"UFLEX Limited Q1 FY 2022 Earnings Conference Call"

August 16, 2021

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Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY 2022 Earnings Conference Call of UFLEX Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Prashant Sharma from Quantum Securities. Thank you and over to you, sir.

Prashant Sharma: Thank you, Janice. On behalf of Quantum Securities, we welcome you all to the Q1 FY 2022 results conference call of UFLEX Limited. We thank the management for giving us the opportunity to host this call. The management is represented by Mr. Rajesh Bhatia – Group CFO, and Mr. Yusuf Nasrulla –Investor Relations. I now hand over the call to Mr. Yusuf Nasrulla. Over to you, Yusuf.

Yusuf Nasrulla: Thank you for hosting the call, Mr. Sharma. Good afternoon, everyone. And a very warm welcome to all of you who have joined us today for quarter one earnings call FY 2022 UFLEX limited. On the call today we have our Group CFO Mr. Rajesh Bhatia, who will be sharing his assessment of the performance he's posted on Saturday.

Please note that today's discussions may include predictions, estimates or other information that might be considered forward-looking. While these statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements which reflect our opinion only on as the date of this presentation. I would like to emphasize that the call should not be broadcasted or reproduced in any form or manner. We will open the floor to Q&A towards the end.

Let me now briefly take you to the key highlights of quarter one FY 2022. The company continued with its growth momentum and posted a consolidated net profit of Rs. 264 crores, surging 34.4% year-on-year. Consolidated EBITDA stood at Rs. 502.4 crores, rising 19.3% year-on-year. We clocked our highest ever quarterly production and revenue numbers. The consolidated his total revenue registered for the quarter was Rs. 2,761 crores, an increase of 38.2% year-on-year. Total production volume was 138,876 metric tonnes and total sales volume was 133,476 metric tonnes for the quarter, both had a 30% year-on-year. We also commissioned our 10.4-meter-wide BOPP film line in Hungary with 42,000 tonnes per annum production capacity.

I would now like to invite Mr. Bhatia to address the participants. Over to us, sir.

Rajesh Bhatia: Thank you friends. A very warm welcome to all of you. Our Q1 results are all before you. Again, I must say that an excellent quarter where the volume growth came in very handy, 30% volume growth both on the production and sales side speaks more volumes by itself. On a year-on-year basis, there has been improvement in EBITDA by 19%, PAT by 34%; revenues by 38%, so all those sorts of numbers are before you. We also commissioned our Hungary BOPP facility.

Some of the other aspects which I can share with you which is, our revenue mix of international and domestic is, international is almost at an all time high of about 60% of our revenue now comes from offshore business and 40%, 41% come from India business. EBITDA is also about 63% comes from international business, and about 37% comes from domestic business.

And the debt side, as on the end of this quarter the debt numbers are; the long term that is about Rs. 3,300 odd crores. And at the end of FY 2022, with the expansion already announced, we are looking at a long-term debt of about Rs. 3,700 crores. The liquidity position is extremely, extremely good and at most of the locations, the working capital limits are not utilized in the international locations. In the domestic, the utilization levels are only 75% to 80%, in Mexico, in U.S., Poland, the working capital lines fully available, they are not drawn, reflecting a strong liquidity position the company. So, we are not drawing any of the working capital requirements from the bank so far, so whatever is being given, all the businesses are generating a lot of cash flow. So, the endeavor is to not be use those working capital facilities. Our term debt is obviously paid on their respective due dates.

So, the quarter also we saw some headwinds in the raw material prices in India, as well as in overseas locations. And depending on India we had about pet resin prices going up by about 6% odd, BOPP prices going up by about 8%. In some of the other jurisdictions also we had seen the price increases on the raw material side. But still we could keep a healthy EBITDA margin of little over 18%. And the margin vis-à-vis the sequential quarter was only lower because we had a trial run production coming out of our plant in Nigeria, where we had an operating loss, so that loss has resulted in a dip in the EBITDA.

And also, we had certain incentives in J&K, which the government has stopped from 1st of April. While we are taking up with them, but they have announced a new policy under which they want the permission of investment to happen, and the past promotional scheme they have withdrawn. That's a bit sort of challengeable because till the time you have dead-line of some of those schemes, you just can't withdraw on the old businesses which had invested based on those commitments. And obviously, we are talking to the government there, and we are also at an industry level all those people who had invested based on those schemes are taking the matter with the government. But in the meanwhile, we have not accounted for any of those benefits coming our way from 1st of April, 2021.

That is in nutshell the highlights of the quarter. The quarter, the volumes over the sequential quarter, the volumes in the packaging side were affected a bit due to the pandemic induced lockdown in India. And because this time there was no panic buying, people knew that all the food items, everything else will be still be available. So, to that extent, as compared to the last year as well as on the differential quarter the demand was low, both for the aseptic packaging as well as for the flexible packaging. But as we see July and August; I think that momentum is now back after the lockdowns opening up. But in this lockdown, we definitely witnessed some slowdown in demand for the flexible packaging. Not on the film side, because the packaging business is largely confined to boundaries within India, except a small export that we do. So, there we saw a bit of demand pressures there in that particular market.

So, that's in nutshell the update for this quarter. A steady quarter I must say, and consolidating on the capacities that we have set up and the for the things to come. So, obviously, next quarter we have more volumes coming from the newly installed capacity. Overall, we still maintain our guidance of about 20% to 25% volume growth in FY 2022 over 2021, and Q1 is the testimony to that. Thank you, gentlemen.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Prashant Sharma from Quantum Securities. Please go ahead

Prashant Sharma: Congratulation on very good set of numbers. Sir, actually our sales went up by 38% and our sales volume went up by 29%, 30%. So, does that mean we have taken a price instrument? And can you please help us understand the market dynamics in terms that if you take a price increment, does it come at the expense of volume?

Rajesh Bhatia: Revenue jumped by 38%, driven by the volume jump of about 30%. Which means that the rest of it is because of the price increases induced by, as I said, the raw material prices went up during this period. So, the rest of it is because of the price increases for the raw materials, which were passed on to the customer.

Prashant Sharma: But sir, if you look at the gross margin, our gross margin came under pressure, inspite of the price increase that we have taken. Because our gross margin, I think, is something around 43% as compared to 47% in Q1 FY 2021. So, can you help us understand even if we increase the prices, our gross margins are still under pressure.

Rajesh Bhatia: Yes, to that extent I said that the BOPET films, the entire increase in the raw material prices couldn't be passed on. In the BOPP, the price that was passed on was higher. So, it's a mixed bag for the two, but then also because we had lower volumes in the flexible packaging business, so overall cost gets sort of affected. So, there was a bit of lesser margins because of the raw material price increases, which were not fully passed on, especially on the BOPET side, all other categories were probably not so bad. But the BOPET films margins could not be entirely passed on. And also, we have to take into account that this was a period during which we also had to push additional volumes, get additional markets, get new more customers in and all that, so maybe a part of that would be attributable to that as well.

Prashant Sharma: Okay. And sir, what's your future expectation regarding the gross margin? And do you think these raw material prices have peaked?

Rajesh Bhatia: I think we will talk about EBITDA margin rather than the gross margin, I think 18% to 20% is the range where we will always be looking to maintain in some quarters. Like when the prices are going up for the raw materials in the flexible packaging side, because there is always a gap, you are not able to pass on the full of that immediately, so it takes a while, the margins may be impacted. But when the prices are coming down, we get that advantage while coming down the stairs, so that improves the margins a bit. So, Q1 was one of the quarter where the raw material prices were increasing. So, there you always have a lag in the flexible packaging business in terms of passing on those prices. And even in films also, there is sometimes a lag, though not for those long periods what you have in the flexible packaging, where the lag could be as high as a quarter, but mostly it's in the packaging side, in the packaging film side the lag is never that long.

Moderator: Thank you. The next question is from the line of Shalu Asija from Invest Research.

Shalu Asija: Sir, one clarity, as your voice was not audible, you said, after March you said debt level would be around Rs. 3,700 crores?

Rajesh Bhatia: Yes, Rs. 3,700 crores long-term debt at the end of FY 2022, given the projects that we have announced. So, I mean, we obviously have sort of the Dharwad and some of the other investments we announced, so there will be additional debt coming in. So, it will be around Rs. 3,700 crores the long-term debt.

Shalu Asija: Okay. And current growth rate you mentioned for financial year 2022?

Rajesh Bhatia: We said we are looking at volume growth of about 20% odd.

Shalu Asija: Okay. And sir, in the last concall, you said about volume growth of 60% for next two years. So, how that will be achievable like for this year?

Rajesh Bhatia: So, we have additional capacity which got installed during FY 2021 and currently in FY 2022, as we ramp up those capacities. So, utilizing those capacities, we are estimating a much higher volume growth. So, if you see Q1, there is a 30% growth already on the volumes, 38% on the revenue side. So, I think basis this growth momentum from our newly installed capacity, we think that 20%, 25% volume growth and revenue growth on a yearly basis for the next couple of years.

Shalu Asija: And sir, as COVID situation would normalize, how we are seeing the situation going forward, raw material prices as a whole?

Rajesh Bhatia: So, raw material prices after the last two quarters are pretty stable at this point in time, so we expect that they will soften a bit. But that momentum what they had in the last two quarters, especially in Q4 where they went up as high as 30% or so, I think that is now coming to a level of normalcy. Post Q1 we have not seen any much volatility in the raw material prices. Whatever is there is very, very manageable range.

Shalu Asija: So, can we see EBITDA margin of more than 19% or 20% in the coming quarters?

Rajesh Bhatia: I think we will even still continue to give a guidance of 18% to 20% range now.

Moderator: Thank you. The next question is from the line of AL Ajay Kumar from UFLEX. Please go ahead.

Ajay Kumar: My question is, depreciation and interest part is continuously maintaining just like a profit, but we are not increasing the profits like in Cosmo Films or Polyplex Films or like that, we are continuously paying depreciation from our profits. And from third quarter and fourth quarter we were expecting to expand our business in abroad by expansion, but that numbers are not reflecting in the profit wise.

Rajesh Bhatia: The numbers are very much reflecting in the profit wise. You see the revenue growth of 38%...

Ajay Kumar: When we compare with Cosmo Films or Polyplex or Jindal Polyfilms, their profits are very high and their share value is going up, whereas UFLEX is not going. There is some problem which I am having in my mind. Otherwise, these shares should be in the range of Rs. 800 to Rs. 1,000, but it is not at all going, even in spite of very good results in the fourth quarter of financial 2021, the share has gone only for one day 20% and then again it has come down. The 20% profit which was there, it has come down.

Rajesh Bhatia: Sir, Polyplex is a different story, they are looking to exit their business. So, the exit valuation that you get as a shareholder are always much better than the listed prices. So, I think the investors there probably expect that when somebody comes and buys that company and they know the international benchmarks in terms of what is the valuation, I think that's what is driving their margins. I think we can only talk to you about our revenue growth or margins comparable to some of the other players in the market, but that comparison is also or not fully there because they are in one business segment, they are only in the packaging films, and that too depending on which particular segment you are, whether you are making BOPP or BOPET films. So, I can say about 75% of our capacities are in BOPET films business, 25% are in the BOPP films business. So, the BOPET films have done very well in the last couple of years, the BOPP didn't do so well, but BOPP is now catching up. So, these kind of momentum will keep on shifting.

I am not going to value on commenting on why our share price hasn't gone up, because that's not in my control, it's you people, shareholders, who believe in this, who are driving up the volumes and the prices. And that basis you find that there is a compelling valuation here. I think you are free to draw your own decisions, but I certainly would not like to get into the valuation comparison between the various companies in this field. I have told you the difference in the business model, the difference in what they do, what we do, what are the circumstances under which they are operating, including any possible sort of divestment of the business. So, all those parameters are different, and probably the investors are always the most knowledgeable people to take the decision and determine as to what is the value for the company.

Ajay Kumar: Sir, my last question is, at least, if the value is not reflecting in the market, at least we can go for a stock split, so that in the future we can go for buyback, because our company's equity is a little bigger compared to other companies.

Rajesh Bhatia: So, given the kind of growth momentum we are giving, 30% kind of revenue jump, you have seen a revenue jump in the last year as well, and the new investment plans that we have, I think the money are all being flowed back into the growth opportunities that are there in the business. So, I really don't think so, that any buyback or anything of that sort is on horizon. And obviously, as and when the Board will consider it, that information will be disseminated to all the shareholders and the stock exchanges. But at this forum, I will not be able to discuss any which ways what should the company do. We are happy to listen to your suggestions and consider it internally, but obviously there cannot be any sort of comments from our side as to what is right or what is to be done. But I have only shared with you, given the growth momentum and the growth capital required, there is no thought process of any buyback at this stage.

Moderator: Thank you. The next question is from the line of Chirag Singhal from First Water Capital. Please go ahead.

Chirag Singhal: First of all, congratulations on a great set of numbers. Sir firstly, you were mentioning something on the operating loss in Nigeria which we incurred during the trial run. Can you please quantify what was the operating loss?

Rajesh Bhatia: No, Chirag, we are not going to share that minute detailed information on this call.

Chirag Singhal: So, was it just limited to Q1, or is it going to extend in Q2 as well?

Rajesh Bhatia: Q1.

Chirag Singhal: No, assuming the current month, so we are already one and a half months past for the Q2, so I just wanted to know…

Rajesh Bhatia: I don't have those numbers.

Chirag Singhal: Okay. Alright. And sir, what is the capacity utilization for all our newly commissioned capacities namely, Hungary, Poland and Egypt? So, Hungary I understand it was just in last quarter, but Poland and Egypt, as we are operating for more than one quarter, if you can share the capacity utilization?

Rajesh Bhatia: So, I think Poland was about 85% overall Q1.

Chirag Singhal: Okay. And for Egypt?

Rajesh Bhatia: Egypt was 80%.

Chirag Singhal: This would be for the new capacity that we have put up, right, or for the overall?

Rajesh Bhatia: Overall.

Chirag Singhal: For both the lines?

Rajesh Bhatia: Yes. So, Chirag, it does not happen that if your capacity is X, your demand is say 85% today, so what typically you would do is you will do the best optimization, maybe run the new plant which is more efficient and all that fully, underutilize part of the existing one. So, it has to be taken in overall, not because of the new it has happened so much, old has done so much, never happens like that.

Chirag Singhal: So, for the Poland, whatever numbers you have given, this is for the overall, total capacity in those reigns?

Rajesh Bhatia: Yes.

Chirag Singhal: Understood, got it. Now sir, we have been doing an excellent job on the recycling part, for example, we have doubled the Asclepius films, we are selling Asclepius films, and we have also taken various other initiatives. And we are really proud to see all those initiatives and we are like ahead of most of the companies in terms of those. So, can you please throw some light on Asclepius films, like what is the kind of sales volume we had in that for FY 2021? What is the growth we are seeing so far? If you can help me with some numbers, it would be better to understand the traction.

Rajesh Bhatia: For which category, Chirag?

Chirag Singhal: Asclepius films, which his this 90% PCR.

Rajesh Bhatia: Chirag, those numbers are more sort of, I will say, from my point of view of capability statement, and while we can do that, we have the capability to make, but when it comes to the company spending higher amounts in terms of their packaging costs, that's where while everybody you see the top companies will make announcements that next two years, next five years this is their plan to go to recycling and all that, but when it comes to actually spending, it's very little. It's catching up, but again it is very little. So, I would say that at this point in time take that more as a capability statement rather than any meaningful utilization of those products because of the customer factor.

Chirag Singhal: So, you are saying, at this point the sales volume is not material?

Rajesh Bhatia: Yes.

Chirag Singhal: Okay. And sir, like on the flexible packaging, so you mentioned that there was some kind of a blip because of the second wave impact during Q1. So, what was the production and sales volume growth on a sequential basis, if you can help me with that?

Rajesh Bhatia: No, we are not sharing those numbers, Chirag.

Chirag Singhal: So, generally, if this growth rates on the packaging, which helps us to get a tentative number for films as well as packaging out of the total production and sales volume both every quarter.

Rajesh Bhatia: So, the packaging volume is up only 5% on a on a year-to-year basis while we expected about 10% odd or so.

Chirag Singhal: Okay. So, on a Y-o-Y basis you are saying 5%?

Rajesh Bhatia: Yes, growth.

Chirag Singhal: Right. So, maybe on a sequential basis it would be down.

Rajesh Bhatia: Yes.

Chirag Singhal: Understood, right. Sir on this recent further clarification which you have received from the government on single-use plastics ban, so any of our products fall into that category?

Rajesh Bhatia: No, there is no such product. There was only one tetrapack product of aseptic packaging, we have a straw there which we will change to the paper straw, that's it.

Chirag Singhal: Apart from that there is no product in our portfolio that falls in the single-use plastic ban?

Rajesh Bhatia: No, not a single product.

Chirag Singhal: Okay, glad to hear that. And sir, in context to the raw material procurement, namely the PET chips, are we procuring locally across all our geographies or are we importing for some of our sites?

Rajesh Bhatia: See depends on the region, like Dubai will be 100% imported either from India or from Middle Eastern Region. I think more or less, you can say about 90% is always sourced locally, more than 90% itself, and 5%,10%, depending on if we get from some cheaper jurisdictions, some price arbitrage over local buying and all that, that's what is nothing. But mostly it is locally sourced.

Chirag Singhal: Okay. 90 to 10, right, understood.

Rajesh Bhatia: Yes.

Moderator: And sir, just one last clarification on the debt. So, you mentioned that the peak long-term debt will be Rs. 3,700 crores by the end of this fiscal. So, if I compare it with March 2021, we will have an incremental debt of Rs. 700 crores, right, for the long term?

Rajesh Bhatia: Yes.

Chirag Singhal: Okay. And that would be the total debt, right, for the short term?

Rajesh Bhatia: So, the working capital is separate, which is difficult to predict depending on the raw material, the other prices. So, that depends on, as I said that before the call that some of working capital debt today in U.S., in Mexico, in Poland, totally utilization levels are zero because there's so much of cash being thrown in all these jurisdictions. So, actually depending on what the raw material prices are, the endeavor is to not use a very high level of debt. In India, as I said, utilization level of fund-based limits are about 75% odd or so.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment. Please go ahead.

Shanti Patel: Sir, my question is, our profit margin in respect of various verticals will it continue or increase in the remaining period? And secondly, what is our market share in respect of various verticals in India? I am not talking international, in India.

Rajesh Bhatia: See, in India, in the flexible packaging business, we are number one. So, there are organized markets, there are unorganized markets there which are locally the small regional brands and all that. So, while we don't have any information available for the unorganized market, but the organized market where the numbers are known, I think our market share should be close to about 22% to 23% in that. And in the packaging film business, we are the largest BOPET seller in the country. BOPP, we don't have much of a presence. In India our capacity of the BOPP is quite less. India, we do only about 30,000 tons of BOPP while overseas we do about 120,000 tons of BOPP, so India capacity is fairly less. In the aseptic packaging business, we are number two because there are only two players, and tetrapack is obviously the market leader there and we are very small in that. So, if that's about a 12 billion packs market, you can say for the whole year, so we will do about 3 billion packs a year in that market.

Shanti Patel: And sir, what about margin, are we going to maintain margins in respect of all these verticals, taking international turnover also?

Rajesh Bhatia: So, as I said earlier said that at this point in time looking at the pricing, the margins, the demand supply, 18% to 20% margin is what we can foresee.

Shanti Patel: Because I have been told that BOPP margins are going down.

Rajesh Bhatia: BOPP margins are going up. They have gone up in the Q4, they have gone up in Q1 of FY 2022, BOPET films margins have come down in the Q1 over the Q4 of last year.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kiva Advisors. Please go ahead.

Mithun Aswath: My question is more in terms of, in the last couple of quarters, in the last one year we have seen margins appreciably be higher for most of the packaging companies. I just wanted to know about what is the sustainability of this and what has changed in the marketplace? Has there been consolidation in the industry, what is your sense? Because we are obviously much higher than what we have been on average over the last seven, eight years, so just wanted your thoughts on that.

Rajesh Bhatia: So, I think for that, you will have to go back to the year 2010-2011, where the packaging films which are used for packaging, the margins skyrocketed and the payback period for the investment team down to as little as two years' timeframe. So, that's the genesis of where a lot of capacities got installed during that period. And then till 2016-2017 there was sort of under utilization of capacities, leading to erosion of the margin. So, so, that was a period during which the margins were very low, which normally are not, and the payback periods for the new investment became as high as 10, 11 years kind of a stuff. Now, since then 2017 to 2020 there have been not significant capacities have come up, the capacity expansion has been very, very rational, which has led to higher capacity utilization of existing facilities. And with the growing capacity utilization level across the industry, so that gave a more pricing power to the industry as such. So, typically, I would not say that the pricing, if the margins are say 10%, 11% kind of an EBITDA margin, that's a low margin. So, 21%, 22% are a bit of a higher margin, but 18%, 19% is the kind of margin one should be happy with on a long-term basis. So, yes, you will find again that when there is a bunching of capacities, you will find the margins sitting. But you take sort of a 10 years kind of an average and you are between 18% or so, that should make you happy to be in the business.

Moderator: Thank you. The next question is from the line of Darshana Shah from Balaji Investment. Please go ahead. Ms. Shah, if you can hear us we are unable to hear you ma'am, requesting you to please dial back from a different number and you can join back in the question queue. Thank you. The next question is from the line of Chirag Singhal from First Water Capital. Please go ahead.

Chirag Singhal: Sir, just one more data point on Hungary. So, what was the capital utilization for our newly commissioned plant and what is it currently? Like are we seeing a faster ramp up because of the robust demand?

Rajesh Bhatia: Yes, for Hungary ramp up has been quite good, so no worries on that part. I think the momentum in BOPP helped us during this initial startup period, so there we are we doing pretty well, Chirag.

Chirag Singhal: So, what is the current capacity utilization? If not available for now, then Q1 please, because you have data set of Q1, so what was the capacity utilization in Q1?

Rajesh Bhatia: 70%.

Moderator: Thank you. The next question is from the line of VL Ajay Kumar from UFLEX. Please go ahead. As there's no response from the current participant, we take the next question from the line of Sunny Gosar from MK Ventures. Please go ahead.

Sunny Gosar: Congratulations on a good set of numbers. I have two questions, first one is, assuming all our plants operate at optimum capacity, what is the quarterly volume run rate that we can look at versus the current run rate of about 1.35 lakh metric ton, what is the peak quarterly number that we can look at?

Rajesh Bhatia: We can go to about 160.

Sunny Gosar: So, we have about 25%, 30% room on the current quarterly base?

Rajesh Bhatia: Yes.

Sunny Gosar: And this includes the Dharwad plant or Dharwad will be…

Rajesh Bhatia: No, all those new extensions are separate.

Sunny Gosar: Okay, sure. My second question is, out of I think Rs. 1,000 crores or Rs. 1,100 crores CAPEX between Dharwad and aseptic line, plus Dubai, what would be the split between FY 2022 and FY 2023? And does this also include any maintenance CAPEX?

Rajesh Bhatia: Maintenance CAPEX is always different than the growth CAPEX, you know that. And the maintenance CAPEX you know that Rs. 150 odd crores average you can take on average basis.

Sunny Gosar: Sure. Sir, what would be the split of this Rs. 1,000 crores between FY 2022 and FY 2023?

Rajesh Bhatia: I don't have that.

Sunny Gosar: But any color you can give in terms of the quantum of split, whether it will be front-ended or back-ended in that sense?

Rajesh Bhatia: It will be back ended; it will go mostly in FY 2023.

Sunny Gosar: Right. In terms of the outflow will be more FY 2023?

Rajesh Bhatia: Yes.

Sunny Gosar: I was just saying to understand from a cash flow perspective that how much cash flow will be required for CAPEX in FY 2022. And that is why the split would have been quite helpful. Thank you.

Moderator: Thank you. The next question is from the line of Shubhang Agarwal from Equitas India. Please go ahead.

Shubhang Agarwal: Sir, firstly, I just wanted a bit more understanding on the margins. So, you did mention that in Q1 BOPP margins were higher and BOPET margins were lower. But what is the current state of affairs? Has the margin gone higher in BOPP and what's the trend in BOPET right now?

Rajesh Bhatia: I am unable to comment on the current state of margins, given that it is a quarter which is running. So, I will find it difficult to share the current thing. But overall, I can say that for the industry it's the same trend, which is there in Q1, is likely to be in Q2 also.

Shubhang Agarwal: Secondly, I wanted to know your view on the current demand supply situation globally. So, considering a lot of lines are expected to come up in the current year in BOPET, and few more lines are expected in BOPP also, so going ahead, what's your view or two bits on the demand supply situation that we may see?

Rajesh Bhatia: So, there's not much which is happening in FY 2022 on the capacity expansion side. But FY 2023, yes, there will be new capacity, which will get commissioned, including our capacity as well at Dharwad. So, there may be a bit of impact on the demand supply at that point in time, but overseas markets looks to be lot in much of oversupply or any capacity, rent and expansion issues and all that. So, India in FY 2023, we may have an oversupply situation, which will depend. And freight rates are frankly doubled or even tripled in the last one year or so. And with the supply chain issues coming out of the pandemic, so producing in low-cost jurisdictions and exporting to where the consumption centers are, I think there will be challenges in that model given the much higher freight rates, and also the supply chain situation from there. So, I think 2022 looks like there are no capacity expansion impact coming into play.

Shubhang Agarwal: Great. And then lastly, on the Nigeria bit, so are we expecting the commissioning happening in this quarter itself?

Rajesh Bhatia: Yes.

Moderator: Thank you. The next question is from the line of Tarun, an individual investor. Please go ahead.

Tarun: I just have a question regarding the cash deployment strategy of the company. With respect to the profit that we are likely to generate in FY 2022, and assuming that around Rs. 500 crores we are likely to spend on CAPEX, out of which, Mr. Rajesh, you have already mentioned around Rs. 400 crores will be with additional debt, what are we going to do with so much surplus cash that the company is going to generate in FY 2022?

Rajesh Bhatia: I think what has happened is, one, I said that what we have done is we are not utilizing our working capital. So, if you see Q4 and current quarter, there has been a substantial increase in raw material costs, increase in the prices, which means that overall your investment in working capital is going up a little. And, frankly, at this stage we have not drawn on any of the facilities, though, that is the end plan. So, what we have used is our internal cash to pay up for some of the initial advances and the land that we have acquired or the other initial expenses, which we are doing. So, towards the later part of the year, we will see that in terms of our commitments on those, because overseas lenders there are always commitment charges to be paid. Depending on the cash flow scenario, what's deployed in the working capital, what are the costs associated with that, we will take a closer view as to we need to draw down on the debt in FY 2022 itself or maybe postpone this to the next year. But as of now, whole investment what's happening in these facilities is more or less internally funded, as well as the whole increase in the working capital cycle, which has happened in the last few quarters. And despite that, the liquidity position is good, as I said, working capital utilization is extremely, extremely low.

Tarun: I get your point, I mean, the volatility and raw market material price is one of the variant. But if you see for 2022, if I look at the total cash flow from operations that you are likely to generate, Rs. 1,400 crores is a massive number, around Rs. 1,000 crores profit and G&A of around Rs. 400 crores, so Rs. 1,500 crores of net cash that you will generate, assuming that the raw material prices remain more or less where they are. And given the outlook that we have on the raw material and crude oil prices, we don't see that moving around 50% from where we are right now, at least over the next six to nine months. Plus, you have around Rs. 650 crores of cash that is lying on the books. So, Rs. 2,000 plus crores of cash, that is a massive number, I mean, there should be some policy, some guidance in terms of what you are internally planning to do with so much cash, it's approximately around 50% of the market cap of the company sir.

Rajesh Bhatia: But as I said that at this stage, what we are doing is only whatever the cash is being deployed in the working capital and in the CAPEX projects is all largely funded by the company itself. Towards the end of the year we will take a call as to what do we do in terms of availing the various financing tie-ups we have for this. And that’s the call we will take probably in the third quarter or the fourth quarter of the year, depending on what are the business dynamics. At this stage, very difficult to say anything, but I just told you currently how we are keeping, how we are utilizing the cash.

Tarun: Sir, just last question, the cast that is lying on the books of the company, what are you doing with that cash, is it invested in some kind of debt mutual fund or where exactly is that money parked? And what kind of returns are we generating in that?

Rajesh Bhatia: Partially it is deployed in the short-term instruments or bank deposits, but because we don't keep it so the idea is to keep lowering your working capital requirements to what extent you have that opportunity to reduce your working capital or to pay for cash advances to the customers in terms of getting some price benefits, that's what will be optimized first.

Tarun: Fair enough. If I may ask one last question. Sir, typically if I look at this industry as a whole, packaging industry in India as a whole, I can just draw it out into two buckets right now. So, one is the UFLEX and Jindal Poly, and the other is Cosmo and Polyplex. Sir, basically I am comparing in terms of how the market is perceiving these two buckets of companies, how they are valuing these companies. If we look at Polyplex and Cosmo, they are trading at 10 plus PE while UFLEX and Jindal, I will not comment on Jindal right now, you can look at the numbers on your own, but UFLEX it is trading at around 4 times price-to-earnings.

So, this only happens in the market when the market has concern about two broad things, one is, if the company is highly leveraged, or there are questions on the corporate governance of the company. I presume in terms of leverage, you have clearly indicated in previous calls that you have no intention to pay down debt, because its cheap debt and you want to load the balance sheet with leverage and make the best use of that, that we can’t question anyway. What are you trying to do in terms of, if at all there is a perception in the market in terms of governance standard, basically its arriving from what you have been doing in terms of distributing the cash to the shareholders? I mean, last year we generated around Rs. 800 crores cash, we paid around only Rs. 15 crores to the shareholders. So, what is the measure, what is the Board's thinking in terms of, if at all there is a market perception about governance standards or question marks around that, how are you trying to address that and make sure that minority shareholders of the company are rewarded for their trust in the company? Sir, that's the last question for me. Thank you so much.

Rajesh Bhatia: See, first of all, I did answer earlier on the call as to what's happening in one of the competitors and I would not like to get into that, because they are currently looking at divesting, the promoters are looking to divest that and I said that the exit valuations are always different from the other valuations. One other company which you named has also said that they will expand into FMCG, which is totally unrelated line of business. I think coming to the corporate governance side of this thing, I don't think so that there is anything which is different between us and some of those companies, rather I would say that the kind of steps we have taken in the last few years in terms of having EY as an internal auditor, and we also decided now to have BDO as our statutory auditor in the UFLEX. So, I think all these are positives.

Now, at what stage the market takes cognizance of that, or you as a shareholder find that, this is what typically I have seen that the mentality in your community is also if SBI is trading at X and Bank of Baroda is trading at different multiples, you guys try to find out the reason as to why there is valuation mismatch. And if there are no demerits, so the valuation catches up or the alternate securities catches up to that, or the market takes. So, I have no reasons to say that why should we be less than some of our competitors in terms of governance or the debt numbers and all that. But you are the guys who invest and you are the best judge by themselves looking at quality of earnings, the quality of the management discretion, and all that as to what’s the way. If all of you collectively feel that, no, we find this as a better play, because while the packaging films may be still a commoditized business, but the packaging business, yes, it's a B2B. But that commands different valuations. Or you feel that no, that business margins are not so great at this point in time, and then the margins will improve in that set of business, that’s the time to look at that and leave it to your fine judgment. But on governance side and on any other parameters, I think, we may be better than many of the other speakers and not worse than them.

In terms of our distribution of the cash, I think it all is a matter of whether you want to grow or want to distribute that cash back to the shareholder. I think we undertook a very major expansion, the kind of what was unheard of in the UFLEX, two years back where we would have spent close to about $400 million in terms of setting up these new facilities, and then the additional working capital that these businesses require initially and during the sustenance. And the debt levels to EBITDA numbers, even without all these capacities getting commissioned and full debt drawn, is still less than 2:1. Our net debt to EBITDA as on March 31 was 1.8. So, I think, overall, the business is good, I am part of this organization now for more than four years, I mean, coming from my previous organization at Jindal Steel & Power or Dalmia Cement or Reliance or the DCM Group and all that, I really don't find that you should be concerned about any of the governance issues. You don't define, and you don't remain the largest player in your business category, howsoever small that business maybe, if you are not committed to that business. I think that even if you are polishing shoes, if you are not committed to your business and you are not on it 100%, you can't be a market leader in that. And we are market leaders in India, the market leaders globally, we have got in to new product lines such as aseptic, and we proved ourselves there also.

So, I think it's really up to you guys to actually now think of maybe some age old perceptions you guys may still have. Come over those and think positively and think beyond any governance or other issues. We are trying to do our best in terms of addressing if there were issues where some of our auditors on the internal or external side were probably not to your liking, we have addressed those concerns. We have a fairly independent board where there's only one person from the family on the board. So, we are performing, we are the market leaders in many business categories, rest I have to leave to all of you guys to make up your mind in terms of where you want to invest. And if you see value, obviously you will invest. You will not invest because you like Mr. Bhatia or somebody else in the organization, you will invest only if you know that you will grow your money over time.

Tarun: Thank you sir, for this elaborate answer. Just to add, we as an individual investor are small players, I mean, it has to only come from management action in terms of how they perceive their company to be how they value their company. Just in terms of if you look at your peers, Cosmos has done the same thing last year, they did a huge buyback, not a substantial one, but they gave a clear indication to the company, to the market, to the market participants that the market is not valuing them properly, this is what they believe is the true value of the company. And they showed the market what the true value of the company is. And we have seen what has happened in the last…

Rajesh Bhatia: Polyplex did that.

Tarun: Cosmo did the buyback, Polyplex have paid Rs. 200 share dividends in last one year, that's a massive number. So, that's the one area that I wanted to highlight. That's all from me, thank you so much for taking my questions.

Rajesh Bhatia: And I can only tell you that both these names that you mentioned, they have their own set of issues in terms of the succession and other and all that. I always told you that the exit valuation is always different from the valuation at which you remain in the business. So, the names that you said that till about a year ago, I think they were not trading at these sort of levels and all that, and maybe the market smelt something else happening in these companies and that’s where numbers have changed all of a sudden in the last one year.

Moderator: Thank you. We take the last question from the line of VL Ajay Kumar from UFLEX Limited. Please go ahead.

Ajay Kumar: Sir my question was, every time, every quarter or last year, Rs. 1,600 crores of amount has gone for depreciation, that's a huge amount. So, why is this amount like this? And this time, this quarter also Rs. 127 crores depreciation is taking place, and every time we are trying to go for CAPEX, but there is no interest coming down or depreciation coming down.

Rajesh Bhatia: Depreciation never comes down, depreciation is a charge where you have already invested in the assets and then it's a statutory rate of depreciation that you are going to apply to your asset base, and that remains there. At least when you set up the assets for the for the 20 years odd or so, even if you depreciate the assets at say 5% or so, this charge is always static. So, it's not a case only with UFLEX, it is a case with every company. So, unless you sell off your assets, this is a charge which is going to be there till the time the asset is on your books. So, I really don't understand the question.

Ajay Kumar: Sir, the interest part is always constantly maintaining, now only four places you are trying to increase the production, that is Nigeria, Egypt, Poland and the other place, what is the other place?

Rajesh Bhatia: Hungary.

Ajay Kumar: So, there only two places you have mentioned, what about Nigeria they have done this quarter, the other one place, Egypt there is no production?

Rajesh Bhatia: I think you were not on the call. I mentioned that in Egypt, including the new plant, the capacity utilization levels are pretty high, at about 80% odd or so.

Ajay Kumar: The other two, that is Poland.

Rajesh Bhatia: I said all that, I mentioned all that already. When this is uploaded on the website, you can have a look at it.

Ajay Kumar: Okay. Sir, the interest part is constantly maintaining, like slowly it is either going up or the interest part is coming down. But we are not trying to reduce it drastically, whereas in other companies like Cosmo or Polyplex or any other company their interest, suppose if they are making profits their interest rates are coming down drastically, financial cost, we are always maintaining like that. What could be the reason?

Rajesh Bhatia: Because we are the ones who undertook major capacity expansion program three years back. And we have taken on the debt to finance those investments. So, if you see last three years, our debts have gone up because of substantial investments made in new CAPEX plan, and that's where the interest rate has gone up. Because if you see some of the other players, I don't think so anybody in the industry in the last few years undertook the kind of expansion that we took, setting up four Greenfield or Brownfield, and one relocation, and all this costs money. And as I explained that the markets have also helped us, the capacity utilization levels across even the new investments look to be pretty decent at this stage, even to begin with. It has done us well and those are reflected in close to about 40% increase in the top line and 35% increase at the PAT levels.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Yusuf Nasrulla for closing comments.

Yusuf Nasrulla: Thank you, everyone, for joining us today. And we look forward to staying in touch in future quarters. Have a nice day.

Rajesh Bhatia: Thank you.

Moderator: Thank you. On behalf of UFLEX Limited, that concludes this conference. Thank you all for joining. You may now disconnect the lines.