

13<sup>th</sup> November, 2017

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**Sub: Transcript of Conference Call held on 8th November, 2017**


Dear Sir/Madam,

Further to our intimation dated 7<sup>th</sup> November, 2017 in relation to the conference call on the unaudited financial results of the Company for the quarter ended 30<sup>th</sup> September, 2017, please find enclosed herewith Transcript of the said conference call held on 8<sup>th</sup> November, 2017 for your perusal/records.

Kindly take the same on your records.

Thanking you,

Yours faithfully,  
**For Huhtamaki PPL Ltd.,**

  
**D V Iyer**



**Company Secretary & Head – Legal**

**Encl: As above**

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## Transcript

### Conference Call of Huhtamaki PPL Limited

**Event Date / Time** : 8<sup>th</sup> November 2017, 03:15 PM IST

**Event Duration** : 48 min 43 sec

#### *Presentation Session*

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**Moderator:** Ladies and gentlemen, good afternoon. And welcome to the Huhtamaki Paper Products Limited 3Q CY17 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant lines will be in the listen only mode. Later there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Jaymin Trivedi of Aditya Birla Money. Thank you and over to you sir.

**Jaymin Trivedi:** Thanks. Good afternoon everyone. We welcome you to the 3Q CY17 earnings conference call for Huhtamaki PPL Limited. Today from the management we have Mr. Parag Vyavahare, who is the CFO of the company. To start with the call, we will have a brief update from the management on the results, after which we will open the floor for questions. Over to you sir.

**Parag Vyavahare:** Thank you very much and good afternoon ladies and gentlemen. And thank you for taking interest in this investor call from the Huhtamaki PPL. The results have been there with you from yesterday evening. Finally the quick highlights are that the sales growth which was a challenge in the previous few quarters, primarily because of the demonetization and GST, we are able to see some amount of rebound in the sales and that is a very happy moment. With that the sales have grown compared to the Q2 by around 7%, whereas if you look at compared to the previous year same quarter, we are down by around 2½%. And whereas, if you compare the nine months to nine months, we are down by 5.6%, because the current year has both the effects of the demonetization and the GST, which affected the Q1 and Q2 and partially Q3. However, the value-add has been better because of the better raw material price situation which prevailed in Q3, which has helped. And that has, the expenses were kept under the reasonably good control and that has ultimately helped us in having a better EBIT and PBT performance.

So, at the end we had a reasonably good PBT of 362 million, which was 6.7% of the sales and an EPS of Rs.2.55. So, with that I would like to handover the dais back to the operator and I am open to any question and answer from the investors.

#### *Question and Answer Session*

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**Moderator:** Thank you Mr. Parag. We will now begin the question and answer session. If you have any questions, please press \* and 1 on your telephone keypad and wait for your turn to ask the questions. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

The first question comes from Mr. Chintan Sheth from Sameeksha Capital. Kindly go ahead with your question.

**Chintan Sheth:** Good afternoon sir. This is Chintan Sheth from Sameeksha.

**Parag Vyavahare:** From which company you are from?

**Chintan Sheth:** Sameeksha Capital.

**Parag Vyavahare:** Sameeksha Capital, okay fine. Please go ahead.

**Chintan Sheth:** Thanks for the opportunity. Sir, one question on the gross margin, this quarter we have seen a sharp improvement. Usually our trend is more broadly 30% on an average. This quarter we saw that improving to 33%. Is it sustainable and what are the reasons for that? That is one.

**Parag Vyavahare:** Yes, yes. And what is the second question?

**Chintan Sheth:** Second question is on the tax rate for this fiscal, for three quarters together we are seeing sharp increase in effective tax rate, from 36 to 47 around. So, that is the two book keeping questions and followed by some numbers on the value, volume growth registered during the quarter and nine months. And what are your organic, inorganic plans for expansion with the existing or new acquisitions, if any?

**Parag Vyavahare:** Understood. Coming to the value addition, as I mentioned to you, the quarter we had, one reason obviously is the better performance of the quarter has been the sales growth which has come back. So, that has helped us. That is specifically on the one side. But, also in the quarter as the raw material price situation was much favorable and also to some extent, some of the raw materials we did have some benefit of the prices coming down and as there is some amount of lead and lag between the passing on of the raw material cost increases, it also helped us visa versa for the raw material price decreases. So, that did help us in this quarter and that helped us with expanding the volumes. But, will that be a continuing feature? The answer I will say will be no, because in this industry you can't just keep on retaining the extra margins which you earn just like that thing, because this industry is very competitive and your understanding with the customers are that generally all the raw material price increase or decrease will pass on to them. So, you will have to pass on the increase, decrease with maybe some lead or lag effect. So, this time the lead was in our favor, so that has helped us. That is what I will say. Now, coming to your second question was, I think it was on what are the plans going forward, the plans going forward. So, the second question of the plans going forward, yes, we are looking optimistically at the growth coming back and settling down. And with that we are looking at investments. But, it is slightly premature. But, we expect that the next year we should be able to at least invest 100 crores plus for the CAPEX, for the expansion at various....

**Moderator:** Thank you sir. We have the next question coming from Mr. Udit Bokaria from Catamaran Capital. Kindly go ahead with your question.

**Udit Bokaria:** Sir, my first question was, I just wanted to understand like when you mentioned that from the next year onwards you are going to do 100 crores of CAPEX. But, I wanted to understand like, will you be adding more higher value products

or is there chances of the mix improving that you are seeing in the industry or your mix would be similar? And the next question was again on the tax rate. I think this year we have been trending on a tax rate of around 45%. And if I look at two years back, that was 33%. So, what is the reason for that? And what would be the normalized tax rate going forward?

**Parag Vyavahare:** Understood, sure. I will answer both the questions.

**Udit Bokaria:** I have one more question.

**Parag Vyavahare:** Yeah, please.

**Udit Bokaria:** Sir, incidentally I had read that your parent, global Huhtamaki had been expanding its facilities in Africa. And we have an exposure of our sales contributing like 20% to 25% to Africa. So, what is the long term plan of African sales for the Indian entity?

**Parag Vyavahare:** Okay, fine. I will answer that question. So, coming to firstly your question on the expansion plans, the expansion plans will involve, one is of course typically the maintenance CAPEX which one every organization incurs to renew its productive facility. Second will be the horizontal expansion, which is basically that as the growth is coming back, we need to invest for the growth. And there will be also a certain proportion of the investment which will be done to service the value added products. So, all three will be there. Now, does that mean that our ratio of the value added products would change dramatically? I don't think it will not change dramatically. It will be basically, it will keep the ratios almost at the similar levels what today we have been generally hitting through our last programs. So, that will not change dramatically. Coming to the second question on the tax rate, yes, the tax rate till last year we were enjoying tax exemption in two of the units which is in Rudrapur and in Parwanoo units, which were enjoying the tax holiday, so that tax holiday benefit has gone off. So, that is hitting us. Plus, there are certain contentious issues which are there in our particular tax situations what we are facing. So, because of which we have taken a bit of a conservative view and we are providing for the taxation on that thing, because the situation could go adverse. That is what we have been advised. Now, considering all these things we expect that this situation could continue roughly at least till 2020, at least the early part of 2020 this could continue. And thereafter we will have more clarity on this thing. Coming to your last question, which was on the Huhtamaki group trying to expand in Africa. Huhtamaki group is trying to set up a facility in Egypt. They have announced the plans to set up a factory in Egypt. This facility has been set up, because Egypt market is reasonably big and there are certain road challenges wherein one finds it at times difficult because of the challenges in Egypt. It is better to service it out of the local manufacturing facilities than trying to export. But, how does that affect us? No, it doesn't really affect us, because certain product category what we are servicing that we will continue to service and the growth in the Africa will also come to us, because they are coming in Egypt. Egypt if you see is more of the North Africa region, whereas we are servicing to the whole of the African continent, right from your Middle East down to the South Africa, Angola and Nigeria, Ghana, Ivory Coast, Kenya, Angola and all those countries. So, that really doesn't worry us, so not that the particular market will completely move out, because today also for instance some of the customers are there in the Middle East, where we are servicing them, though the Huhtamaki has a facility there.

**Udit Bokaria:** Just a follow up question on this. You mentioned that India is back on growth again. So, can you mention last month what was the year on year growth for the Indian entity? And how has been the situation in Africa? Is your year on year growth improving there? and when I look at the next three to five years, the incremental growth that will be coming in Africa, how much do you expect to be serviced by the Indian entity and how much do you think will be taken up by the African entity? Just wanted to understand whether your African business will keep on growing or will it remain or it may just grow at low single digit rate and most of the growth will be served by the global company. That is my concern.

**Parag Vyavahare:** No, coming to that, I will not answer the first question specifically what was my sales in X month and Y month and (not clear), that is not fair because I have to only talk of the numbers in terms of the published numbers. The quarter numbers are there in front of you. So, compared to the previous year same quarter, as I mentioned we are down by 2½%, because last year we did not have any negative effects, but currently if you see the beginning portion of July and the whole of July and August had impact of the slowdown effect coming, because of the GST implementation, where the whole industry and trade was going very slow. So, considering that only when I look at the 2½% negative, we are fairly okay with that thing, because when I compare myself to the Q2 of 2017, which was the previous quarter where there was also a bit of negative effect coming from partially because of the demonetization and mainly because of the GST, despite that we have come to around of 7%. So, that gives us the feeling that, the growth should be there. Maybe there maybe few quarters maybe slightly plus and slightly maybe loss this thing. But, if I look at the next four to five quarters, we should see a reasonably good growth and that is what our feeling tells us. Of course the proof of the pudding will lie in as the things really pan out going forward. Coming to our exports if you see, our exports have been constituting roughly around 24% to 25% of the sales and that is what continues. Now, having said that thing one needs to be bear in mind, the Africa continent is a continent of the growth. It will offer growth in the long term. But, in the short run, there are challenges which are coming because of the oil price and commodity prices having gone down, those countries which were primarily export dependent, they were export oriented to the extent of these natural products exporting and getting foreign currency and the economy was highly dependent on that thing, since that source of revenue for them has substantially gone down, from oil having gone down from 100 level to 48-50, 55 dollars level, the earning of those countries have got eroded. And that is what is putting right now a negative break on the sales growth in that area, because you are facing problems with the currency availability, geopolitical disturbances etc. Do you expect the problem to go off let's say in five or six months or seven months? We don't have a very clear cut answer, because right now what we are seeing is that the oil has gradually inched up from the 50 dollars to the 60 dollars level and there are talks that it may even go to 70 dollars. As oil will appreciate, maybe some of the problems of these countries will get alleviated and some of the normalcy may start getting restored and that should help us. And the fact is that the plant, the Egypt plant probably will go into operation somewhere by the end of 2018 and beginning of 2019. That is the time when it should be in production. By that time, the economy has got to grow. So, I don't think that overnight suddenly, it is not that our whole sales, they will take away or something like that. I don't think we are worried on that thing, because we have been operating very well with the Huhtamaki on this principle of this cooperative competition. And that is working reasonably well I will say.

- Udit Bokaria:** Thanks a lot sir.
- Moderator:** Thank you sir. We have the follow up question coming from Mr. Chintan Sheth from Sameeksha Capital. Kindly go ahead with your question.
- Chintan Sheth:** Thanks for the follow up sir. Sir, can you throw some...
- Parag Vyavahare:** Chintan, can you talk slightly loudly? Your voice is very, very soft.
- Chintan Sheth:** Okay sir. Is it okay?
- Parag Vyavahare:** Yeah, now it is okay.
- Chintan Sheth:** So, I just wanted to understand what would be the volume growth for this quarter?
- Parag Vyavahare:** Volume growth is almost in line with the value growth, almost maybe half percent or almost in sync with that, almost.
- Chintan Sheth:** Any granular picture about how Indian operations have grown in volume terms compared to exports or is it broadly okay with the sales growth you have reported?
- Parag Vyavahare:** Largely if I compare the growth in the exports and domestic market of Q3 versus Q2, it is almost similar, almost similar and not a very huge difference. Marginal difference is there. Then compared to the previous year, the decrease also is range bound I will say.
- Chintan Sheth:** Then what will be the utilization level, it will be 70 odd percent?
- Parag Vyavahare:** Today we will be somewhere between 80% to 85% level capacity utilization level we will be operating at.
- Chintan Sheth:** Right now. And what it would have been in Q3? It will be lower than that or 80% to 85%?
- Parag Vyavahare:** As I mentioned, it is somewhere between 80% to 85%. Probably last year in Q3, we were more towards the 85% level I will say.
- Chintan Sheth:** Okay, which is now 80% to 85% range?
- Parag Vyavahare:** Yeah, 80% to 85% range, because in our industry the capacity utilization at times is bit misnomer, so it becomes very difficult to give a very precise number.
- Chintan Sheth:** And how the transition of your clients on the GST aspect has been? Whether they are fully compliant? And now the sales or their sales are now coming back to them and that in turn is driving our expectations?

**Parag Vyavahare:** It is very difficult for us to say whether our client sales are compliant with GST or something. We are dealing maximum with the class-A corporate customers who are organized manufacturers. So, generally our dealings with them are there through the proper billing methodologies and we haven't experienced any negative effect as such. So, generally we have seen that the clients have been, of course everybody had a bit of a challenge in terms of trying to adjust because of some of the nuances related to GST, some of them not being clear or many clarifications keep on coming or the GST side not being ready and then the destocking which occurred in the trade, which is primarily in the retail and the wholesale trade where the destocking occurred, that affected our customers and that had a cascading impact back on us. As the trade and industry and retails confidence is coming back and as they have started restocking and all the orders have started flowing back to the FMCG manufacturer, the orders have started flowing back to us and that is where we have been able to see a pick up.

**Chintan Sheth:** Correct, okay. Okay sir, I will join the queue.

**Parag Vyavahare:** Thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Bharath Bhagnani from Tasha Invesco. Kindly go ahead with your question sir.

**Bharath Bhagnani:** Good afternoon sir. I just have a couple of questions. Did you mention that you are going to do a 100 crores CAPEX next year? So, what is basically giving the company the kind of confidence and do you actually see demand looking up and why you want to go for this?

**Parag Vyavahare:** We haven't expanded very substantially in the last two years. We have been expanding in a very calibrated and in a very controlled fashion, because we haven't done the acquisition of Positive Packaging. We went slightly slow on this thing. Now, our capacities are almost fully utilized. And if we have to capture the next wave of growth, which will come through and which we see should happen in the next fifteen to eighteen months that the growth will come back, if we have to capture that growth, we need to have capacity. And that is why and plus the market also demands certain value added products or different kind of capability. We need to get ready for that thing.

**Bharath Bhagnani:** Sir, apart from the GST restocking which was possibly the case for higher sales, incrementally it is from quarter to quarter. How is the demand that you saw in the last quarter?

**Parag Vyavahare:** That is what we have seen; we feel that the demand has been coming back. It has started coming back towards normalcy. But, of course one will have to wait and watch. It is one quarter is better or maybe two months' (not clear) slightly shorter period of time when it will come to the full fledged conclusion. One will have to wait for maybe another quarter or so.

**Bharath Bhagnani:** Why I am saying is that Mr. Moision in a public interview in one of the newspapers...

**Parag Vyavahare:** Who? Who?

**Bharath Bhagnani:** Mr. Jukka Moisio, he had said in one of the public interviews that September we were not able to meet as much demand as we could. We could not basically supply to the demand possible.

**Parag Vyavahare:** That is right. That is right. So, maybe you are referring to that. But, one will have to see obviously the growth definitely is coming back to normalcy, definitely it is coming back. But, one will have to do a bit of a wait and watch in terms of how does this overall, how does the things really pan out and how does the economy bounce back from this. That is what is my point.

**Bharath Bhagnani:** Sir, one final thing. Have we taken any decisions with regards to expansion of the carton box packaging?

**Parag Vyavahare:** Nothing specific at this point of time.

**Bharath Bhagnani:** Okay. Thank you sir.

**Parag Vyavahare:** Right. Thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Ankit Ghor from Systematics. Kindly go ahead with your question.

**Ankit Ghor:** Thank you sir. Sir, one question with regards to capacity utilization, when we speak of 80% utilization levels, does it include the Guwahati plant newly opened? And if we separate that one, then what was the capacity utilization at Guwahati plant?

**Parag Vyavahare:** Guwahati utilization right now is lower, because as I had mentioned earlier that the factory is going in a phased manner into the production. And we are about in the phase of completing a large phase of this project by the end of the Q4 2017. So, we will see a reasonable jump in the capacity utilization maybe coming from the Q1 2018. That we do have factored in. But, we see that there will be growth need also in other factories and that is where we feel that there is a need for the CAPEX.

**Ankit Ghor:** Okay. So, when we speak of new CAPEX, which is 100 crores, which is going to be done at Guwahati plant or some setting up a new plant?

**Parag Vyavahare:** No, not at Guwahati. It will be at other plants. It will be at other plants. Guwahati spending maybe a small portion is still pending to be spent, so that will also get spent out of that 100 crores, yes, you are right, because the whole of the spending we have not finished, because the project as I had mentioned we are undertaking it in a phased manner. And so certain spending has occurred and maybe another 8 crores to 10 crores of spending is yet to happen, which will occur in 2018. But, remaining spending will occur in other factories.

**Ankit Ghor:** So, that will be Brownfield, if I understand right.

**Parag Vyavahare:** That is right. It will be more of Brownfield.



**Ankit Ghor:** Okay. And some sense on Webtech's demand, Webtech's volume there. Sir, I do not want any number there for sure, but any sense there how much was the pharma thing doing for us and that will help us to understand the trend.

**Parag Vyavahare:** If you compare with the Q3 2016 versus Q3 2017, there a bit of reduction is there. But, compared to the Q2 2017, Q3 2017 there has been a growth has been there. And we are happy with that thing. We are reasonably happy with what growth we have been able to obtain. I would not like to talk more than that thing.

**Ankit Ghor:** Okay. And sir, when we say demand slowdown, similar as I know probably PPL and HPPL both have suffered, but how PPL is expected to do in light of increasing crude prices as you hinted? But, it is purely related to crude prices going up and all purchasing power in those regions will increase and demand eventually will increase. Is that the only rationale to bring life in PPL? What is the internal driver there?

**Parag Vyavahare:** No, no. First of all we don't look at PPL and HPPL separately. It is now one entity and enterprise for us. So, we don't look at those two of them as separately. So, what we are trying to say is that we are looking, we know for sure that the exports market, the uncertainty and some of the demand de-growth challenges what we have been facing, they will not disappear. Just because the oil goes from 50 to 60, those challenges will not disappear, because the pain which those economies have suffered will take some time. But, some amount of stability will also start returning to them with that thing. That is what we are seeing. And that should help those markets to stabilize. Whereas what we are seeing is that the domestic market also we had seen because of demonetization and the GST issues, the growth was just not there and the economy also was not doing well. The rains were not that great etc. Those things having slightly left behind and many of the subsidiary measures having been taken, the economy should start growing back that is what is our expectation and that is where we get the feeling that our capacities are now almost are running to the full utilization level, excluding the Guwahati. So, hence we need capacities in these areas, because the market is expanding and it will continue to expand.

**Ankit Ghor:** Okay. And sir, the last question for the time being is, from do we run any tax disputes there, because you said we are categorically providing higher tax and that will continue till 2020? Any tax disputes going on.....?

**Parag Vyavahare:** No, there are no tax disputes. There are certain specific tax views which have been taken based on certain contentious position and that is why we are forming that particular, taking that position.

**Ankit Ghor:** If you can stress a little more on what are those contentious...

**Parag Vyavahare:** I won't be able to elaborate more than that thing Ankit.

**Ankit Ghor:** Okay sir. No worries. Thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Vipul Shah from Sumangal Investment. Kindly go ahead with your question.

**Vipul Shah:** Hi sir, regarding carrying this tax queries further, if I have heard you correctly, around 45% tax will be there till the first quarter of 2019-2020?

**Parag Vyavahare:** At least till the first, second quarter it should be there. At least till the first two quarters.

**Vipul Shah:** First two quarters of 2019-2020.

**Parag Vyavahare:** Not 2019-2020, 2020.

**Vipul Shah:** Okay. But, still it is two and a half years more we will be living with this type of tax rate, right?

**Parag Vyavahare:** Yes, yes.

**Vipul Shah:** And sir, I could not get your volume growth figure right, so if you can repeat it? What is the volume growth, no, please let me complete.

**Parag Vyavahare:** Sure, sure.

**Vipul Shah:** What is the volume growth quarter over quarter and what is the volume growth year over year, if you can give me these figures?

**Parag Vyavahare:** No, I said the volume growth is in sync with the value, value behavior.....

**Vipul Shah:** Is this quarter to quarter or year to year?

**Parag Vyavahare:** Both, both cases.

**Vipul Shah:** Both, in both the cases it is roughly same.

**Parag Vyavahare:** Yes, roughly same.

**Vipul Shah:** Okay, thank you sir.

**Parag Vyavahare:** Thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Prashanth Kutti from Sundaram Mutual Fund. Kindly go ahead with your question sir.

**Prashanth Kutti:** Thank you for the opportunity sir. First of all, just a clarification.

**Parag Vyavahare:** Mr. Kutti, could you talk a little loudly, your voice is slightly less audible?

**Prashanth Kutti:** Can you hear me now sir?

**Parag Vyavahare:** Yeah, now it is okay.

**Prashanth Kutti:** Yeah. First of all sir, just a clarification. You just said that the volume growth is equal to the value growth. Is there any GST adjustment over here? I am sorry if you gave this number early on and if I missed it. But, is there any GST adjustment?

**Parag Vyavahare:** When I was talking of the sales growth number specifically I gave out, they were after trying to do a comparative evaluation of the excise and GST on the same platform, as what we have reported in our results. We have tried to compare them on the same platforms. So that both we have to consider the excise duty as well as the GST we have excluded from the sales revenue and trying to compress the net revenue and that is where we have reported the sales growth.

**Prashanth Kutti:** And I think you told that number was about 7%, am I right?

**Parag Vyavahare:** That is right, compared to the (inaudible).

**Prashanth Kutti:** On an adjusted basis it was 7%.

**Parag Vyavahare:** That is right.

**Prashanth Kutti:** Okay. And you said the domestic and the export market growth is also similar?

**Parag Vyavahare:** Very similar, very similar, marginal difference I will say, that is what I will say.

**Prashanth Kutti:** Okay. Sir, the first question actually sir is in terms of the margin profile. Now, obviously we have seen the overall gross margins also improving and also the EBITDA margins have improved, whereas if you look at the EBITDA margin structure for the last almost five to six quarters, it was in the 10% kind of a mark. We have actually moved up ahead of that actually. So, one is that I wanted to ask you, how much is it purely being driven by commodity benefits and how much is it purely driven by your mix related benefits, one is in the gross margin front is what I wanted to understand? Because, incrementally if I look at it, again the oil has started again moving up and that should turn negative for you, let's say maybe not the immediate quarter, but maybe the quarter after that. So, I just wanted to understand how much of these margins can be sustained actually?

**Parag Vyavahare:** That becomes very futuristic question, very difficult to answer. But what one can make it out from the published results, roughly we have been able to get an advantage of roughly around 1% to 1½% raw material cost has been lowered in this quarter, which is what is reflected in our value add or our gross profit. And that is what has been there. And so the raw material cost, overall has been low to the extent of around 4% to 5% on a cost to cost basis, so which affected our sales base has translated to roughly around 1% to 1½%. So, that benefit has come in this quarter. Now, obviously as I mentioned earlier that we have in our industry an understanding with the customers that any cost increases will be passed on to them and cost decrease we will have to pass on. And that pass on typically takes anywhere between one month to six months period of time. So, this is what happens, so you can't retain. If you get hit by the cost increase, you don't retain it with you permanently. And if you also get a benefit because of the cost reduction, you do not retain it permanently.

**Prashanth Kutti:** Yeah, that is right. So, here when you are saying that, probably are we trying to say that we have gained this benefit which will actually be passed away or is it net of these gains you are referring to?

**Parag Vyavahare:** No, no, some of the gains will have to be passed on. They will have to be passed on going forward.

**Prashanth Kutti:** Okay, some of the gains will have to be passed on. But, here doesn't it happen that again since the crude has again started moving up, so there are adjustments.

**Parag Vyavahare:** So, now what will happen is there are too many divergent factors will start playing. How does that increase will come? When does that increase will be coming? When do you pass on the decrease? When are you eligible to get that increase? So, it starts making very (not clear) messages. It becomes very difficult to exactly say, in this month this happens and in this month this happens.

**Prashanth Kutti:** Right. So, second question on the other expenses side of it, again the other expenses if you look at it for the last almost five, six quarters have been managed really well. I am assuming there would probably be a bit of a leverage which would be playing in our favor or is it that there is probably some leverage benefits still yet to play out for us? Because, the other expense line item is being managed pretty well. We have not seen 1% to 2% growth rate in the last six quarters actually. So, just wanted to understand that part sir, how much can that help us incrementally at a time when probably crude moves up or something of that sort?

**Parag Vyavahare:** There will be some amount of the leverage possible there, because what happens, because that line will be comprised by some of the costs which are fixed cost and some are variable. So, as the turnover goes up or goes down, the variable cost tends to vary. Fixed costs don't change. Fixed cost typically change based on their different drivers for the fixed cost will be different, where it could be capacity, it could be a particular specific utility spike or some other driver or at times a new facility which you put up or the number of employees that you hire etc. Those will be various drivers or the volume of operation at which you start operating, it demands certain jump in the fixed cost as you know. So, that factor does play. So, what happened over the last couple of years, slightly the sales growth has (not clear) as you have seen. So, in light of that thing, we have been trying to control those costs and we have been able to produce things. But, going forward I feel, I believe that as the sales growth will come, there will be some growth there, but our endeavor would be to continue the increase there at lower than the sales growth.

**Prashanth Kutti:** So, as of now till now it has been more of cost savings, incrementally it will be completely operating leverage driven, that is what you are trying to say. Is that the right assessment?

**Parag Vyavahare:** That is right. That is right.

**Prashanth Kutti:** And sir, just one last from my end, if you look at it, you said 7% is the rate of sales growth that we have reported in this particular quarter. What as an assessment would be a more sustainable rate of growth that we are looking at?

Because, obviously India would only improve as the quarters go by and technically if you look at it, obviously we have, everybody would be having a very favorable base when it comes to the next quarter and things like that. So, just wanted to understand incrementally how are we, what should be a more sustainable level of growth as far as sales is concerned, both domestic and exports markets?

**Parag Vyavahare:** As a policy, I am not supposed to give the guidance.

**Prashanth Kutti:** No, I am not referring to that you give me a futuristic answer. What I am just referring to you is that, is 7% kind of a comfortable level of growth that we are looking? What I am trying to understand is that what are the kind of scope of improvement from here on is what I am trying to understand.

**Parag Vyavahare:** We feel that the way the economy is changing and the way the demographics are changing and the way the more and more urbanization and nuclear families are driving and the need for the packaged products are growing etc. And also in that thing more unit consumption products, ready to eat, ready to drink products etc. or ready to go products are increasing. The growth will be there and hence we see that in the medium term to long term a reasonable double digit growth should be possible in the consumer products industry. And that should translate backward into the growth for the packaging sector.

**Prashanth Kutti:** Okay. And one last one from my end sir, while I understand obviously there is a very long history over here, but per se at a level in the domestic market, is there scope for new customer addition over here if you look at it?

**Parag Vyavahare:** Yes, you can. Yes, you can.

**Prashanth Kutti:** How would the phase have been, let's say in the last, obviously barring the demonetization and the GST quarter, as such how has been the pace of new companies.....?

**Parag Vyavahare:** Now companies we keep on adding. There could be two classes of or rather I will say three classes of new customers. One, you can horizontally expand and try to service certain large customers, which for some reason you may not be servicing etc. There could be new class of customers we could add to the basket, because who have come newly into the trade or which have crossed certain barrier, after which you will find them feasible. And sometimes also there are third class of customers where basically they were earlier not; they were not amenable to your kind of product category servicing. But, with the development and they trying to looking at changing the business profile, a need arises for our kind of packaging material and we could start servicing those product lines with our best packaging lines or our packaging product offerings. And that is where the business growth comes from these three segments I will say.

**Prashanth Kutti:** Right, I understood. The only reason I asked is that sir, when I was referring to more so about new products, new customer addition, I was mostly referring to, let's say for example, you have an existing customer and probably he gives you probably some more new contracts, maybe of his new products or something of that sort and typically if you look at it, since all of these (not sure) are passed at this point of time, be it demon or GST, lot of the FMCG companies are talking about focusing

back on new products and investing in new products and lot of innovation and things like that. So, I was more referring from that perspective. Do you think that (not clear) could accelerate for us?

**Parag Vyavahare:** Right now what is happening is, right now all of them have been sitting on low growth, everybody is sitting on low growth. So, from that now they are start going to accelerate. Now, the acceleration will occur both on their existing products as well as on the new products. Now, some of these will work and some of these may not work. So, one will have to remain balanced on both sides.

**Prashanth Kutti:** No, I am asking are we seeing that thing happening, the newer products, enquiring on.....

**Parag Vyavahare:** It is a gradual process. It is a gradual process. You certainly don't see suddenly a spurge or something like that. But yes, what new customer additions which we have been able to do etc. or some of the new products that we have been able to do, that gives you confidence that there is a continuous infusion and people are trying to bring different, different products, which earlier were not available in the packaged format, clear cut. The people have not stopped, the innovation or new product launches have not become completely zero.

**Prashanth Kutti:** Okay. Sure sir, thank you very much and all the best to you sir.

**Parag Vyavahare:** Thank you.

**Moderator:** Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad and participants are requested to ask only one question in the initial round and may join the queue for more questions.

Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad and you are requested to ask only one question in the initial round and may join the queue for more questions.

We have the next question coming from Mr. Arjun Sagar from Reliance Mutual Fund. Kindly go ahead with your question sir.

**Arjun Sagar:** Arjun Sagar here. Good evening sir.

**Parag Vyavahare:** Good evening.

**Arjun Sagar:** Sir, earlier on the call you had spoken about volume growth, just wanted to clarify those numbers. You were saying 7% growth quarter on quarter, right?

**Parag Vyavahare:** Yes, from the previous quarter, so that is from the June 2017 to this quarter there is a 7% growth.

**Arjun Sagar:** Okay. And 2% decline versus the same quarter last year, correct?

**Parag Vyavahare:** Compared to the previous year, same quarter, that is compared to the June 2016 quarter, there has been a de-growth, yes.

**Arjun Sagar:** Sure, sure, September 2016 you mean?

**Parag Vyavahare:** That is right, September 2016 I was talking about.

**Arjun Sagar:** And the raw material price decline of 4% to 5% is versus the previous quarter, right, Q2?

**Parag Vyavahare:** Sorry, I didn't get your last question. Could you please come again please? Slightly your voice was tearing.

**Arjun Sagar:** Yeah, I will be a little bit more clear. When you were discussing the margin benefit of 1%-1½%, you were saying that it was because of 4% to 5% decrease in the raw material cost. This is quarter on quarter, right?

**Parag Vyavahare:** I was saying quarter on quarter. That was compared to the basically to the previous quarter.

**Arjun Sagar:** Got it. And this decline has been because of a weak market or because of the underlying raw material prices which helps?

**Parag Vyavahare:** No, it has been, some of the raw material price has really went soft in this quarter, because what happened, the GST and demonetization had taken away the sheen of the various market right from Q1 and that continues. People thought that the demon will go off at least by the second quarter, but which did not and added to that the GST came in. And some of the industry there were some short term surpluses were there. So, that led to a cascading effect and whereby the raw material prices have declined in the first half of the Q3 and that really helped us.

**Arjun Sagar:** Got it sir. Thank you. Thank you very much and best of luck.

**Moderator:** Thank you sir. We have the next question coming from Mr. Ankit Ghor from Systematics. Kindly go ahead with your question.

**Ankit Ghor:** Sir, my question is with regards to the debt. If you can give me the total, what is the term loan and what is the working capital that is on nine months? And any repayment plan, what are our repayment plans as of now?

**Parag Vyavahare:** Just one second. Roughly if you see we are having right now the working capital borrowings are zero. Working loan is zero and total borrowings are to the tune of (not clear) 417 crores.

**Ankit Ghor:** Okay. And what are the repayment plans there sir?

**Parag Vyavahare:** Repayment plan is out of the 417 crores, 385 crores is the debt due from the parent company which is the non convertible debenture, which is due for repayment in January 2020. And remaining is your 15 plus 17, 32 crores that will get repaid, some of that will get repaid by; roughly around 20 crores will get repaid by June

2018. And the remaining is basically the sales tax deferred interest free loan, which will get repaid over the next four years.

**Ankit Ghor:** Okay. Sir, any probability of this 385 crores, which was funded by parent, you can keep on the payment and everything.

**Parag Vyavahare:** We can. We have an option, but we are evaluating the various options and hence right now we have not exercised that option.

**Ankit Ghor:** Okay sir, thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Chintan Sheth from Sameeksha Capital. Kindly go ahead with your question.

**Chintan Sheth:** Thanks sir for the follow up. Sir, you said about the CAPEX of 100 crores and underutilized capacity of around 15%, so if I look at the growth side that historically our asset turn is around two times of our gross block. So, which gives us from 100 crores CAPEX, we can at most generate 200 crores of revenue plus the underutilized capacity of 15% can give us a buffer of another 150 crores-200 crores. So, going forward with the CAPEX plan under the utilized capacity, we can grow our revenue from 2001 crores base to at most 2500 crores that is a very short to medium term kind of trajectory we can get from the gross block in the CAPEX. So, what is your sense of any big bang CAPEX or acquisition which will further drive our revenue potential from 2500 crores to say, beyond 5000 crores? What is your long term plan, in the sense where you want to be in say, five years, ten years down the line?

**Parag Vyavahare:** No, right now I don't want to, we don't want to make any such long term statements. Very specifically we typically incur a CAPEX, our CAPEX cycle is virtually every year CAPEX cycle, because every one and one and a half years down we require CAPEX, because when we create the capacity typically it is around, at least around 10% to 12% or 15% of the capacity expansion. Maybe now with our size having slightly become bigger, maybe that figure it will move towards 8% to 12%, it will range in that thing. And that typically will get financial innings in the span of anywhere between nine to eighteen months. And that is why I told you; again we will go for the new level of CAPEX.

**Chintan Sheth:** Correct. So, if I can ask on the flip side, at the existing capacity we have, what kind of Brownfield expansion we can do on that existing asset base?

**Parag Vyavahare:** At the existing facilities we do have the buildings and the buildings we do have some area available where we can do a bit of reorganization of the capacities and we can add some additional equipments. Somewhere we may have to construct some additional buildings and we may have to do that thing. Somewhere it could be replacement of the equipments. So, that is how you keep on adding the capacity or adding the capacity.

**Chintan Sheth:** Okay. So, do we have land banks there at existing facilities?

**Parag Vyavahare:** We do have some. We do have some small portion.



**Chintan Sheth:** Small portion, okay sir. Thanks for answering my questions.

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

We have the next question coming from Mr. Udit Bokaria from Catamaran Capital. Kindly go ahead with your question sir.

**Udit Bokaria:** Thanks a lot for taking my question again. Sir, wanted to understand, if I look at your cost items, in other expenses how much is fixed cost and how much is variable cost?

**Parag Vyavahare:** Udit, right?

**Udit Bokaria:** Yeah, Udit.

**Parag Vyavahare:** Udit, I would not like to give out that data, because as you can understand that it is a highly confidential information, highly.

**Udit Bokaria:** Like when we read about the packaging industry, generally the industry tells like that is, as you mentioned it is like 12% to 15% growth industry. So, to sustain that level of growth for your company, it is normal to have like 100 crores CAPEX investments every year. So, I just wanted to hear your thoughts on that. So, will you be doing similar kind of CAPEX? Like, I am guessing it will be, 100 crores CAPEX plan would be a normal thing, but otherwise you won't be able to match the industry growth rate. Because, I am expecting that the internal target should be to grow above industry rate or at industry rate, like what is the internal targets in the company?

**Parag Vyavahare:** Internal target is that minimum we must hit the industry growth rate. Minimum we must have the industry growth rate and that is our internal target. While our objective is very clear that we want to achieve the growth, but the growth has to be profitable and it has to be achieved at a balanced manner, without allowing our debt metrics to, debt service metrics to deteriorate very adversely and that is the clear objective. And you are right, as I mentioned earlier our capacity expansion when we are doing like this, these are typically anywhere between 8% to 10%, 12% capacity expansion we do at a point of time, spread over a year. And these typically get consumed at, fully utilized in the span of let's say another nine to eighteen months. And that is why you have to continuously keep on going for investment till the economy is growing at that reasonably double digit level, anywhere between that 10% to 14% or 10% to 12% of (not clear).

**Udit Bokaria:** Internally what has been the company's strategy to push more high value products, like high value packaging products? Like is the company educating the customers more or is there some kind of, I heard you in your last, I think in your last annual meet you had mentioned that you have added some new strategic team, but how is that team working and what is your initial read?

**Parag Vyavahare:** There are two things. One is that you keep on trying to add new customers, new small or new categories of customers who you were not servicing earlier, so trying to identify, doing market, going in market, researching, finding out etc. and trying to find out the unaddressed state of customers, where you feel that they are

relevant and you are relevant in terms of their product requirement and your product offering could match and hence you can have a working relationship, that is one state of activity which you do. Second state is that you also keep on working on value added products being worked out, so our new product development program which is called as the (not clear), where we keep on developing new products, either it would be an absolutely brand new product which could be to service or pack a new kind of products or it could be an improvement in an existing product whereby it gives a better shelf life or a better quality or a better packaging ability or better speed at which the product could be packed etc., like enhancing the various features in the product, whereby the end product is able to be sold in a much better fashion and gives either economies of scale or certain kind of (not clear) abilities to the customer. So, that also we work on.

**Udit Bokaria:** And if I look at your current revenue mix, like what would you say is it 50% or 75% of your revenues coming from auction type, through auction deals or is it like one on one through customer negotiation?

**Parag Vyavahare:** Auctions will be few and auctions, they are not auctions. There are few places these people do what is known as the e-auctions or RSPs what they do. But, majority of them, but that happens once in the year or once in two years or once in three years. But, thereafter typically most of the time it is negotiation settlements or negotiating the prices, worked out across the table and then month on month the purchase order is issued to you, and if the raw material prices are stable at the same price. And if the raw material prices have changed then the price is reworked within the given parameters, based on certain understanding or certain formula or certain template kind of situation. And based on that thing the prices either goes up or goes down and based on that the (not clear) are listed. So, it is not that continuously going into some auctions and every time you are waiting for it. There are long relationships which are working, so you have that visibility on that business.

**Udit Bokaria:** Thanks a lot sir for answering my questions.

**Moderator:** Thank you sir. There are no further questions. Ladies and gentlemen, this concludes your conference call for today. You may all disconnect your lines now. Thank you and have a pleasant evening.

**Parag Vyavahare:** Thank you very much and thank you ladies and gentlemen for participating in this call.

**Moderator:** Thank you sir.

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**Note:** 1.This document has been edited to improve readability.  
s2. Blanks in this transcript represent inaudible or incomprehensible words.