do it?

By sustainable way. And that is what we also have on all our sites, we have agenda to improve our energy consumption, reduce our wastages, sourcing our energy from renewable resources, water conservation and reducing the transit times and then waste. So these are the two different. But yes, we are -- whatever work we are doing will be helping the ESG for our customers, and we are also improving our operations to improve our sustainability index.

**Saket Kapoor:** In your notes, you mentioned about three plants...

**Moderator:** Sorry to interrupt Mr. Saket. Please, I request you to please join the queue. We have our next question from the line of Mr. Bharat Sheth from Quest Investment Advisors Private Limited.

**Bharat Sheth:** Thank you for your elaborate answer to the previous question. My question is that this blueloop was launch about a couple of years back, and we have been able to scale up to 20% to 25% of our business, whereas in the remaining 6, 7 years, we are just looking for 60% to 65%. So that - - why there is a slow pace? And what is the balance that 40% to 35% will be a normal flexible packaging? Or if you can give a little more color?

**Dhananjay Salunkhe:** So yes, so I mean you said probably the blueloop launch happened in May of '23. So the products which are there were in the market in 2 years, were produced through the existing processes, which are part of a blueloop project. So the significant investments are being done in this year. So that is why there will be acceleration in the progress. So when you say this 20%, 22% the product constructions were different, so which were easy to convert.

The simpler structures, which don't need very high barrier properties, we were able to convert them to these blueloop structures, whereas now what we are looking at to introduce the structures, which are require high barrier, which is basically most likely will happen from the removal of the foil layers and so on. So that is what we are investing heavily.

And that is our proprietary technology, formulations and innovation and which will have a slow rate of adaptation in the market. And that is why if you see right now, we are at 22% to 25%. And in next 3 to 6 years -- 5 to 6 years it will go to 65%, because the complexity of the product, which we are going to convert is going to increase, and that's why this time line.

**Bharat Sheth:** So how much capex are we really making for this to achieve this 60% to 65% of -- so -- and these are one of the plant which we are talking on Silvassa which is the WIP, when it's likely to

commence? And second question, does this cover all the products that we globally parent has into Indian market or still there will be a more product may come up later on?

**Jagdish Agarwal:** I think when you talk about investments, I think we are making a significant investment. And when we talk about India at this point of time, we are making big investments in the Silvassa plant. When you talk about a product India is going to have more or less all products like and we said that paper is at one probably we are not moving that immediate basis. But yes, we do have sources to get supplied at retail as well. So in a nutshell yes, we are going to win all the product of blueloop parts group is going.

**Bharat Sheth:** Even pharmaceutical product also is there for parent company. So have that we launch or we are still, I mean, work in progress?

**Dhananjay Salunkhe:** So that is a very exciting innovation happened in the parent company, and we have started -- this has been started adopted by a couple of pharma companies in India. And this is basically right now will be imported from our parent company and service from India. That's a very important innovation, which is patented at this moment.

**Bharat Sheth:** So in your initial remarks, you said that we will import from Germany. So you are talking of that pharma product?

**Dhananjay Salunkhe:** Yes. Right.

**Bharat Sheth:** Okay. And sir, overall, how much investment we really need to make in capex or to reach the 60 to 65 over a time. And this capex, which we are doing at Silvassa, when the plant is likely to commission?

**Dhananjay Salunkhe:** The plant is going to open most likely end of third quarter or either in the fourth quarter. Investors when we talk about we are going to stages. And as I said that we are making a significant investment in Silvassa at this point of time, and I think will evolve. Things will change. So I would when we talk about 60%, 65%. Definitely, that is going to need more investments, so we are able to work out. And once we'll have a better perspective, we'll come back on that.

**Moderator:** Thank you. Next question is from the line of Saurabh Patwa from Quest Investment Advisors Private Limited.

**Saurabh Patwa:** And just wanted to have your thoughts on what's happening as you highlighted in the beginning, have we been able to improve our gross margins. But at the same time, since the fall in volumes and realization is so sharp, there is -- it appears that your fiscal absorption is getting impacted, and that is why your improvement in gross margins is not getting reflected in EBITDA. And as we move ahead, and like as you mentioned, like you think third quarter or fourth quarter, your depreciation, etcetera, will start increasing. So how do we plan to take the growth in gross margin to bottom line?

**Dhananjay Salunkhe:** Yes. This is a good question. And let me -- so essentially, what we did in last few quarters is us taking a very strong view in terms of where we want to play and how do we want to play. And so now we are in process of identifying clear categories where we want to play and really deep

– dive, create excellence in what categories we want to focus on then product focus and then certain key account focus.

So these all 3 put together will help us to kind of revert the tragic. As you rightly mentioned, yes, we definitely voluntarily cut down certain, I would say, unprofitable businesses which definitely has now availability of some free capacity which we would definitely would like to use for our strategic intended products.

So we don't want to boil the ocean. We don't want to do everything everywhere and that's where we have taken that smaller, fewer, bigger but larger accounts, and that's where we will drive. And we are confident that this strategy will help us to be very sharp in our -- with our customer centricity, which will help us to also improve the customer relevance, their experiences and by the way, creating a long-term partnership.

So whatever has to be done, we have done now so far. And then we have on the categories which we want to play, and that is where we will also keep on investing our resourcing in terms of account management, in terms of innovation, in terms of customer service and so on.

**Saurabh Patwa:** Is it fair to assume, let's say, your target to reach like 6%, 7% kind of around 7%, 7.5% kind of EBIT margin on, like, say, maybe 2 years? Which was a very normal thing prior to COVID for you.

**Jagdish Agarwal:** Yes. So if you talk about our aspirations, we have stated in that we are targeting by 2030, 10% of EBIT margins. And definitely, that's a journey. And if you look at the margins which we have as of today and which give us a concern that, yes, we are doing all things that should improve our margins. I'll -- don't quote the number, but yes, we are moving in the right direction. That's when I can say that.

**Saurabh Patwa:** Okay. And what is the kind of volume growth you expect over the next 2 years? From the low base of '22.

**Jagdish Agarwal:** So you talked about a 6% EBIT margin. So for the first half, we already had a 5.8% EBIT margin for this year.

**Saurabh Patwa:** I was saying like 7%, 7.5%, which was surprise normal, but anyways...

**Jagdish Agarwal:** I think the even solutions, which we are talking about is definitely going to try to be growth for us, which is the same and this is a long-term ambition and strategy for us.

**Saurabh Patwa:** Can I slip in one more question, if you allow? Yes. Yes. So in the beginning you highlighted that of the 4 pillars of blueloop, one plant is coming up in Germany and from where you import and India -- so there the reverse also the to. So like anything which is -- which will be made in India, if there is a requirement globally will be exported?

**Dhananjay Salunkhe:** Thanks you are sharp in observing that. Absolutely, it's true that we are investing in 4 locations. The paper-based solutions are specifically in only 1 or 2 locations. So this time, what we have done is basically a very standard approach across Huhtamaki and that is helping us from having

good powers with our suppliers or OEM suppliers as well as the raw material suppliers. At the same time, technology adaptation of such a complex nature and we are also seeing this as a whole world as a source of supply from all the 4 locations.

So it will be a country agnostic supply. So yes, India will be a source of supply for the countries of -- I would not want to limit it to any country, but still it will be mostly like Middle East, Africa and Southeast Asia would be targeted countries and even in the Far Eastern Europe. Yes, it is. The reverse is true.

**Moderator:** The next question is from the line of Akshat from Flute Aura.

**Akshat:** So in your disclosure, there is given that company relocated three sites to existing labels. So I just wanted to know that has it caused any impact on our top line? And my second question is on the interest side. I just wanted to ask how -- why the interest is increasing? And how do we see it further?

**Jagdish Agarwal:** So I mean the relocation is not having any impact on -- I don't see any significant impact on our revenue, first of all. The second question talk about interest cost. I think if you talk about interest cost, it's more or less flat over the quarter. Only in the second quarter, we had certain interest obligations on account of EPCG liability that has been part of this. If we leave aside that, then more or less our interest is more or less flat.

**Moderator:** The next question is from the line of Vipilkumar Shah from Sumangal Investments.

**Vipilkumar Shah:** So I think pre-COVID, we had an EBITDA margin of 10% plus as a norm. And now we are investing sizable money in this new technology. So my question is why our margins should not improve from here on?

**Jagdish Agarwal:** Okay. So I mean, you're right, when we go back probably 3 or 4 years back, that might be true. But when we go back only 3 years back, 2021, we had an EBITDA margin, which was in the range of 4%. 2022, we had EBITDA margin that was in the range of 6%. And when we talk today probably our EBITDA margin in the range of 8%. If you look at last 3 years, there is improvement, the performance in terms of our bottom line.

I mean it takes time for -- to start when you had such a huge dip in 2021, and then you have seen that the continuous progress in the right way, right direction. So 7.8% to 7.9% is EBITDA margin this year, probably much better than what we had. And I think the company is doing all the right things that give us the confidence that things should improve.

**Vipilkumar Shah:** So what is the cumulative expense you have done till date on this blueloop project?

**Jagdish Agarwal:** You're talking about capex?

**Vipilkumar Shah:** Yes.

**Jagdish Agarwal:** I said, and someone asked that question. So we have done a significant amount of capex for that. And I mean, it's still going on. So I will not have a specific number, but yes, we are doing a

significant capex. This is one of the big capex, and we are committed to come about the sustainable solutions for the packaging.

**Vipilkumar Shah:** But sir, at least you can share what -- till date, how much you have spent and how much is remaining to be spent. So what is the problem with sharing that data. I cannot understand -- you're reluctant.

**Jagdish Agarwal:** So more or less, if you look at the capex, you can see is a part of our balance sheet. And if you look at the capex additions which we are talking, but it's mostly towards for blueloop.

**Vipilkumar Shah:** What is our net debt and what is the average coupon rate which we are paying on that?

**Jagdish Agarwal:** So net debt, I mean, net debt is around INR 321 crores, with 2 sites for June ended, and the coupon rate is close to 8% overall.

**Moderator:** Next question is from the line of Aditya Khetan from Smifs Institutional.

**Aditya Khetan:** My first question is on half yearly basis, we had witnessed a 15% dip in top line. So this is largely led by the realization decline or volumes also have on half year basis?

**Jagdish Agarwal:** So this top line decline is kind of synonymous with the volume decline. And as we discussed in the previous questions, we took a review of our overall portfolio, and we are in the process of optimizing our portfolio. So the large contribution came from that. But up to now that we have now the idea and strategy around where we want to play, what are the categories we want to focus and make those big, and that is where we will be now investing our resources in terms of innovation, key accounts management, value selling and so on. So that is where we are now.

**Aditya Khetan:** Just reconfirming, sir, some of the numbers, our total capacity is around 1.54 lakh tons?

**Dhananjay Salunkhe:** We normally do not monitor that in tonnages because there is always an effort on the reducing the plastic intensity, one. Then second, the tonnage is very largely because of the product mix. So we don't normally track in tonnages.

**Aditya Khetan:** So sir, what was the utilization at least if you can share for the last 2 quarters and for the current quarter?

**Dhananjay Salunkhe:** Yes, yes. So capacities right now are running at around 60% utilization. 60%, 62% utilization in last quarter.

**Aditya Khetan:** Okay. And this was the same run rate for the last 2 years also?

**Dhananjay Salunkhe:** No, not really. So the last 2021 capacity utilization was higher and even '21 -- sorry, '22 H1, the capacity utilization was almost in the range of 75% to 80%. But then that's where last quarter of last year, we started reviewing and that's where we are here. So if you see the volume -- the reduction in the volumes, so that the capacity utilization has come down in that ratio.

**Aditya Khetan:** Sir, one last question from my side. Sir, if we look at your EBITDA margins for the last 2 years, it has been around 4%, 5%, 6%. Sir, since our business is mostly towards the MNC customers

only, so wherein generally, the raw material prices and everything are a pass-on only. So we shouldn't have seen such a sharp dip into the EBITDA margin. So it seems like so largely have we lost some of the market share or the product mix itself from the MNC have now changed so towards the regional or the local customers? Has that happened or what has led to this shift into this dip in margins for the last 2 years.

**Dhananjay Salunkhe:** Yes. So if you would have seen -- I think you heard the answer before. So yes, in '21 or '22, there was a lag in terms of getting the pricing from the customer. So that was impacting 2021 largely. '22, there was definitely a change in the approach. And now if you see today in H1, our EBITDA is ranging at around 8%. So there is a clearly an improvement from around 6% of 2022 to 8%, which is almost 2%, and this is where we will be moving towards. The trend will be improving.

**Aditya Khetan:** Okay. So sir, what should be the sustainable figure considering if the -- so the innovative products contribution if that increases over the next 2, 3 years to around 30%, 35%. So these margins can range to around -- so 10% to 11% at least?

**Jagdish Agarwal:** It's very difficult to comment at this point of time. And I think it's premature also because we are just starting that I say that we are starting the end of third quarter or may be fourth quarter. So a lot of things will evolve, a lot of insights will come. So it's very difficult to quote any numbers before time. Thanks for your question.

**Moderator:** The next question is from the line of Mr. Sanjesh Jain from ICICI Securities.

**Sanjesh Jain:** First, on the Blue Loop itself, I can understand that the user want to have the sustainable product. But I think the biggest challenge is how do you collect it, how do you segregate it? And is there any way which will be there, where the user can segregate, get that material, recycle it. What's happening on that side? I think logistical issue on that side is what probably is key for the success of sustainability.

**Dhananjay Salunkhe:** Yes, you are absolutely right and spot on. I think this is one of the area of collaborating with the ecosystem because see, when we are developing a product, which is a recyclability friendly, ultimately, the success lies at the ability of overall ecosystem to be get developed.

So in this regard, from Huhtamaki, as a company point of view, what we did in last couple of years, we invested some with our Huhtamaki Foundation efforts in the recycling plant so that we can showcase to the stakeholders that recycling is possible. I'm talking about the mechanical recycling. And the plant is running, and we are able to showcase and there is an interest in some of the customers. That's one.

But as you said correctly that right now, the products which are offered in the -- to the customers are basically complex, right? Some are basically based on the PE, some are based on the polypropylene, some are based -- combination of PE and PP, which is typically called polyolefin and then some are MLP, which is multilayer plastic, which involves either layer of all these 3 or additional layer of paper or additional layer of foil.

So ultimately, what comes out as a collection mechanism is a multilayer plastics. And that is where the challenge comes in. So as we are developing these recyclable friendly products, and



they gain the market and again, the economy scale. Many customers adopt that. That's where the important adaptation will come. Like as I can give example like a PET bottle. Now if you see in India, the recycling of PET is a very established process. Like there is a collection mechanisms. And then the recycling rate of the PET bottle is higher or in case of less our milk sachet, right? I mean that's rather another product, which is very well collected.

So this will be a journey, and we are working with our customers. Even our customers are also working with some of the startup ecosystem. I don't want to name it here, but there are 2, 3 startup ecosystems, which are actually working in the area of recycling. So combination of innovative companies like us, Huhtamaki, early adopters like customers, our customers and then the startup ecosystem, regulatory -- clarity will help us to go there. So it's a long journey but yes, it has to start somewhere, right?

**Sanjesh Jain:** Got it. Got it. Just one last question from my side. We are shifting 3 plants to a single location. That should give us a good cost saving. How much are we looking at cost saving because of the integration of the plant into a larger facility?

**Dhananjay Salunkhe:** So see, the plants, basically, we had a 6 Pressure Sensitive (PS) labels manufacturing plants. So we are not moving them in 1 location. Basically, one plant goes to other so in the presentation, it is illustrated that in a smaller plant, we have consolidated or moved to the larger plant in nearby vicinity, okay? So that's what we did.

So from 6 plants, we have now moved to 3 plants. So which will give us, I would say, the ability to scale up competitively. Whereas cost, I would say, I can only give a -- number is not important. It's like it's paying back within the year. So that's the important point. So it's not like a long-term investment. Whatever cost savings will be -- whatever we spend for the consolidation is getting paid out within the later than a year.

**Sanjesh Jain:** So from there, it should add to the profitability, right? Because your fixed cost will come down, running 6 plants and running 3 plants, the fixed cost at least will come down to 3 plants, right?

**Dhananjay Salunkhe:** Yes, yes.

**Moderator:** Thank you very much. Ladies and gentlemen, we will take this as the last question for the day. I would now like to hand the conference over to the management for the closing comments.

**Dhananjay Salunkhe:** Do you want to start, Jagdish, yes?

**Jagdish Agarwal:** Thanks for all the questions. I think very good questions and a very thoughtful question. So I think in the last, I can say that the company is doing great in terms of trying to do things, which is going to help us in the long-term sustainability growth kind of mode. And I'm sure that this call, which we started having a regular interaction are also going to improve the engagement with the business community. Thanks.

**Dhananjay Salunkhe:** Yes. Thank you, everyone. This is from Dhananjay and I think interactions are very good. We are also getting some insights, what are the expectations and also giving some suggestions and positive contribution. So we will continue to do this conversation, as Jagdish said, and looking

forward to engage with you on an ongoing basis. Thank you very much, and all the best to all of you.

**Moderator:** Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.