

Huhtamaki-PPL

1st March, 2018

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Sub: Transcript of Conference Call held on 21st February, 2018

Dear Sir/Madam,

Further to our intimation dated 16th February, 2018 in relation to the conference call on the audited financial results of the Company for the Quarter/Year ended 31st December, 2017, please find enclosed herewith Transcript of the said conference call held on 21st February, 2018 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 : 21st February 2018, 03:30 PM IST

Event Duration : 25 min 42 sec

Presentation Session

Moderator: Ladies and gentlemen, good afternoon. And welcome to the Huhtamaki PPL Limited 4Q CY17 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participants are in the listen only mode. Later there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Jaymin Trivedi of Aditya Birla Money. Thank you and over to you sir.

Jaymin Trivedi: Thanks. Good afternoon everyone. We welcome you to the 4Q CY17 earnings conference call for Huhtamaki PPL Limited. Today from the management we have Mr. Parag Vyavahare, the CFO of the company. To start with the call, we will have a brief update from the management on the results, after which we will open the floor for questions. Over to you sir.

Parag Vyavahare: Thank you Jaymin and thank you Honeyla. Good afternoon ladies and gentlemen. And we welcome you to this Q4 2017 Huhtamaki PPL investors call. The results have been published yesterday by the board. And they have been published on the stock exchange and newspapers and they are there with you. As we would have, the trend of the year was largely set up by the events which shaped up in Q1, Q2. One thing is the demonetization and the GST, so that effect has been there. But, however what you can see very clearly is that our performance in the Q4 has been quite satisfactory and it is almost in line with what we have been able to achieve in Q3. And there has been, in Q3 we have been able to achieve a sales growth of 3% in Q4 if I compare to Q3 2017. And if you compare to the Q4 2016, we have been able to get a sales growth of roughly around 7%, which is a good sign. Because, again one needs to see this in the light of the fact that in Q4 2017, on the 9th and 10th of November, the Government has went and reset the GST rates on many of the FMCG products, close to 200 products they had reduced the rates. And that had effect of the whole production and supply chain cycle of the FMCG industry being affected and had effect. But, we have still been able to weather that thing and the results are there with you.

So, overall I will say it is okay. Overall, as a year we may be a bit down. But, I think still overall considering the fact that some of the external factors which have hit us, we still are I think quite okay. With that I would like to throw the floor open for the questions from the participants.

Question and Answer Session

Moderator: Thank you Mr. Parag. Participants, 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. Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Thank you very much. Parag-bhai, congratulations for an improved margin, particularly in Q4. Sir, I would like to know what type of volume growth we are doing year on year or quarter on quarter, if possible?

Parag Vyavahare: It is slightly difficult, because we are trying to compare too many things. But, what I can say is that, I would like to talk more on year on year I will say. On year on year as you would have seen, there has been roughly around 2½% of sales de-growth. So, the volume de-growth is almost on similar lines I will say.

Sunil Kothari: Sir, overall your view on the packaging industry, we clearly see more products packaged moving from unorganized to organized to branded. Why is this volume growth not happening with us? Generally your broad sense on the trend for the next two or three years, broadly how you think this volume growth can happen?

Parag Vyavahare: One of the key reasons what you can see what happened in the current year was that, as the first two quarters or I will say more of four months or so, we are very deeply affected due to the demonetization effect, which had a result of slowing down the sales in the overall FMCG industry and had a cascading effect on the packaging sector. When we come to the end of the Q2 2017 and the beginning of Q3 2017 and partially in the Q4 2017, especially in the middle of the Q4, we have this situation that due to the GST issues, the FMCG industry and the distribution industry went into some kind of a serious correction mode, wherein they had to reassess their old stock situations etc. And then what I understand is that, in this period they have undertaken a substantial correction, downward correction in their inventories, which obviously had its own effect on the packaging sector, because that is a derived demand. Because, if you see in the quarter, I don't want to talk specific names of the customer, but we have seen even when compared to Q3 to Q4 2017, some of the large players in the FMCG sector, some of them have reported negative sales growth. So, it depends on the kind of product categories which they have been dealing with etc. and the changes in the rate of tax, which has really affected, so that had some negative effect. So, that is what I will say for the 2017. And to that extent what happened, ours is a derived demand, so obviously we are not producing in anticipation, we are producing only when there is a firm order. So, if the customer himself is uncertain, he loses his buy and that obviously has a cascading effect backwards on us. Having said that thing, going forward we feel, this is our understanding based on the various economic forecast that we have been also seeing that these two major effects having being weathered by the economy, economy is reasonably well set for the good growth going over the next couple of years.

Sunil Kothari: And can we see sir, this double digit volume growth possibly by 2018 or 2019 onwards? What is your gut feel looking at the current situation enquiry from your customers and all?

Parag Vyavahare: I won't be able to say exactly whether it is volume or this thing, but I can say there should be good growth in 2018-2019. It is very clear cut this thing, because we are reasonably optimistic and we are working towards with various

measures. And that is why as you will see that we have invested almost Rs.62 crores, Rs.60 crores-Rs.65 crores in 2017 and we plan to invest close to Rs.125 crores in 2018.

Sunil Kothari: Great. And Parag-bhai, broad any category addition of new product or product type up or new customers, any qualitative highlights would you like to throw some light?

Parag Vyavahare: New customer additions have been taking place. We have added in the current year something like hundred plus new customers, small and medium customers etc. Category wise, it is largely I will say the extensions of the current category which has taken. There is not, I will say a very completely new class category or something, but it is largely extension. So, our NPD program continues and it keeps on working on these things.

Sunil Kothari: And sir, my last question is, because of this GST and so many regulatory changes, do you see major shift from your small competitors to you? Your customer is coming back from some unorganized or small players and asking for more volume from you, any sign of this type?

Parag Vyavahare: Slightly early in the day to fully comment on that thing, because the things still have just started stabilizing. It is quite early in the day to comment. But yes, one certainly can say that there would be some amount of shift could occur from let's say your highly unorganized sector to slightly more organized sector. That shift could take place, because those are the sectors which may not be able to cope up with this change, so that is where we could see some change, but that probably we will have to do a bit of a wait and watch. It is slightly early in the day. Because, what we have been able to see is that, the large customers are always fairly organized. They are fairly organized. So, the direct impact on them as such was there, because they also always had their own risk balancing or risk containment practices, so they would have diversified their supply portfolio to that extent.

Sunil Kothari: Thank you very much sir.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. We have the next question from Mr. Vipul Shah, an Individual Investor. Please go ahead.

Vipul Shah: Hi sir. I missed the initial part of the call. So, pardon me if I am repeating anything. So, would you comment on the volume growth? What was the volume growth for this financial year? And can you break it in two parts, in first half and in second half?

Parag Vyavahare: I mentioned that I won't like to go into each quarter by quarter or half years wise, because that is slightly complicated and confusing. But, I commented on the overall year as a whole. Our sales are down by roughly by 2½%. And our volume growth also has seen a negative impact almost to the similar extent.

Vipul Shah: So, volume also, volume growth is negative by 2% to 3%?

Parag Vyavahare: That is right.

Vipul Shah: Okay. And would you like to comment on any raw material, any specific raw material prices which may have affected your bottom line during the year or quarter?

Parag Vyavahare: There was only one adverse impact came from the mid of the 2017 was that the Government of India had imposed an anti-dumping duty on import of foil from China. I think that was one very key initiative factor which really started working from the end of the Q2 2017. That was a negative, because that had jacked up the prices of the aluminum foil substantially, almost close to if I am not mistaken, close to 35%-40%. And the entire industry, we had to go through sort of a readjustment process with the customers and try to resort to the various cost containment / alternate strategies to mitigate the cost impact.

Vipul Shah: You mentioned aluminum foils, if I understand correctly?

Parag Vyavahare: Aluminum foils, aluminum foils.

Vipul Shah: So, what percentage it constitutes of our overall raw material basket?

Parag Vyavahare: Probably it should be less than 10%.

Vipul Shah: Less than 10%, okay. So, by thumb rule your margin may be up by 35-40 basis points due to rise in this product alone sir?

Parag Vyavahare: Sorry, could you repeat that question please?

Vipul Shah: So, what should be the margin impact of increase in foil?

Parag Vyavahare: So, the margin impact we have been able to contain either by seeking the price correction from the customers or by resorting to by procuring it from the alternate sources or trying to change our mix to reduce the cost containment. And we have been able to contain this effect. And that is why despite that thing, we have been able to see that in Q2 and Q3, Q4, our margins have been reasonably robust.

Vipul Shah: And sir, lastly mostly all the FMCG companies have reported reasonable volume growth like Lever, Marico, Godrej. So, why that has not been, why it is not showing to us that volume growth? I am not saying that they have grown very spectacularly, but 5%-7%, but still it is a reasonable volume growth. But, on the contrary we have a negative volume growth. So, are we losing any market share or how should we read it sir?

Parag Vyavahare: According to me, the market share impact whatever you are asking will be very minimalistic. According to me the main issue has been that they have gone on a major destocking of their FG stocks, of all the FMCG industry as well as the trade. And that obviously is having effect and which is a onetime correction which the industry has taken advantage. And generally the inventory lying in the whole trade cycle and the distribution chain cycle has come down, including the FMCG industry. And though they have hit their sales, but the inventory which was sitting with them and the whole system has come down and that is also is having its own effect on us.

Vipul Shah: Okay. And sir lastly, what should be our average capacity utilization during the financial year?

Parag Vyavahare: We would have been close to around 80%, approx. Because as you know, in this industry the capacity utilization at times is a bit misnomerish, but we can say we are close to around 80%, around.

Vipul Shah: Okay. And sir, what should be our free cash flow during this financial year?

Parag Vyavahare: Just one second.

Vipul Shah: Yeah, no problem sir.

Parag Vyavahare: So, you are talking about basically from the operating activities you are talking of, right?

Vipul Shah: Yeah, operating means net profit plus depreciation minus whatever CAPEX you must have done.

Parag Vyavahare: If you take after increase of the working capital increases and after the financing of the CAPEX, then our free cash flow this year would be roughly around 30 crores-35 crores.

Vipul Shah: 30 crores-35 crores. Okay sir, thank you and all the best for the future.

Moderator: Thank you sir. We have the next question from Mr. Arjun Singhal from Reliance Mutual Fund. Please go ahead.

Arjun Singhal: Hello, good evening sir.

Parag Vyavahare: Good evening.

Arjun Singhal: Sir, actually I had missed the first five minutes of your opening remarks. But, could you just please repeat what was the market scenario?

Parag Vyavahare: The market scenario in the year, there was a lot of uncertainty in the domestic market. Because the first half, the first four months or so were deeply affected by the demonetization effect which were continuing, so where the whole cycle had come, had slowed down, so that had effect in the first quarter, largely first quarter and also partially in the second quarter. As we started seeing a bit of tapering off of that effect towards the first half and second half of the Q2, the onset of the GST, the announcement that the GST will be implemented from the 1st July led to a major destocking efforts and the whole effort in terms of reorganizing the pipeline stocks by the FMCG industry and the distribution channel completely. So, the change came I think was slightly too fast for many of these people. People were not ready. And the logical step that the people took was that, okay destock, so the impact on you will be minimum. So, that had effect. And the cycle and then when the GST came, people were still not ready. So, initially few days there was a complete sort of a blackout period

kind of thing you can say, with many people and sales were affected in the initial period. And then the cycle started picking up only towards I will say end July, beginning of August etc. So, that had the effect of the sales going down. Unfortunately what happened is that GST kept on doing some changes every now and then, so that has posed some challenges to the industry? And one key change again they did was in the month of November 2017, they reduced the GST rates of close to 200 FMCG products, so which again had the effect that FMCG industry had to change their packaging material. So, they had to reassess their position. They had to again do some kind of planning on the destocking and they had to redesign their packaging material. And that again led to a bit of a halt in the sales in the Q4 I will say.

Arjun Singhal: Okay. So, given these volatilities seem to be behind us, at least from the policy front and hopefully now the restocking process will start. So, from the next year, do you think we will go back to our old growth rates of 10%?

Parag Vyavahare: I will not put a specific number, but I expect that reasonably good double digit sales growth can be in that.

Arjun Singhal: Okay. And I think in the previous quarter you were saying that we have some benefits from the fall in crude prices, which we would have to pass on in this December quarter. Anything, any comments on that?

Parag Vyavahare: So, some benefits we had to pass on, so which we have passed on. But, still we have been able to contain the overall effect. And that is why the margins have been, we have been able to maintain. Despite the volatilities we have been able to contain. There has been some volatility, because the crude prices have started increasing in the Q4, as you know. Does that answer your question Mr. Arjun?

Moderator: Sir, Mr. Arjun got disconnected sir.

Parag Vyavahare: Okay, fine. I think we should go to the next question.

Moderator: Yeah sir, sure. Sir, we have a question from Mr. Vikas Sharda from NT Asset. Please go ahead.

Vikas Sharda: Hi, good afternoon sir.

Parag Vyavahare: Good afternoon.

Vikas Sharda: One question, what is the CAPEX plan for CY18?

Parag Vyavahare: Roughly 125 crores.

Vikas Sharda: Okay. And what has been the actual number for CY17?

Parag Vyavahare: Around 62 crores.

Vikas Sharda: 62 crores, alright. Perfect. Thank you sir.

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

Naushad Chaudhary: Thanks for the opportunity. Sir, I missed the initial remark, you could have shared this number. How was the volume in your second half of 2017?

Parag Vyavahare: No, I did not offer any comment on the volume growth specifically in the first half or the second half. I said in the overall year there has been a bit of a volume drop of around 2½% to 3% I said.

Naushad Chaudhary: But, majorly was in (audio break).

Parag Vyavahare: Hello? Hello?

Naushad Chaudhary: Sir, the volume growth would have been in second half only. If I consider the de-growth in the first half, then the second half would have seen close to 6% to 7% of volume growth, can I assume that?

Parag Vyavahare: You can make your own assumptions.

Naushad Chaudhary: Between your Huhtamaki, PPL standalone and Webtech and Positive Packaging of FY17.

Parag Vyavahare: Now there is no standalone and there is nothing like that thing. It is one company. The merger has been completed. So, it is only one result.

Naushad Chaudhary: Okay. And on the margin front sir, from this point do you see any further scope for improvement from this level in the next two to three years?

Parag Vyavahare: No, I would not like to make any very specific statement. But, I can say that we would like to maintain our EBITDA margins between, in the long term range or long term pass average of 10% to 12%. We would like to maintain that thing.

Naushad Chaudhary: Okay. And lastly on the CAPEX side sir, you said you would be investing around Rs.125 crores in this 2018. And in the last call you had, if I remember correctly, you had mentioned only Rs.100 crores. So, just I am trying to understand what made you to increase your CAPEX plan in this calendar year?

Parag Vyavahare: We also look at the various projections which have been coming through and the expectations on how the economy is expected to behave and grow and also the fact that we had reduced our CAPEX in 2016 and 2017. So, when I consider that thing, our plan is that we want to spend more in 2018, so that we do have the capacity to meet the increase in the demand.

Naushad Chaudhary: Okay. And how much revenue you would be expecting from this CAPEX of 125 crores?

Parag Vyavahare: That will depend on the timing. That will depend on the timing. So, I would not like to put a very, very this thing, number, because the whole CAPEX is not available to you with production for the first of this thing. But, a rough ballpark figure if you take it on a long term basis, once all this CAPEXs are fully

operational, on a full year basis, it should give you a sales growth of roughly around maximum two times.

Naushad Chaudhary: Two times of 125 crores?

Parag Vyavahare: That is right, maximum I am saying, maximum.

Naushad Chaudhary: Okay. And lastly sir is it possible to share the revenue number of Positive Packaging and Webtech?

Parag Vyavahare: No, no, because we are no more, these are not independent entities. So, these are a part of one entity. So, we would not be sharing any specific, we can't share any specific number of erstwhile entities.

Naushad Chaudhary: Okay, that is it. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Chirag Uderani from Emkay Global. Please go ahead.

Chirag Uderani: Sir, my questions have been answered. It was (not clear).

Parag Vyavahare: Okay, right. Thank you.

Moderator: Thank you sir. We have a follow up question from Mr. Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thanks again. Sir, any numbers on exports, what percentage we have done last year? Because I think last, during more than one year, the trend was very weak or we were not able to grow as we were (not sure), so do you see any....?

Parag Vyavahare: So, the exports we have been able to maintain at roughly around 24½% of the sales, which previously we were also in the same range.

Sunil Kothari: Do you see any major change or opportunity in coming years or you don't find any major change?

Parag Vyavahare: No, there are opportunities on which we are working on. But, as one needs to appreciate the fact that this is an exports market, the time to convert an opportunity into the final sale and the scale up thereafter is very much, much longer. It is very longer. The international customers are very stringent on their process and the specs which one needs to be undertaken, one has to go through that process and especially when you consider the fact that if I am trying to sell to somebody in Europe or let's say in USA or Canada or South America, since these things are sitting so distant, he always has that fear that if there is any breakdown in the supply chain or if I am not able to supply or what I supply has failed. He needs to have this alternate sources and alternate risk mitigation plans in place. So, obviously that makes them go slower. And we also encourage them that go step by step on all these process, because you don't want to, you are trying to catch a customer and in the process you actually end up losing a customer by something goes wrong or some delay occurs, because of some factors beyond your control. So, you want to also go through a very step by step

process. But, that is what you are working on the opportunities, but it is a longer cycle I will say.

Sunil Kothari: Okay sir, great. Thank you very much.

Moderator: Thank you sir and 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 day everyone.

Note:

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