

Transcript

Conference Call of Huhtamaki PPL Limited

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Presentation Session

Moderator: Ladies and gentlemen, good afternoon and welcome to Huhtamaki PPL Limited 1Q CY16 earnings conference call hosted by Aditya Birla Money Limited. As a reminder, all participant lines 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 from Aditya Birla Money. Thank you and over to you sir.

Jaymin Trivedi: Good afternoon everyone. We welcome you the 1Q CY16 earnings concall for the 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 the questions. Over to you sir.

Parag Vyavahare: Thank you Jaymin. Good afternoon ladies and gentlemen. And thanks for being on this call. To quickly summarize the performance, this quarter I think there are three-four highlights which I would like to make. One cannot compare the performance of the Q1 2015 to the Q1 2016, for the primary reason that Positive Packaging which we acquired, we acquired with the effect from 30th January. So, because of that thing the last year performance had only two months of their results, whereas the current year has, the complete three months results are there. So to that extent, consolidated results for the first quarter of last year versus first quarter of current year are not strictly comparable. So, I will restrict my comments more from the Q4 2015 to Q1 2016 performance.

So, if one looks at it, the major highlights are that, the margins have improved in the current quarter, primarily aided by the lower raw material prices and volume growth which we have been able to achieve and also the expenses quantum which we have been able to achieve. So, the overall sales growth has been muted, because of the difficulty in trading conditions on the one side in exports markets and the domestic growth, as we have seen some of the FMCG companies reporting, has been muted on the one side. And the second side, as the raw materials have, the prices have gone down, some of the selling prices also have tended to decrease and that effect also has been there on the sale price. But having said that thing, I will say that overall we are generally happy with the results which we have come out in this quarter. With this, I would like to hand over the mike back to all of you to ask questions. Thank you very much.

Question and Answer Session

Moderator: Thank you Mr. Parag. We will now begin the question and answer session. If you have a question, 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.

Sir, the first question comes from Ms. Sanjai Shah. Please go ahead.

Sanjai Shah: Good afternoon sir. Can you throw some light on the volume growth of the Positive Packaging?

Parag Vyavahare: We are not, because both the business are right now really working in a completely integrated fashion. So, I would not really like to look at the performance of the each individual company separately. It is more, for us what is really important is the consolidated performance. Overall if you see, I will talk of the overall this thing, the overall volume growth in this quarter has been around 5.5%.

Sanjai Shah: Okay. Because, I was going through raw material advantage has come to our advantage. But, I don't see much volume pick up in the Positive Packaging. So, now how do you see the future ahead for Positive Packaging and even contribution from Webtech?

Parag Vyavahare: Contribution from Webtech has improved in the quarter, because if you see, one sees the Q4 2015 wherein we had a minor loss from the Webtech, which has turned into a profit again this quarter. So, that shows that the trend has been good in Webtech. So, Webtech also has been able to see a good turnaround in some of the sales factors and the cost factors and that has aided the profitability. As far as what has happened is that the domestic market has picked up to a small extent in this quarter. So, that has aided. But, obviously the exports market, the trading conditions continue to be difficult, because the large portions of the exports are coming from the Middle East and the African markets, where you are having the conditions, trading conditions are very difficult, because on one side the commodity prices and especially the oil prices which have gone down, have affected the currency availability in those countries. And obviously on one side it is posing challenges for the importers to how do they pay for their imports, but also the overall income levels in those economies have gone down. It definitely has put a limitation on the purchasing power of the economy and obviously their purchasing has gone down. So, that is keeping the exports growth into challenging area, export growth. So I think that, but we have been able to bit balance this overall in the current quarter, that is what I will say.

Sanjai Shah: Sir, how do you see the year ahead and were you able to add any new customer, prominent customers like big ones?

Parag Vyavahare: We generally do not give guidance on going forward as to how the things will be this thing. But, we expect that the market should continue to keep on growing this time, because the rains are expected to be better and with that the FMCG companies are expecting a bit of a turnaround. But, however that will take at least two quarters from now. And till that point of time we will see a bit of subdued growth and that is for sure.

Sanjai Shah: Okay. And sir, how do you huge capacity are coming up in BOPP segment, which you are aware and how do you see in that perspective?

Parag Vyavahare: BOPP if you see, it is the raw material for me, so to that extent it always helps me, for the simple reason if the more capacity comes, the raw material prices will remain in check and I always will have more sources for the supply. So, that is a good situation for us if the capacity is expanded.

Sanjai Shah: Right. Thanks a lot for replying to my questions.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. The next question is from Mr. Pravin Sahay from B & K Securities. Please go ahead.

Pravin Sahay: Congratulations sir for a good set of numbers.

Parag Vyavahare: Pravin, can you talk slightly loudly? Your voice is very faint.

Pravin Sahay: Yeah. So, this time we have gone the consolidated basis, you reported 15% of EBITDA margin. So, would you please give some more sense, as you had already mentioned the raw material prices benefit that is included in this quarter? What exactly like that is purely from the raw material prices or is there some acquisition synergy also contributed to that? And how sustainable this number is?

Parag Vyavahare: The acquisition synergies is definitely a fact of the day and those have been continuously coming as more and more integration is happening and as the two enterprises are working in a more goes tandem. But however, the more overwhelming factor in the current quarter has been that the raw material prices have been quite low compared to the Q4, almost they have been lower on an average basis I can say, somewhere in the region of 8% to 11%, raw material prices have been lower. And that has definitely aided us in this quarter. Now, does that answer your question?

Pravin Sahay: Yes sir. And now we are seeing the raw material prices going up. So, definitely we are not going to see the same kind of margin going ahead I think.

Parag Vyavahare: Those are the typical ups and downs of the business and those are the typical commodity cycle. In the commodity market that volatility will remain. And our skills are basically as to how do we manage that volatility.

Pravin Sahay: And secondly on the follow up question, the first speaker had asked regarding the BOPP capacity coming in, in the domestic market. Will that impact raw material prices as well? You were saying something?

Parag Vyavahare: Right now it is difficult to say at this point of time, because it really depends as to at what point of time that capacity comes on stream and how much of the imbalance, if it all gets created due to the demand and supply situation. So, it really will depend on that thing. But, overall if you see, having more raw material supply options, always helps any customer.

Pravin Sahay: And specific to the quarter, how much is contribution from the export market sir?

Parag Vyavahare: Exports for this present quarter has been roughly at around 23%.

Pravin Sahay: Thank you sir for taking my questions. I will come in the queue if I have more.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, the next question is from Mr. Nikhil Upadyay. Please go ahead.

Nikhil Upadyay: Good afternoon sir and congrats for the good set of numbers. Sir, I was just trying to delve a bit into the numbers. If we remove from.....because if we look at our standalone performance, that has been in line with what we have been performing over the quarter, sequentially as well as yearly. Sir, if I remove that part and see the subsidiary performance, there is a marked improvement in the Positive Packaging and the Webtech business. So, if we can say that Webtech is still a small segment as compared to Positive Packaging. And historically if we look at Positive Packaging, they were actually going down year on year. So, is there a significant improvement which has happened or which has taken place in the Positive Packaging business? And is that sustainable now or was it the situation? So, what steps we have taken in order to improve the operational performance of Positive over the, as compared to the historical numbers?

Parag Vyavahare: As I told you, three-four things will have contributed. Obviously one needs to keep in mind, when a company who is going through the acquisition stage, there is a lot of uncertainty. And hence in 2014-2015 and the beginning of 2015, this company was facing those uncertainties and obviously that had its own effect on the business, because then the management attention then gets diverted from the main business due to the various issues that they had. So, that impact definitely was there. And also if you look at historically the Positive has been having a higher contribution from the exports. And exports markets have been going through some of those difficulties which we have seen, because of the various factors which I explained earlier. So having said that thing that has been contributing some of the challenges on the sales growth. However having said that thing, the current quarter is aided by three-four factors on the operational performance if you ask me. On the raw material related purchase synergies wherever we could exploit, that has aided the performance on one side. Second, on the expenses side also, some of the synergies have come in, because overall the things have started falling into place and some of the cost saving measures has started gradually kicking in etc. etc. And the third of course and the biggest important one I definitely will say is the low raw material scenario which prevailed in the Q1 also has helped in a very large way.

Nikhil Upadyay: But sir, if I look at it on a sequential basis also, I try to see on sequentially how it has been. From June 2015 to March 2016, on a rough cut gross margin has been on an upward trajectory, from 34-38 to almost 40, by my calculations. So, what would be the stable state gross margin which Positive can make? Because, I understand that currently we have been benefited by the raw material cost and also what should be the stable state growth?

Parag Vyavahare: As per our policy, we cannot give guidance on this thing. I am so sorry.

Nikhil Upadyay: No sir, it would be...

Parag Vyavahare: You will have to make your own judgment assumptions on this thing. I will not like to provide any guidance on this thing.

Nikhil Upadyay: Okay. Secondly sir, if we look at it in terms of our capacity, so between Huhtamaki standalone and Positive, we combined have almost eight to ten manufacturing facilities. So, do you see there is a sense of rationalization which we need to do or do you think that this is ample capacity which is being required? And secondly, if you can share what is the utilization rate at which we are currently working on?

Parag Vyavahare: If you see the various manufacturing facilities which are there, they are required. So, we do not see as of now any scope for any rationalization or any merger of those facilities or closure of any facilities. We do not see any scope for this thing as of this point of time. And we are neither contemplating anything as of now. Secondly, on the capacity utilization, one needs to bear in his mind that this industry is a very customer demand oriented and to that extent capacity utilization sometimes can be very misnomer. But having said that thing, overall if you really consider, we can say that we are operating somewhere between 75% to 85% capacity utilization levels, on an average. Because it becomes very difficult, because you could be printing thin material, you could be printing, supplying thick materials, you could be sometimes printing narrow width materials and sometimes you could be printing on the wide width materials. And the businesses are doing different, different products. So, on an average we are trying to say, okay, my capacity utilization is so much; it becomes very, very this thing. But, I will say factories are fairly utilized. But of course, there is some capacity available in certain factories, not everywhere. Certain factories are quite capable of (not clear) in terms of the capacity utilization, so they are operating at reasonably close to their peak. Certain factories do have, I will say, 10%-12% (not clear) available.

Nikhil Upadyay: Then lastly sir, in our annual report of CY15, we had mentioned that the volume growth was 6%, but deflationary environment impacted our sales growth largely. So, how do you see the scenario? Is it like the value growth, so will the value growth still lag volume growth or if you can just give some sense?

Parag Vyavahare: It is very difficult to predict this thing, because for us the value growth is a function of two things. One is the volume growth and second is how does the raw material price behave and based on the raw material prices, how do the sale price behave. Now, the raw material prices and hence their consequent effect on the selling price is something very difficult to predict. We have seen wild or very volatile movements in a very short span of time, like we have seen what happened in the Q4 2015 versus Q1 2016. And again what we are seeing, some of the increases in the raw material costs what we are seeing. So, to that extent it becomes very difficult to project, exactly what kind of situation. But, what we have seen is that, the economy has started bit of a turnaround in terms of some positive signs we are seeing and that is what is reflected in the growth projections which are coming from the various agencies etc. Considering that I think we have a scope for a reasonable growth in the current year I

will say. Maybe, but if the raw material prices remain low, then yes, the sales value growth will be muted.

Nikhil Upadyay: Okay. But, if it remains at this level, then what will be...

Parag Vyavahare: Sorry?

Nikhil Upadyay: If the raw material prices remain in these levels, then we won't be needing further price cuts. So, volume growth should be what our sales growth should be?

Parag Vyavahare: In a way, you can say. In a way, you can say. In a way, I will say.

Nikhil Upadyay: Okay sir. Thanks a lot.

Moderator: Thank you sir. Sir, the next question comes from Mr. Aditya Shah from Vikram Advisory. Please go ahead.

Aditya Shah: I had one question that if I understand correctly that the bidding process or the selling process for NASP products and the regular products is different. So, wanted to ask that whether we have any long term contracts for NASP products?

Parag Vyavahare: No, there are no long term contracts, because in this country if you see, and also interestingly I don't think the customers get into any kind of exclusivity contract etc. and they don't give assurance that for five years (not clear) buy only from you he will say, no. It typically happens based on your technical competence, your ability to service the customer in a satisfactory manner with a quality and a consistent supply and you are supplying the prices at a consistent prices and customer is not having a feeling that the price being just exclusively mine or something. That really (echo).

Aditya Shah: So, is it quarterly or is it monthly?

Parag Vyavahare: Excuse me madam, I think there is an echo in the system.

Moderator: Yes sir, that is from Mr. Aditya Shah's line sir.

Aditya Shah: Hello? Can you hear me?

Parag Vyavahare: Yeah.

Aditya Shah: Is it the quarterly bidding for the normal and the NASP products or is it monthly or on a daily basis?

Parag Vyavahare: No, no, there is nothing like that thing. You develop a product, the customer wants the product and you start supplying to him. And depending on the different customers, whatever the arrangements you have with them, some could be on a monthly price resetting mechanism and some could be on quarterly and some could be six monthly and some could be purely on negotiations. So, there is no fixed

mechanism you can say is there in the place for (not clear). Because, you are selling to the customer regular products and you are selling him NASP products. You cannot have a very substantially different pricing mechanism or the process for the same customer. It will follow the same process whatever we have been following for that customer's regular process.

Aditya Shah: Alright. Sir, the second question is that, if I understand correctly, the previous promoters of Positive Packaging have already presence in Nigeria. So, how are we competing with them in the African markets, since the Positive Packaging that we took over continues I think around 60% to 70% of its sales as exports to African countries, if I am not wrong? So, wanted to understand how do we compete with them within the African markets, since they are more closer to different countries in Africa.

Parag Vyavahare: The Nigeria facility what the sellers were having was there at that point of time and also is there today. And we have not acquired that thing. But, given that fact, that facility is not such a large and not such a high diversified facility, because when you set up a facility in a country like Nigeria, it is largely to cater to the domestic markets. And we also do have some kind of protective clauses in the agreements that we have entered into, which gives us certain privileges to service the seller. So, it is not that they are able to very, they cannot, it is not that they can very freely compete everywhere in the market.

Aditya Shah: Okay. And sir, lastly how much percentage of exports is from Positive Packaging?

Parag Vyavahare: Just one second. Around 25%-26% of their exports, of the sales is from the exports.

Aditya Shah: Alright, okay. Thank you sir.

Moderator: Thank you sir. The next question is from Mr. Rahul from Systematix Shares. Please go ahead.

Rahul: Hi sir, my question has been answered. So, thank you.

Parag Vyavahare: Okay, thanks.

Moderator: Hello sir.

Parag Vyavahare: Yes madam.

Moderator: Rahul sir?

Parag Vyavahare: He has finished his question.

Moderator: Okay, alright. Thank you. The next question comes from Mr. Abdul Karim from HDFC Securities. Please go ahead.

Abdul Karim: Congrats for the best set of numbers and thanks for taking my question. Just I wanted to know revenue contribution from top ten customers and please put some color regarding the long term contract with top ten customers?

Parag Vyavahare: Top ten customers roughly will contribute around 60% to 65% of the turnover overall. And with none of the customers we have any long term contracts. This business does not operate on any long term contract. There are no fixed, there are no volume commitments, there is no value commitments. You have relationship with the customers and based on your established track record, you keep on working with the customers.

Abdul Karim: Okay. Could you throw some color regarding the pricing pressure, because any number of unorganized players are playing in this sector?

Parag Vyavahare: Pricing pressure are there and they will continue. We have seen they have been there for the last fifteen-sixteen years. So, it is not something new. So, one learns to live with them. So, those competitive factors are there. The industry is fragmented and we know that thing. And there is lot of intense competition. So, that fact remains. So, you have to learn to work with that thing.

Abdul Karim: Okay. And any CAPEX guidance for CY16?

Parag Vyavahare: CY16 will be, we will do CAPEX, but it will be slightly muted. It may not be very large one. Maybe we will try to spend not more than 65 crores to 70 crores.

Abdul Karim: And any update regarding the land sales?

Parag Vyavahare: No, there is nothing. There are no such any plans on any land sales.

Abdul Karim: Okay. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Hi sir. Congratulations for a good set of numbers.

Parag Vyavahare: Thank you.

Vipul Shah: Sir, you have said that volume growth is 5.5% I think.

Parag Vyavahare: I said around 5%. 5% I said.

Vipul Shah: Yeah, but that is sequential or that is year on year?

Parag Vyavahare: No, it is sequential.

Vipul Shah: It is sequential.

Parag Vyavahare: Sequential. Because, year on year we can't compare, because as I explained at the beginning, last year we didn't have the one month's performance of Positive. It becomes too technical and hence I have concentrated more on the sequential.

Vipul Shah: And sir, any contribution from any new product launches or any acquisition of new customers in this quarter, which may have helped this margin expansion? Because, if I remember correctly, last time you had guided for margins of around 10% to 11% or something like that band, if I remember correct?

Parag Vyavahare: I will not say that that it is a guidance.

Vipul Shah: No, no, you said that that will be the long term sustainable.....

Parag Vyavahare: Objective. These are objective to maintain the EBITDA margin in that range. And that is what our objective will be.

Vipul Shah: So, this quarter we have shot up 15%, upwards of 15%. So, any new product launches have played any role or only it is three-four factors which you highlighted?

Parag Vyavahare: The new products or new customers also will contribute, but their contribution cannot be such an excessively in one quarter, that one needs to bear in mind. That definitely gives boost, but the major boost in the quarter on quarter as I told you has come from those three-four factors which I explained.

Vipul Shah: And what is the trajectory of the raw material prices in this quarter as compared to the last quarter sir?

Parag Vyavahare: They are going up. They are going up.

Vipul Shah: Okay. So, in this quarter will be negative of the raw material prices?

Parag Vyavahare: Yes, there will be some challenges.

Vipul Shah: Okay, thank you sir.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Sunil Kotary from Unique Investment. Please go ahead.

Sunil Kotary: Thank you very much. Parag-bhai, congratulations for a very good set of numbers.

Parag Vyavahare: Thank you.

Sunil Kotary: You said Parag-bhai that quarter on quarter we have done 5% volume growth, right?

Parag Vyavahare: Yes.

Sunil Kotary: And top line is similar. So, what I understand is the price reduction is approximately 5%, because top line is 520 and this is also 520.

Parag Vyavahare: It should be around that level, yeah, it is at that level. Correct.

Sunil Kotary: And what is normally time led in terms of raw material cost, increase or decrease passing onto customers normally.

Parag Vyavahare: It should be anywhere between one to four months.

Sunil Kotary: One to four months, okay. And sir is there any exceptional expenses during this quarter, current quarter?

Parag Vyavahare: Sorry, I didn't get you.

Sunil Kotary: Any exceptional, onetime, non-recurring costs or income, is there anything in the March quarter?

Parag Vyavahare: Small ones will be there, but nothing I will say major having a very major effect on the reported numbers.

Sunil Kotary: Because I think in the December quarter you mentioned that there was this employee pension related or bonus related something....?

Parag Vyavahare: The Bonus Act amendment had some effect in that thing. That was a onetime effect which came in; because of the amendment of the bonus payment on the Bonus Act that effect came in the December quarter. But, there would be few. But, I think nothing really very significant or major having huge effect on this quarter.

Sunil Kotary: And sir, any cost related to this integration or this any onetime cost, anything is there in the current quarter?

Parag Vyavahare: There will be, there will be. But, that is like, I will put it this way, that is like we are saying the synergy related benefits are coming or integration benefits are coming on one side and correspondingly you are also having the (not clear) related costs coming in. So, till the time both, the net of them, we are positive, we are okay.

Sunil Kotary: Right. Last quarter you had given some indication of the number is around 281 lakhs or some 3 crores related integration cost or maybe some standard T or merger related cost. Is there anything.....?

Parag Vyavahare: No, I think we had said that, I think somebody had asked me in 2015 what kind of cost we had incurred for this integration stroke various other thing. I think we had talked on that thing. Current year also as the merger gets completely; we also will have some costs coming in. But, it is slightly premature to comment on that

thing, because some of those costs we really will have to assess as to how much time it takes etc. So, I would not like to give any specific number guidance on that thing.

Sunil Kotary: True. And what is the current debt, if you can give consolidated or individual or whatever.

Parag Vyavahare: No, no, I will give consolidated debt. So, we started in March 2015 we were at around 637 crores of debt and now that is down to 478 crores.

Sunil Kotary: 478. Currently as on 31st March or you are talking about May?

Parag Vyavahare: No, I am talking about 31st March.

Sunil Kotary: 31st March. Okay, 478 crores.

Parag Vyavahare: Yeah, 478 crores.

Sunil Kotary: Thank you. Thank you very much.

Moderator: Thank you sir. The next question comes from Ms. Nidhi Agarwal from Sharekhan. Please go ahead.

Nidhi Agarwal: Thanks for taking my question. My question is, what are the plans to repay debt?

Parag Vyavahare: We are repaying the debt continuously if you see.

Nidhi Agarwal: Okay. You plan to go debt free by some timeline?

Parag Vyavahare: No, I don't think right now immediately there is a specific thinking on that thing, because debt which we had raised for the acquisition is substantial. And there we have the bullet repayments stroke repayment option of one year and that has been raised at a reasonably attractive rate of 7%. So, we will have to weigh our pros and cons as to how do we utilize that cash. But, our focus right now is to repay the high cost debt, which is first due and which can be easily returned, rather than looking at the low cost debt.

Nidhi Agarwal: Okay. And based on that, what are your CAPEX plans for this year?

Parag Vyavahare: We are expecting that the current year of our CAPEX should not be more than 65 crores to 70 crores.

Nidhi Agarwal: Which will be maintenance or how is it?

Parag Vyavahare: It will be all three things, all, small maintenance, small expansions, something could be strategic.

Nidhi Agarwal: Okay. So, are we expanding in new products also somewhere, like liquid packaging.....?

Parag Vyavahare: When we expand, we expand the existing products capacity as well as we like to build capabilities for the new or the differential products etc. So yes, all that is covered under that thing.

Nidhi Agarwal: Okay, 65 crores. So, how about next year, any plans for that?

Parag Vyavahare: Next year specific numbers we haven't yet frozen, so I may not be able to comment on that thing. It is slightly premature.

Nidhi Agarwal: Okay. And are you looking to enter into liquid packaging also sometime in the future, near future, because....?

Parag Vyavahare: Right now there are no specific plans on that thing. No specific plans have been frozen on that thing.

Nidhi Agarwal: Okay. And how about competition intensity? Are you seeing increasing pricing pressure, because everybody is expanding capacities?

Parag Vyavahare: Competition has been there and it will remain there. And at one extent you don't like the competition, but at the other extent the competition makes you more competitive or more efficient or more productive. It brings out the best out of you.

Nidhi Agarwal: But, are you seeing pricing pressure or more negotiations from your buyer and supplier?

Parag Vyavahare: I don't think there has been any let down or any material change in the pricing pressure situation.

Nidhi Agarwal: Because most of these capacities will come on stream in the next one-two years, so that time there may be more intensive pricing pressure.

Parag Vyavahare: Let's see.

Nidhi Agarwal: Okay sir, thanks for taking my question.

Moderator: Thank you ma'am. The next question comes from Mr. Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak: Hello. Good afternoon sir.

Parag Vyavahare: Good afternoon.

Kamlesh Kotak: Sir, can we just get some color as to which segments have been growing across our revenue, food, healthcare, home care, soft drinks? Where do you see the demand picking up vis-à-vis the volume of 5% and which are laggard out of that, if you can share some thoughts on that?

Parag Vyavahare: If you see, typically this is a summer season, so obviously your soft drinks and the beverage sector is one of the top growth markets definitely,

because this year the summer has been quite harsh. So, that definitely is it. And apart from that thing, yes, the food as well as your personal care products, you have seen a reasonable growth coming; I will say some growth coming there.

Kamlesh Kotak: Yeah. And on the healthcare and the home care?

Parag Vyavahare: There also I will say not so bad, I will say. It is okay. It is okay.

Kamlesh Kotak: Okay. Secondly sir, can you just give some understanding of the number of customers which you would be catering to vis-à-vis how it was before the acquisition, how the overall number of customer pool we would be looking at?

Parag Vyavahare: No, I don't have that data readymade in my hand. I am so sorry. You will have to excuse me on this thing.

Kamlesh Kotak: Okay. And it is not different from some of the new FMCG players like Patanjali.

Parag Vyavahare: Sorry, I didn't get your question completely.

Kamlesh Kotak: Sir, we have some new customers also coming in, in terms of the FMCG market like Patanjali and others. So, are you also supplying them also the packaging products?

Parag Vyavahare: Yes. We do supply in a small way to them.

Kamlesh Kotak: Okay, right. And sir, how do you see the exports? Is it mostly to the African markets or is it other than African markets also we have some traction, now that the group has got many opportunities? Is it also one of the ways to look at exports market or it is mostly dependent on the African markets?

Parag Vyavahare: We are exporting. We are exporting to Australia and New Zealand. We are exporting obviously to the Middle East and Africa. We are exporting both to the North America as well as to the South America. But historically as you see, because of the physical nearness, the Middle East and Africa were the strong regions, because America is much, much farther. But, those also are growing markets and we are present very much there.

Kamlesh Kotak: And sir, again coming to the domestic markets, do you see this milk and dairy products also as one of our customer segment and how do you see that market panning out for us?

Parag Vyavahare: Dairy sector if you see per se...and milk processing, milk sector if you see, our exposure may be limited, because it really typically gets packed either in tetra kind of pack or let's say it gets packed in your typical polythene bags kind of thing, where we may not be in a large way. But yes, certain value added products, yes, we would be there.

Kamlesh Kotak: Okay, alright. Thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Chetan Thakker from ASK Investment. Please go ahead.

Chetan Thakker: Good afternoon sir.

Parag Vyavahare: Good afternoon.

Chetan Thakker: I understand that on the consolidated side, the reason for reduction in other expense and employee expense in the current quarter, sequentially?

Parag Vyavahare: Primarily in the last quarter, which was the Q4 2015, the Government of India had amended this payment of Bonus Act. So, retrospectively they amended it from the 1st April 2014. So, we had to make a provision for the increase bonus, which were I think close to more than around, last quarter the combined impact,....combined entity was roughly 4 crores flat. That is in Q4 2015 which is not there in the current quarter.

Chetan Thakker: And on the other expenses side, what has led to this reduction?

Parag Vyavahare: As the oil prices have slightly gone down, some benefits have come on let's say your power, fuel. Some benefits have come on onetime repairing cost, which we had incurred. Because repairs always, it gets typically bunched, certain costs were incurred last year, which we didn't have to again incur in the current year. So, those kinds of things have helped us.

Chetan Thakker: Sir, because the reason for asking is, if I compare the gross margins, they have improved definitely by 50 bps and operating profit has increased much more than that. Just wanted to get a hang on eventually over a medium term period, is the improvement in the gross margins that will eventually add up to a sustained operating profit, is that the right way to look at it?

Parag Vyavahare: No, I think I would not like to offer a comment on that thing. You will have to make your own judgment on that thing.

Chetan Thakker: Sure sir. So, broadly this run rate is the run rate on employees at least, which is sustainable going forward, employee cost side? Because, we have adjusted for the one offs, so adjusting for the one offs, this should broadly be the number, plus the inflation, whatever would be the number coming up to?

Parag Vyavahare: With the inflation increment effects etc., of course they will be there. They will keep on coming.

Chetan Thakker: Okay sir. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Kashyap Zaveri from Capital 72 Advisor. Thank you.

Kashyap Zaveri: Good afternoon sir. And congratulations on great set of numbers. Just wanted to check, if we look at the difference between the consolidated numbers and standalone numbers, it looks like Positive Packaging, let's say another

subsidiary that we have in terms of margin in fact have done better than the standalone numbers. So, any comments on what happened over there?

Parag Vyavahare: What happened was, as I explained earlier, Webtech did face some challenges in the last year second half, because of some slowdown which occurred in their two sectors which they predominantly operate. One is your pharma sector, where the demand was flat and many of the customers faced this US FDA related bans etc. So, that had an effect on their sales growth. And secondly, they also service the agricultural sector and where with the failed monsoon in the last year, in 2015, so that effect also was there, where the demand from the agricultural sector substantially had gone down. So, obviously that hurt them in the last two quarters of the year. In the current year, we have seen in the first quarter, there has been a reasonable good pick up has occurred, which has helped the Webtech turn out a good number in this quarter. Coming to the Positive, one needs to bear in mind, when I have acquired, I had certain strength and I was operating at a certain level of efficiency. So, when I acquire something, my whole energy goes on making that acquired entity more strong and to realize my synergies. So obviously, when you work on those factors, the more benefit or the synergies come to you, tends to come to you in the acquired entity than in yourself.

Kashyap Zaveri: Right. And second question is on; this has been discussed quite in detail with the previous participants. But, in one of the earlier calls you had also highlighted that sometimes the raw material price changes usually takes couple of quarters before being passed on to eventually to the client. Let's say, when it takes whatever, one to four odd months to sort of number, would we have to adjust extra margins which we got during this quarter also or is it just for that particular quarter it gets, the pricing gets adjusted? So, let's say we did about, couple of percentage point higher than our normal run rate in this quarter, where probably the full pass on didn't happen. Then in coming quarters, can the pricing go lower to adjust intra quarter adjustments?

Parag Vyavahare: Yes, some impact will come. Because, you will try to retain, but you may not be able to retain 100% of it, because you have an understanding with the customer.

Kashyap Zaveri: Right. So, this number which is for the current quarter, may not be a maintainable number let's say, in the medium to long term future?

Parag Vyavahare: There is an extra benefit definitely has come in the current quarter, because of the very low raw material price scenario. And yes, to that extent, there will be a pressure in the next quarter, because this may not be, though you would do your level best to retain the things at that level, but you will have to pass on some benefit to the customer and to that extent, you will have to take some correction.

Kashyap Zaveri: Right. Thank you so much. That is it from my side.

Moderator: Thank you sir. The next question comes from Mr. Kaushik Poddar from KB Capital Markets.

Kaushik Poddar: Your parent that is Huhtamaki is very big in food service and molded fiber. So, if they at all get into these things in India, will it be through Paper Products Limited? Have you got any signal from them?

Parag Vyavahare: No, as of now we haven't got any signal from them, whether they want to get into, whether they want to enter India. And if at all they want to enter India, what could be their plans, we haven't got any specific this thing. But, we will be looking at their strategy which they follow, wherein each of these businesses is a mini company or let's say you can say a profit center within the overall enterprise and to have the responsibility and accountability properly fixed up. Generally they try to operate through different companies in these segments, in a given country. So, that is the broad structure on which they operate. So, we will have to, so with that we will have to be guided by that thing.

Kaushik Poddar: Okay, fine. They had given you a good amount of loan at a very attractive rate. Is there anything you are planning to prepay or something, since you are generating a good amount of cash? You are generating a good amount of cash and your capital expenditure will not consume that kind of cash, so the excess cash will you use to pay back?

Parag Vyavahare: We haven't yet taken any specific call on that thing. We are doing sort of, a bit of I can say wait and watch approach, we are seeing, because we would like first the merger to go through and to reduce the other external debt to the maximum extent possible. Then use the cash for our expansion programs. We also have certain commitments to the sellers, because certain price, portion of the price has been held back, so which will need to be paid over the next two to three years.

Kaushik Poddar: I did not get the last portion of whatever you were saying.....

Parag Vyavahare: Certain price which you have to pay to the sellers of Positive Packaging, 100% has not been paid as per the agreement. As per the agreement, certain portion is payable in the future.

Kaushik Poddar: Okay. And that has to be paid from the earnings of Paper Products?

Parag Vyavahare: Sorry?

Kaushik Poddar: That has to be paid by the Paper Products only.

Parag Vyavahare: That has to be paid by the Paper Products obviously, considering that we are keeping a balanced approach on the cash management.

Kaushik Poddar: So, how much money still needs to be paid to them? What is the liability you have till now?

Parag Vyavahare: Roughly we will have to pay them, around Rs.62 crores-Rs.62½ crores.

Kaushik Poddar: And was it higher a quarter back? Are you paying it....?

- Parag Vyavahare:** No, no, the number is same. The number is same.
- Kaushik Poddar:** Number remains the same, okay. Okay, thank you. Bye.
- Moderator:** Thank you sir. The next question comes from Mr. Aksh Vora from Praj Investments. Please go ahead.
- Aksh Vora:** Sir, when we took our Positive Packaging, the enterprise value was around 780 crores. And debt as on December was around 520 crores. So, we paid 250 crores of debt. But, in the balance sheet, the cash flow we can see only 150 crores was paid in debt, debt was paid out. So, I was not getting that how we have paid around, how much debt have we paid in the last year after acquiring the company?
- Parag Vyavahare:** If you see the consolidated cash flow, in the consolidated cash flow if you see, we have done repayment of the various loans to the tune of, we have done around 148 crores of loan repayment in 2015, all three entities put together.
- Aksh Vora:** Right sir. But, after acquiring Positive Packaging, our enterprise value was around 780 crores, right?
- Parag Vyavahare:** Yes, yes.
- Aksh Vora:** So, and as on December, the debt was around 520 crores. So, there is around 260 crores of debt repayment. And we can see only 150 crores of repayment in the balance sheet. So, I was not getting the rest of the amount.
- Parag Vyavahare:** No, no, but we never repaid that much of debt 250 crores. We repaid only this 150 crores of debt in 2015. I don't know where you got this number of 260 crores. 250 crores of debt we assumed in Positive Packaging. So, that the enterprise value inclusive of debt was 780 crores-790 crores number which you are referring, which included roughly around 250 crores of debt which we took it over in Positive's balance sheet.
- Aksh Vora:** Okay. Sir, I could not get the adjustment of the 100 crores balance?
- Parag Vyavahare:** The remaining debt which has not been repaid is still standing in the books of the Positive, as a debt.
- Aksh Vora:** Okay. So, right now what is the debt amount in Positive?
- Parag Vyavahare:** Positive will be having roughly around, just one second; Positive is having a debt of roughly Rs.75 crores.
- Aksh Vora:** 75 crores. And the remaining debt is for processing the product?
- Parag Vyavahare:** Of HPPL and Webtech.
- Aksh Vora:** Okay. So, Webtech also has debt?

- Parag Vyavahare:** Yeah, Webtech also has debt. Very small debt.
- Aksh Vora:** Okay, that would be, if you can quantify the figure?
- Parag Vyavahare:** Around 4 crores.
- Aksh Vora:** 4 crores, okay. So, around 400 crores of debt is still to be paid by Paper Products, right sir?
- Parag Vyavahare:** That's right. That's right. That is what exactly we said that 385 crores of non-convertible debentures we raised for the funding of transition.
- Aksh Vora:** Okay. That was helpful.
- Moderator:** Thank you sir. The next question comes from Mr. Rohit Pandya from BNK Securities. Please go ahead.
- Rohit Pandya:** Hi sir. Thank you for taking my question. I just want to understand what is the excise duty component to our standalone and consolidated numbers sir?
- Parag Vyavahare:** No, I didn't get your question. Are you referring to the percentage or are you referring to the absolute value or something?
- Rohit Pandya:** Value sir, or if you could go to the percentage basis, from which we can calculate the.....
- Parag Vyavahare:** The excise percentage applicable to our products is 12.5%.
- Rohit Pandya:** Okay. And that is the standalone number?
- Parag Vyavahare:** No, in both. In Positive as well as Webtech and as well as in HPPL, the excise rate applicable to our products is 12.5%.
- Rohit Pandya:** Okay, fine sir. And sir, one more question sir, if you could just tell us about the BOPP demand supply dynamics, what are the capacity plans that we have in the import-export scenarios, if you can just give us a little idea on that?
- Parag Vyavahare:** Sorry, I am not an expert in the BOPP industry, so I really can't offer any comment on that thing.
- Rohit Pandya:** Alright sir. Sir, if you could just give us some highlights on what is the cost synergy that we have? Our three entities have combined now. So, what cost synergies we have seen in this quarter and going ahead what do we see?
- Parag Vyavahare:** I would not like to give out specific numbers, because of certain sensitivities around the factors. But, primarily synergies are there between the HPPL and Positive. Webtech doesn't have any such synergies as such. And synergies are in two areas, which rather I will say are in four areas. One is in the areas of raw material cost. Second is in the overall administrative and general expenses area. Third

is in the area of the way the working capital is managed. So, those are three areas I will say where the synergies have been.

Rohit Pandya: Sir, is it the right way to assume that we have a good bargaining power with the suppliers now that the three entities have emerged?

Parag Vyavahare: Yes, definitely. The scale gives us those benefits. The scale gives you some benefit.

Rohit Pandya: Right. Alright sir. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Hi sir. My question relates to your free cash flow, because your CAPEX is you said is around (audio break) roughly for the current year. So, your free cash flow...

Parag Vyavahare: Vipul your voice got lost in between. Could you repeat that last sentence please?

Vipul Shah: Yeah. Sir, my question relates to free cash flow, which will be much higher than your projected CAPEX for this year, which you said will be 65 crores to 70 crores. So, what you are going to do with the excess cash?

Parag Vyavahare: Right now we have not yet taken a call, for the reason being that we are waiting for the merger to be completed and to get more clarity. Because, we would like to repay as much as possible, the external debt which we have got and then we would like to also invest for the growth. And we also would like to get the growth opportunity in the next year. And then once we have clarity, based on that thing that is when we would like to take any call as to how would we like to spend the cash? Also, there is some amount of money which is yet payable to the sellers of the Positive, because it was held back as per the agreement. So, that is also payable at respective points of time. So, those obligations will also have to be taken care of. And generally one can say, do you have the excess cash and how would we like to use it?

Vipul Shah: Okay. How much money is to be paid to Positive....?

Parag Vyavahare: Around 62½ crores.

Vipul Shah: Sorry?

Parag Vyavahare: 62½ crores.

Vipul Shah: Okay, thank you sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Good afternoon sir and thanks for giving me this opportunity.

Parag Vyavahare: Nikhil, your voice is very low. You will have to talk a bit loud.

Nikhil Upadyay: Hello? Am I audible now?

Parag Vyavahare: Yeah.

Nikhil Upadyay: Sir, just one question, the cash on the books as of December ending was 206 crores. So, that is the number which would be there for March as well, right?

Parag Vyavahare: Largely, yes. Some give and take, some small change, but otherwise largely yes.

Nikhil Upadyay: And sir, if we look at our labeling business, so basically the Webtech business, it makes a significant higher margin as compared to the company average margins. And in PPL also we have a labeling business. So combined, what would be the total labeling business which we have, including Webtech now?

Parag Vyavahare: No, we may not be able to disclose those specific figures.

Nikhil Upadyay: Okay, fine. Thanks a lot sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Sunil Kothari from Unique investment. Please go ahead.

Sunil Kothari: Parag-bhai, just one thing broadly. It seems that the Positive Packaging is on a deceleration number, like compared to 2014 whatever numbers we have given. And if you check this standalone and consolidated, this quarter also, quarter on quarter, standalone we have grown. But, Positive seems to be on a little bit de-grown or de-growth phase. So, would you like to say something on this, why it is happening or how you see onwards?

Parag Vyavahare: Two factors you have got to see. One is that the sales price has decreased, so that is having its own effect. But, the second is also in case of the Positive also, because of the higher dependence on the exports, the impact which is coming from the markets, where the growth is not there or rather you are fighting for getting the sales. So obviously that has put some impact on the Positive.

Sunil Kothari: Because, if you take the standalone numbers, with price reduction also we have grown almost 12 crores-14 crores roughly quarter on quarter. But, consolidated is similar. So, Positive with lower price, I think they must have de-grown in terms of volume also quarter on quarter, if you can just qualitatively tell me, compared to the December quarter?

Parag Vyavahare: The impact I think is of two things as I told you. One is the impact coming from the fact that there is a sales price correction that is one side of it. And then second you are having the challenge from the exports market, where you are facing this bit of a de-growth situation. So, that has affected. The product portfolio of the two companies is not 100% exactly same. So, that effect does come in. Certain products you get benefited at a point of time, but other portfolio may not get that same

benefit. So, that some effect is there. But, I do not see that as any specific trend line or something.

Sunil Kothari: Okay. So, we are taking enough effort to improve Positive's top line?

Parag Vyavahare: Obviously. Since we are trying to diversify into various other exports market, trying to grow in other markets or apart from of course trying to concentrate on those same markets and then trying to generate more business or trying to get more customers or trying to draw back with the customers in terms of trying to ensuring that we do not lose business to the local competition etc. So, those actions all are on. But as you know, in business these actions do take some time to bear the fruits and to be able to see them visible.

Sunil Kothari: Thank you very much and wish you good luck.

Moderator: Thank you sir. The next question comes from Mr. Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Good afternoon sir.

Parag Vyavahare: Good afternoon.

Saurabh Jain: Sir, NASP as a percentage of our sales, which is for new products and new processes, is about 28% to 30% or whatever we have introduced in the past three years. How do you see this numbers few years out?

Parag Vyavahare: Our effort will be to maintain in that range. Let's say, around 25% is our long range objective to maintain the NASP sales or (not sure) sales. So, we will keep on working on that thing. And we see the opportunities definitely clear cut there, where we can continuously keep on churning out that kind of growth, because growth in those (not clear), because, being a larger enterprise you are able to bring more focus and get the growth and use your technical knowledge to the advantage in designing better products.

Saurabh Jain: Understood. Sir, 25% to 30% is what we should work with and it is not something like 40% or it is not, the direction is not going to be upwards.

Parag Vyavahare: No, I think 25% I will say is a ballpark that we have got in our mind. Of course if the situation permits then we will like to improve, but I don't like to put any guidance saying that we will take it to 40% or some very high number. No, I will not like to say that.

Saurabh Jain: And it would be fair to assume that after a newer product is introduced, after two or three years, the margins from that also gets (not clear)?

Parag Vyavahare: Yes. Competition is the name of the game. So, any product which is new and it holds, even Apple we have seen that thing. The Apple iPhone or whatever instrument is introduced in the market, we have seen initially there is a price advantage and there is a demand and there is a premium niche to the product. But, as

the product becomes old or let's say the new versions are launched, the old version tends to go down.

Saurabh Jain: Right. And would you be able to quantify generally that what is the percentage in margin which can reduce in general, in your experience in the past?

Parag Vyavahare: No, I would not like to give anything on that thing, because it is a very variable factor. It is very difficult predict and put any specific number on that thing.

Saurabh Jain: Sir, our business, is there any seasonality quarter on quarter or.....?

Parag Vyavahare: Some seasonality will be there in terms that the products which gets sold in particular season are reflection of how does the FMCG and pharma and agrochemical sectors, their demand patterns vary in those particular quarter.

Saurabh Jain: Right. Would you be able to give any sense of Q1 to Q2 to Q4?

Parag Vyavahare: No, it will not be possible like that thing.

Saurabh Jain: Right. And sir, just the last question, we had 15% EBITDA margin which was exceptional, would you be able to quantify how much of, how many basis points was contributed by the raw material reduction in this quarter?

Parag Vyavahare: No, I will not like to put a specific number on that thing. I am afraid, I can't put.

Saurabh Jain: Thank you so much sir.

Parag Vyavahare: Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Mr. Pravin Sahay from B & K Securities. Please go ahead.

Pravin Sahay: Thank you for taking up my follow up question. Sir, would you quantify on your raw material, how much is from imports and how much from domestic requirement?

Parag Vyavahare: Roughly if you see, I think 75% to 80% raw materials are procured domestically and 20% to 25% are imported.

Pravin Sahay: Okay. And what is the industry scenario, if you can give any sense?

Parag Vyavahare: In what sense?

Pravin Sahay: In the raw material in the or same business, flexible business, how is the industry scenario, like how much is procured domestically and how much is from the import market?

Parag Vyavahare: It is very difficult to say of the competition, very difficult to say. Because, each fellow will have his own specialties or he has his own plans and strategies and based on that thing he will use either domestic procurement or import procurement. So, it is very difficult to generalize.

Pravin Sahay: Okay. And this is similar thing for the Positive as well?

Parag Vyavahare: Yes, almost I will say.

Pravin Sahay: Okay, thank you sir.

Parag Vyavahare: Thanks.

Moderator: Thank you sir. Sir, there are no further questions.

Jaymin Trivedi: You can conclude the call.

Parag Vyavahare: Thank you very much ladies and gentlemen for being patient and participating in this call. And we hope to again talk to you at the end of the Q2. Thank you very much. Over to you Jaymin.

Jaymin Trivedi: Yeah. Thank you sir. Thank you everyone for participating in the call. Thank you sir for providing the opportunity to host the call. Thank you.

Parag Vyavahare: Thank you. Bye, bye.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. You may all disconnect your lines now. Thank you and have good day everyone.

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