



UFLEX LIMITED

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UFLEX/SEC/2023/

June 5, 2023

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Plot No.C/1, G-Block
Bandra-Kurla Complex
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Mumbai – 400051

The BSE Limited
Corporate Relationships Department
1st Floor, New Trading Ring,
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Dalal Street, Fort,
Mumbai – 400 001

Scrip Code : UFLEX

Scrip Code : 500148

Subject: Transcript of the earnings conference call conducted on 1st June, 2023

Dear Sir(s),

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call conducted on 1st June, 2023. The same is also hosted on the website of the Company at https://www.uflexltd.com/pdf/EarningsConferenceCall/2022-23/UFlex_Q4FY23_Transcript.pdf

Request you to take on record.

Thanking you,

Yours faithfully,
For UFLEX LIMITED

(Ritesh Chaudhry)
Sr. Vice President - Secretarial &
Company Secretary

Encl: As above



“UFlex Limited Q4 FY’23 Results Conference Call”

June 01, 2023



Dolat Capital



MANAGEMENT: MR. RAJESH BHATIA – GROUP PRESIDENT AND CHIEF FINANCIAL OFFICER – UFLEX LIMITED

MODERATOR: MR. SACHIN BOBADE – DOLAT CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to the UFlex Limited Q4 FY '23 Results Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sachin Bobade from Dolat Capital. Thank you, and over to you, sir.

Sachin Bobade: Thank you, Zico. On behalf of Dolat Capital, I welcome you all to the Q4 FY'23 earnings conference call of UFlex Limited. Hope you all and your family are staying safe and healthy.

From the management side, we have with us Mr. Rajesh Bhatia, Group President and Chief Financial Officer. Now I hand the floor to the management for their opening remarks, and then we would have question-and-answer session. Over to you, sir.

Rajesh Bhatia: Thank you. Thanks, everybody, for being on this call. The key highlights for our FY '23 and for the Q4, so FY '23 marks the highest ever revenue UFlex has earned. And vis-a-vis last year, we are up by close to but, more than 11%. We also achieved the highest ever packaging business sales, both Aseptic and flexible combined. So over the last year, we have about 33% growth in this.

Our Indian business has achieved the highest ever volumes. It's also achieved the highest-ever profitability. And for the year as a whole, we have an EBITDA of about INR2,070 crores versus INR2,278 crores last year. So it's about down by about 9%.

And the year was also exceptional in the sense that we suffered the devaluation loss of about INR150 crores in two devaluations done by the Egyptian Central bank. And we've also had a substantial foreign exchange valuation loss arising from the dollar trend across, against all the other currencies, which was also substantial for the year at INR190 crores.

So when we look at the PAT level versus last year, so INR350 crores is almost about INR340 crores is what has its financials. So a very substantial part of this is non-cash. But this is what market we had to take in the numbers, because as you consolidate into final balance sheet.

The interest cost for the year is also slightly higher, because we've seen interest rate is slowing up in all the jurisdictions, the euro, where we had zero euro reward, we're now sitting at about 3.35%. U.S. dollar interest rates have also gone up plus the working capital of where we started in the business in Nigeria, we had higher impact of both our accounts of interest cost increase as well as on account of the working capital deployment. So overall, the interest cost for the year went up significantly.

And couple of things, more Aseptic packaging business did very well. So for the year as a whole, we had about 93%, 94% capacity utilization levels. We also had a volume growth of about 116% in that business over the last year. And businesses for Flexible packaging as well as business

which also includes the holography, films has also done pretty well. And we have had single digit growth in 2 businesses as well in terms of the volume.

So while the packaging films business has shown some kind of softness, because of a bunch of certain capacities as well as the impact of the demand in Europe driven by the Russia-Ukraine conflict, which has led to higher energy cost bill, higher EMI costs which today the people are paying because of the higher interest rate. So all this affected the consumption.

The same story happened in the U.S. as well. So at the time when there was a bunching of capacities, so these two situations in Europe and the physical impact of the Fed aggressive rate hike did impact the demand for the packaging films because as the consumers, cut down on their certain consumption to pay for their higher energy bills and pay for their higher mortgage EMI. And that impacted the demand at the time when the new capacity had come on screen.

So Q3 was probably the worst hit and that Q4 is far better. And as we go into the month of May now, we are seeing a better sizing not at the same level at which we had in Q1 of the last year but in Q1 of this year. So definitely, there is a certain sizing increases that has been taken by the industry as a whole. And hopefully, I think in next quarter or so, we will see a better performance by the packaging films business as well.

And in the meanwhile, the other businesses whether it is ink and adhesives, whether it is packaging, flexible, aseptic, cylinders all of them continue to do very well. So if I were to segregate between the two things, the India business has done pretty well where we have seen the record turnover, record volumes, record profitability. And so that business has stood up and overall, if we see India business EBITDA also vis-a-vis last year, it's up. So the entire profitability volumes, the entire business has done pretty well.

The overseas bit, especially Europe and US where the demand got impacted and the price ratio came. So that business is, slowly coming back to the normal levels. And hopefully, next few quarters, we will see a much better performance from this part of the business as well as other business, so that's the advantage we had in terms of the diversification, what we have, value added products in the packaging.

And if I see the results of all the other peers, I could see that between the Q3 and Q4, they are down as high as 80%. 30% to 50% is very normal but, there are some numbers which are down as much as 80%, 85% as well on a quarterly EBITDA basis. Simply because, that part of the business, packaging films that went through a bit of a pain because of the overcapacities and the situations that are happened in Europe. So that in a way is a nutshell of the whole performance for FY23 and Q4 and I think the aseptic packaging business, as I said, we are at 93% capacity utilization.

So we made efforts to be bottom line like this in capacity and all that and hopefully this year the way it is going already, we will be, from the declared capacity, we should be at about 115 to 120% utilization levels with this debottleneck. And we are exploring further opportunities as to how do we be debottleneck more in that business from the existing plant itself so that we could

take it up our capacity levels to about 12 billion packs a year from current 7 billion packs a year while there continues to be a healthy demand for the product.

And we also established well there in our export front and currently we are also exporting about 40% of our production from the aseptic business. So that in a nutshell is what we've done in FY23 and Q4 FY23. And I'm ready for any questions that you may have.

And just one thing, we had announced earlier, that we could be setting up facilities to manufacture raw material for the packaging films, polyester packaging films. So, in India we are already at an advanced stage in that project, and we will probably complete that by the end of FY24 fiscal. But we've also now taken up similar investment in Egypt also, from which facility we will take care of Middle East, Nigeria, Egypt itself as well as our Poland facility. So our dependence on the market for the improvement of PET chips will become very, very miniscule. And so the intention is to capture those margins which are there by doing this backward integration.

And our size today almost in the polyester films being almost the largest player in the world, I think we required a bit of protection or you can say a strategic investment to ensure the raw material availability. We've suffered enough in the last three years when the raw materials were in a short supply. So not only the cost but availability was also an issue and of course, the higher freight rates also didn't help that business.

So we've lost substantial margins because we were buying all the raw materials for the PET film plant from the third parties. And with the enhanced capacities coming in India, Poland, Nigeria, Russia, I think then we need to insulate ourselves. So these two investments are not going to be, accretive of the top line but they'll give us a higher margin as well as, quality control over the raw materials. And the availability will no longer be an issue.

Though in the last two, three years also didn't let our production of the PET films suffered and most of the plants we were operating already at 90% plus utilization levels throughout the period. But yes, there was a lot of, effort in terms of, procuring and as well as the reduce our cost. So hence these two investments were planned and they've been coming up well. And in India by the end of this current system we'll be up and running in that facility also. Thank you. So that's what I wanted to say.

- Moderator:** Our first question is from the line of Rushabh Shah from Anubhuti Advisors LLP.
- Rushabh Shah:** So just, I wanted to understand again on the PET chips plant which you are setting up in Egypt. So what will be your capacity? And again, what will be your absolute capex on that part? Can you please guide?
- Rajesh Bhatia:** About \$70 million is the capex and that should produce about 200,000 tons of chips.
- Rushabh Shah:** Okay. 200,000 tons. Okay. And then this will primarily cater to the Egypt plant and along with that even to Nigeria and Dubai. I have missed that part of your initial commentary.
- Rajesh Bhatia:** Nigeria, Dubai, Poland and maybe to some portions to America as well.

- Rushabh Shah:** Okay. So how much of our requirement will be fulfilled from this plant and for these all plants as a raw material requirement?
- Rajesh Bhatia:** I think we should be about 60% to 70%.
- Rushabh Shah:** 60% to 70%. Perfect. Perfect. Secondly, my question was with respect to Dharwad capacity. So I think that whole 63,000 tons has been commissioned from April month, correct?
- Rajesh Bhatia:** Yes.
- Rushabh Shah:** Okay. And we are expecting revenue to the tune of INR700 crores to INR800 crores incremental per annum from this plant?
- Rajesh Bhatia:** Yes.
- Rushabh Shah:** Okay. Margin profile will be the same as what we are doing on a standalone basis? Or will there be any, I think, positive or negative to that?
- Rajesh Bhatia:** The same what we are doing currently except that, it will be bit because it's a new facility, it's the larger facility than the existing one. So the manpower, if you see part time output of that cost is going to be much lower. It's a more efficient plants. So the par consumption is also going to be more efficient. So a bit of savings on the costs, but overall, if you see in the southern part of the country, the margins, the prices and all that, so that's going to be pretty much the same.
- Rushabh Shah:** Understood. And I just wanted to know about PET chips plan, which you are setting up -- which we are setting up in Panipat, so earlier, we were guiding for it to be starting by April '25 when we initially announced this whole project. So is my understanding correct that we are now commissioning it by likely of Q4 FY '24?
- Rajesh Bhatia:** Yes.
- Rushabh Shah:** Okay, okay. And in terms of, we were also setting up an 18,000 tons CPP plant in Dubai, we announced along with the Dharwad capacity. So any update on that?
- Rajesh Bhatia:** That has also been commissioned.
- Rushabh Shah:** That month itself, April, or this quarter?
- Rajesh Bhatia:** This quarter.
- Rushabh Shah:** Okay. Okay. Understood. And just one last question on the pricing part. So I think in the yesterday's TV interview, you mentioned that pricing is, I think, anywhere up 13% to 15% from last quarter. So just wanted to understand what is in context of global prices? Or it is India specific or it's across the sphere that pricing has moved up?
- Rajesh Bhatia:** India prices moved up slow downs the global prices also that impacted a bit. So I think overall is that, there is being an increase.

- Rushabh Shah:** Okay. Okay. So, can we assume that margins for the entire year basically would be better than what we have achieved in FY '23, I think we'll be better off than 12%?
- Rajesh Bhatia:** We are in a good position, if we ignore that exchange aspect. So I think it's too early to say as to how the packaging film business shapes up. I think let's give it another quarter before we make any judgment on as to what is the margin that we see, because that's a substantial business for us. And the margin profile of that, it's been overall more margins we made. Though, Aseptic margins and the packaging business, flexible packaging business margins have improved in the last 1 year in FY '23. But overall margin guidance, you have to give us another quarter before we come back to you.
- Rushabh Shah:** So what were our Aseptic margins in FY '23 as a whole if you can spell out, the revenue and margins?
- Rajesh Bhatia:** Okay. It is 70%
- Rushabh Shah:** Okay. And revenue number, if you can guide us.
- Rajesh Bhatia:** No, we don't. We will not share that.
- Rushabh Shah:** Okay. Okay. But just last one part. So for, I think April and May, these months have been relatively far better than what we were seeing in Q3 and Q4 of FY '23?
- Rajesh Bhatia:** Yes.
- Moderator** Our next question is from the line of Kaushik Poddar from KB Capital Markets Private Limited.
- Kaushik Poddar:** Can you please clarify the income tax rate that happened in sometime back, I mean, a few months back? Is there any development?
- Rajesh Bhatia:** We have given guidance that, at Uflex level, we were not worried about any adverse impacts so far that. So though we haven't heard anything back from the department, but that's the view we are maintaining. It's just because some of the customers and customers have some questionable practices, and they come back raising the regional suppliers from whom to take the raw material. There is nothing sort of beyond that, and we've already clarified to the stock exchanges, our position on this, and there's been no update or any changes there after all that.
- Kaushik Poddar:** So just to get myself clear, there is no notice or something you have received from IT department, is it?
- Rajesh Bhatia:** No demand as far.
- Kaushik Poddar:** No demand. Okay. And is there any plan you see. The packaging division gets a much higher PE multiple and especially your Aseptic packaging, I think it's a great thing you have. So is there any possibility of demerging the packaging from your film business?
- Rajesh Bhatia:** Not in any immediate future, but these kinds of structuring options can always explore opportunities. So, we are impressed with as to what are the kind of margins, Aseptic, what other

kind of valuation Aseptic will have, or the flexibles will have along that. But if you ask me, at this point, there's nothing as such.

Kaushik Poddar: And on the sustainability front, I mean, of this usage of used plastics. Has there been any incremental new development, something going up or coming down or something of that sort? Or there's no more or less, and that's the same.

Rajesh Bhatia: Yes. There's nothing on that.

Moderator: Our next question is from the line of Nirav Seksaria from Living Root Capital.

Nirav Seksaria: So, Sir, in year '22, you have given the revenue guidance is a profitable guidance, but we won't be able to reach that level. So what was exactly the reason behind that?

Rajesh Bhatia: On the revenue guidance, I think we are more than where we said about INR15,000-odd crores, we are at about INR14,800-odd crores revenue. And the last 2 quarters, we did have a price impact on the packaging films business, which were a sort of about INR15,000 crores of guidance that we had given overall for the year.

And as I said already, and that that started happening because Europe, had a dual problem. One is as a consumer within your limited budget, you started allocating more for your energy requirements. You started allocating more for your more mortgage payments. So obviously, the consumption got impacted there.

And U.S., it was more of from the point of view that the higher mortgage payments, somewhere the consumer adjusted their other sort of requirements, which impacted the demand. And this all got impacted at a time when certain new capacities also came on.

And that's the reason why we see the prices started softening and the demand getting impacted. So hopefully, in Europe now, the energy prices are back to the normal levels, a little bit higher though, but still there's a lot of residue and we see that at least in the wholesale market, the prices are back to the normal.

And once that translates, that benefits then gets passed on to the consumer side. So that pricing power will come back in Europe and the propensity to consume will increase. That's what we are all waiting for. And in the meanwhile, access capacity gets absorbed as the volume in India per se where the capacities gains have been growing at a decent pace.

And so, India 6 months is good enough to absorb one new plant that is set up at a 10% to 11% or so of the demand to increase. So I think all these things will happen simultaneously, the recovery takes a bit of time. And that's what is expected in the current quarter somewhat. And then for the next quarter, I think the things should be much better than what they were in Q3 and Q4.

Nirav Seksaria: And sir, when do we expect the EU and the U.S. business to normalize?

Rajesh Bhatia: I think we should look at Q3 or Q4 of FY'24.

- Moderator:** Thank you. Our next question is from the line of Avnish Shah from Arka Fincap. Please go ahead.
- Avnish Shah:** Hi, sir. Quick question from my side, on the repayment profile of the term debt, if we can just talk about the maturities for FY '24, FY '25, FY '26?
- Rajesh Bhatia:** I don't have that number as of now, but I think overall basis, that should be within 500, overall.
- Avnish Shah:** So cumulatively, over the next three years, it's going to be 500?
- Rajesh Bhatia:** No, no. Every year.
- Avnish Shah:** Every year. Okay. And this is the standalone or consol level?
- Rajesh Bhatia:** Consol level.
- Avnish Shah:** Okay. Thank you, sir.
- Moderator:** Thank you. Our next question is from the line of Rajeev Arora from RS Leasing Consultants. Please go ahead.
- Rajeev Arora:** Hi, good afternoon. Thanks for taking my question. First of all, congratulations on a reasonable set off operational numbers despite all the headwinds and the exchange losses that the company sustained. My question is on the debt side. This year, the debt has increased by about INR500 crores. Where do we expect to have any capital expenditure for which you know how to take debt? And where do we see our debt levels on a consolidated basis in the next financial year? Thank you.
- Rajesh Bhatia:** I think the only project we have right now is the chips plant, all other projects have been completed, and the debt is fully dropped for that. So that's the one. And so, this project is about close to about INR580 odd crores, of which the debt level would be about INR350-odd crores. So even if we take all the debt in the next financial year for this minus sort of the debt level the amortization, so I don't see that from a current level, net debt of about INR4,400 crores, there's going to be any substantial sort of incremental increase.
- Rajeev Arora:** So, we should expect, say, about INR4,500 crores on a net basis. Is it fair to understand?
- Rajesh Bhatia:** There's a working capital debt, which we've not drawn because we were incurring a lot from the internal accruals and all that. So maybe if we draw that to another maybe INR500-odd crores.
- Rajeev Arora:** One more question. On the trade receivables side, there is a quantum jump from last year. In fact, last year compared to the year before the last year. So, can we expect the levels of trade receivables to come down to the levels they used to be two, three years, four years back?
- Rajesh Bhatia:** How can that be that when we have from FY '22, '21, our top line was about INR9,000 crores. Today, we had about INR15,000-odd crores. So how can the receivables be at the same level when the volumes are growing, when the commodity prices were high in the last couple of years and all that. It can't be at the same level. So it's the best to see it in relation to your...

- Rajeev Arora:** In terms of the debtors turnover ratio.
- Moderator:** Thank you. Our next question is from the line of Rushabh Shah from Anubhuti Advisors LLP. Please go ahead.
- Rushabh Shah:** Sir, just an extension to the question asked by last participant. So I think for the next two years, our capex requirement would be to the tune of INR700 crores to INR750-odd crores. So will we take any incremental debt, or this will be both funded from internal accruals itself?
- Rajesh Bhatia:** We'll take the whatever is the debt possible to be drawn for that, we'll take that debt.
- Rushabh Shah:** Okay. And are we looking for any repayment this fiscal or the debt levels will be going up from these levels?
- Rajesh Bhatia:** No. So we are looking at the normal amortization, which may be to the tune of INR450 crores or INR500 crores each year. So those normal amortization payments will continue to be paid.
- Rushabh Shah:** Okay. And in terms of our aseptic packaging, I think last time, what we guided was that we are -- I think, we were going from 9 billion pouches to 12 billion pouches in FY '24. So are we going ahead with that project?
- Rajesh Bhatia:** That's part of the debottlenecking of the existing plant that we'll do. So that will not happen in FY -- so that might only materialize by the end of FY '24 or at best by January '24. So that opportunity we keep on looking in terms of how do we debottleneck existing client to produce through from this plant. And that typically happens because you have more capacity, let's say, sometimes on printing, sometimes on extrusion. So, you just try to find equipment to balance that so that today, our printing capacity is more in that plant and extrusion is a limited capacity. So, we are going to add one extruder in the existing client.
- Rushabh Shah:** Okay. But currently, we are almost running above our capacity utilization what we have?
- Rajesh Bhatia:** Currently, we are at a much higher than our existing capacity numbers.
- Moderator:** Thank you. Our next question is from the line of Nirav Seksaria from Living Root Capital. Please go ahead.
- Nirav Seksaria:** Could you quantify the foreign exchange losses we had this quarter?
- Rajesh Bhatia:** This quarter?
- Nirav Seksaria:** For the year, sorry.
- Rajesh Bhatia:** For the year is about INR340-odd crores.
- Nirav Seksaria:** And sir, this was majorly because of the Egyptian currency.
- Rajesh Bhatia:** So INR150 crores of this is because of announced devaluation by the Egyptian Central Bank. And the rest of this comes from because after the Egyptian Central Bank announced a certain

devaluation, the market is still pricing in the further devaluation because literally, the dollar strength against all the currencies is driving all these countries hard, Nigeria, Egypt, Mexico.

So we've seen a constant pressure in terms of their currency values vis-a-vis dollars. And when we convert those currencies into dollars and then from dollars to rupee, that's the impact at a consolidation level. But if you talk like in India, if we're making a balance sheet in rupee and in Egypt, we're making a balance sheet in Egyptian pound. So there in the local currencies, there is only a positive impact seen in that business. But the moment you convert into INA reporting, that's what the differential comes into play and when you convert your existing receivables, your existing debt at a dollar level when that's where you take a hit.

Moderator: Thank you. Our next question is from the line of Avanish Shah from Arka Fincap. Please go ahead.

Avanish Shah: Sir, one more question from our end. What would be the geographical split of the revenues for FY '23?

Rajesh Bhatia: I think, I'll say it in this manner that India is the largest, then next comes Egypt, and then Mexico, Poland, and then all the others are almost that at the same level.

Avanish Shah: Okay. And India would be roughly 40%?

Rajesh Bhatia: Yes, India would be about 40%.

Moderator: Thank you. Our next question is from the line Rajeev Arora from RS Leasing Consultants. Please go ahead.

Rajeev Arora: Are we considering any hedging instruments so that we can avoid any foreign currency losses in the future?

Rajesh Bhatia: No, actually, it's not possible. You know, you can do that only to the extent that you have your liabilities to hedge. But you have regular sales. So when those have to be converted into the dollar number and from dollar to INR. So that impact cannot be there avoided on the balance sheet. Now suppose, to an extent you have a dollar loan and earning in local currency and then you have to convert. So you can probably hedge that, like we do hedge it in India. Only that hedging is sort of possible. Because ultimately, the whole profit and loss account, your turnover and all that so those losses will come on your balance sheet, the conversion losses will appear on your balance sheet.

Rajeev Arora: To which extent did we have the hedging in place?

Rajesh Bhatia: We didn't have any hedging in place.

Management: We did not hedge.

Rajeev Arora: So are we considering anything like this in the future because of lessons learnt now?

Rajesh Bhatia: No. We are not looking at any hedging as of now.

Rajeev Arora: Can it be suggested that to the extent the stock is constant on an average basis. To that extent, we can consider having foreign currency hedging. Would it be possible? Is that a good suggestion?

Rajesh Bhatia: Sort of -- we looked at this. But reacting to a situation now, it's not going to help it. So you may because today, if you talk about the forward covers are much more expensive than what they were. So if you book now and then you end up losing money on that as well so it's not the right move.

Moderator: Thank you. That was the end of our question-and-answer session. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Rajesh Bhatia: Thanks, everybody, for participating on our earnings call for Q4 and FY '23. We will surely update you as and when there is any updates on any of our business, which has a substantial impact. And the Q1 of FY '24, we are upbeat on the flexibles, we are upbeat on the aseptics. There has been a pickup in the packaging films business as well. As I said, it's too early to say or make sort of a final judgment about as to how the FY '24 is going to shape up from a packaging films business perspective. So we'll be back with you with more insight about the business as we report our earnings for the next quarter. Thank you.

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