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'A part of your daily life'
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UFLEX/SEC/2025/

February 21, 2025

The National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No.C/l, G-Block
Bandra-Kurla Complex
Bandra (E),
Mumbai – 400051

Scrip Code : UFLEX

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

Scrip Code : 500148

Subject : Transcript of the earnings conference call conducted on 17th February, 2025

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 ***Monday, 17th February, 2025.***

Request you to take on record.

Thanking you,

Yours faithfully,
For UFLEX LIMITED

RITESH CHAUDHRY

Digitally signed by RITESH CHAUDHRY
Date: 2025.02.21 19:04:38 +05'30'

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

Encl: As above

UFLEX LIMITED

Q3 FY25 EARNINGS CONFERENCE CALL: FEBRUARY 17, 2025, 04:00 P.M. IST

MANAGEMENT: **MR. RAJESH BHATIA – GROUP PRESIDENT AND CHIEF FINANCIAL OFFICER, UFLEX LIMITED**
MR. SURAJIT PAL – VICE PRESIDENT, HEAD OF INVESTOR RELATIONS, UFLEX LIMITED

HOST: **MR. SACHIN BOBADE – DOLAT CAPITAL MARKETS**

ACTIVE Q&A PARTICIPANTS:

- **Chirag Singhal** - First Water Capital
- **Prashant Rishi -** Cascade Capital
- **Darshan Jhaveri** - Crown Capital
- **Kaushik Poddar** - KB Capital Markets
- **Mehul Savla** - RW Equity
- **Aman Kumar Sonthalia** - A K Securities
- **Saket Kapoor** - Kapoor Stock Brokings & Company

Moderator: Ladies and gentlemen, good day, and welcome to the UFlex Limited Q3 and 9 Months FY '25 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.

Sachin Bobade: Thank you, Yashashri, and good evening, everyone. On behalf of Dolat Capital, I welcome you all to the Q3 FY '25 Earnings Conference Call of UFlex Limited. Hope you all and your family members are staying safe and healthy. From the management side, we have with us Mr. Rajesh Bhatia, Group President and Chief Financial Officer; and Mr. Surajit Pal, Vice Chairman, Investor Relations.

Now I hand the floor to Mr. Surajit Pal for his opening remarks, and then we'll have the management remarks. Thank you.

Surajit Pal: Thank you, Sachin. Good afternoon, everyone. Thank you for joining us today for the Q3 9 months FY '25 earnings conference call of UFlex Limited. Let me draw your attention to the fact that our discussion on this call will include certain forward-looking statements, which are predictions, projections, or other estimates about future events. These estimates reflect management's current expectations about the future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied.

I would now request Mr. Rajesh Bhatia, our Group President and CFO, for his opening remarks, following which we will open the forum for an interactive question-and-answer session. Over to you, sir.

Rajesh Bhatia: Thank you. Hello. Thanks a lot for introducing me on this call, Surajit. Hi, everybody. I think I'll start with saying that this has been a very decent quarter as you would have all seen from the quarterly reports, financials as well as the investors' deck. The key highlights being the revenue is up 12.8% on a year-on-year basis and to about INR3,774 crores,. and while we've also seen a volume growth of 6.3%.

So, the differential between the revenue growth of 12.8% backed by the volume growth of 6.3% very well explains the margin improvement in the business in the current quarter. So, we had a 13.8% EBITDA margin for the quarter versus 11.4% in Q2. So, they are clearly evident that the margin expansion has happened. And even when we look at the 9-month performance also, the EBITDA margin is at 12.6%, which gives a Y-o-Y growth of 1.1%.

The other notable things are that Aseptic Packaging capacity utilization in the leanest period of the year, which is Q3 from October, November, and December is also above 100%. It's actually at 104%, while in the same period of last year, the capacity utilization was 84%. So clearly, you see 20% higher in this Q3 versus FY '24 Q3.

Similarly, in certain other jurisdictions, where we were having a lower capacity utilization because of various issues and all that, Nigeria being one where the currency devaluation had played havoc in the past couple of years. So, we saw the plant utilization for that improving to 90% in this quarter, which is the highest ever we've achieved so far. In Q2, we had achieved 64%, but we expect that going forward, Nigeria plant, we'll be able to operate at 100% capacity utilization.

Even the Mexico plant capacity utilization reached 98% in this quarter, which was 85% in Q2. The Poland plant still continues to have a lower capacity utilization, less than 70%. So that remains -- still there's room for improvement in that. And this quarter, after 4 quarters, at least, we had a positive PAT of INR111 crores as we didn't witness any negative currency devaluation. Rather in this quarter, there has been a positive currency devaluation of Nigeria, so the devaluation impact in this quarter is actually positive by about INR26-odd crores. So that gives us a PAT of about INR111 crores.

The other things that we announced along with the highlights for the quarter was that the Government of India with effect from 1st April 2025 have mandated the norms for use of the recycled materials in the rigid plastics as well as in the flexibles. So, in the rigid plastics, the country is starting with the 30% recycled material to be used along with 70% virgin material. And in the flexible side, the stipulation is 10% to begin with from 1st April '25.

And given our previous experience into recycling, where we mastered the art of recycling with smaller facilities over many plants over the last few years, starting way back from mid-'90s. There's a time now to look at expanding your recycling facilities because the customer will need blended material, not only a virgin material, which we've been making so far, but a blended material with the recycled content changing as per the government directives.

This apart, we're going to set up a PET bottle recycling facility at a new facility in Noida. There will be polyethylene recycling also and multi-layered plastic recycling, also for which we are going to spend about INR317 crores for setting up this facility. I know that there will be a delay in the way that the market needs it. But we expect that even the implementation of this new facility will also have its own hiccups and all that, and the present requirements, maybe we can -- customer requirements, maybe we can meet with our existing capacities to the extent we can. But I think if we invest in -- we need to invest in this because ultimately, our customer will need a blended material, and we need to be prepared ourselves today for achieving that.

Other than that, we've also announced the WPP bags investment of about 50 million in Mexico, which will take care of the North America and South America markets. So, this is not flexible packaging. This is the WPP bags, which are used in the pet food industry, a very specific product. We've set up a separate company in Mexico, which will implement this project, and we're spending about $50 million in terms of making -- investing in this plant.

Other than that, our existing expansion of our Aseptic facility in India from 7 billion packs to 12 billion packs has already achieved the mechanical completion. We have proceeded towards commercializing commercial operations. And similarly, for our 216,000 MTPA PET chips facility at Egypt also, that has also achieved mechanical completion, and we are taking steps to make that operational as well.

We had also announced in the last quarter, our Aseptic Packaging expansion even at Egypt also. So that's also underway. And during the quarter, we've spent about $19 million on that facility. And we look to complete that -- try to complete that within FY '26. But let's see as to -- we'll be closer to the event; we'll give you more updates about that.

The debt has increased with all the expansions and all that. So, while in a 9 months period, we've spent close to about INR1,100 crores on the capex, the net debt increase is about INR550-odd crores, which means that we've spent -- we've liquidated. Even with this expansion, we've lowered our debt, and the existing amortization is happening in a natural process.

So, as we get into FY '26, I think we will get the advantage -- start getting the advantage of our chips plant, of our Aseptic facility in Sanand. And just by these 2, we expect that these should add about -- on a full utilization basis, this should add to anywhere between INR2,200 crores to INR2,400 crores annually -- plus the CPP in Mexico, which is already more or less completed.

So, these 3 will give us anywhere between INR2,200 crores to INR2,500 crores of the top line at a full capacity utilization basis. So, I think we can -- maybe FY '26, we'll achieve partial, but FY '27, we will achieve its full potential. And then we will have these 3 new facilities of recycling WPP bags and 12 billion Asepto capacity coming into play from FY '27 and onwards, which will give us additional revenues as well as the profitability.

The net debt to EBITDA ratio is reasonable at about 3.24x. And we expect that the earning momentum in the packaging and the packaging films, we've seen the EBITDA expansion. So that trend will continue in the current quarter as well in FY '26. And this will come from the higher margins as well as from the higher utilization of our various facilities. And for the year as a whole, we expect that the Mexico as well as the plant in Nigeria, we'll achieve 100% capacity utilization for the whole of the FY '26, which will give us the margin expansion in these 2.

Currency stabilization in Nigeria also gives a lot of boost in terms of planning in a much better way, and that is what we saw in this quarter when we had an 8% currency appreciation vis-a-vis as on 30th of September and that led to higher demand, more balanced planning for your cash flows, for your receivables.

So, I think that is sort of very positive for the business as such. In India also, the demand continues to be strong and the expansion in the export markets continue to be the main focus of the Indian players. And we've seen in the last 2 years that there is a 52% increase in the exports from India for the BOPET and much lower export expansion in the BOPP side.

But the real test of that will come later this year when we will -- the new capacities from the new facilities getting commissioned on the BOPP side comes into play Maybe in Q1 -- towards the end of Q1 in the fiscal FY '26.

So that in a nutshell is our take on the Q3 performance and the operations and the proposed investments in the recycling and WPP bags. That is happening in Mexico, but the recycling investment is happening at our Noida facility. The new facility it's not in the existing premises. It's new land and building what we are building for this project.

Thank you, gentlemen. And I would open the house to the questions, and we'll be happy to address all your queries to the best of my knowledge and abilities. And if there's anything that we can't answer, I think our teams can always be in touch and get back. Thank you.

Moderator: We'll take our first question from the line of Chirag Singhal from First Water Fund.

Chirag Singhal: Just a couple of questions. Firstly, on the performance of overseas plants. So, in Egypt and Poland, we saw a dip in the utilization. So, is this due to some lack of demand or let's say some temporary issues such as technical issues at the plant? And if you can provide capacity utilization guidance for these two plants for FY '26?

Rajesh Bhatia: No. Which one are you referring to?

Chirag Singhal: Egypt and Poland. If you look at sequentially, there was a dip in the capacity utilization. So, what are the reasons for that? And if you can provide guidance for FY '26?

Rajesh Bhatia: So, as I said that the Europe still continues to be affected Demand continues to be affected because of the specific things to the Europe, which we've already told many times on the call. And the other reason is that the India has increased its exports to European countries, and that's the reason why you see that though in the Q3 of FY '24, Poland plant capacity utilization was 61.5%.

In Q2 of this year, we achieved about 68%, but we are back to 61% in the current quarter. And we'll try to achieve about 80% levels in the FY '26 for this. Egypt will come up fast. I think Egypt had some technical issues at the plant, and there may be their routine maintenance and all that. So that's a one-off. So, Egypt will remain at about 90-plus percent utilization level.

Chirag Singhal: Okay. And this is for FY '26?

Rajesh Bhatia: Yes, FY '26.

Chirag Singhal: Understood. My next question is on Asepto. So, we are very close to the commissioning of the debottlenecking. So how much time will it take to ramp up this expansion? And if you can also provide guidance in terms of sales volume for the FY '26.

Rajesh Bhatia: So, FY '26, if I think out of 12 billion packs, if we can achieve anywhere around between 10.5 billion to 11 billion packs a year, I think we target that as of now for FY '26.

Chirag Singhal: Got it. Regarding this WPP bags, so can you like provide some data points? What is the optimum capacity utilization, how much time it will take and the kind of top line and EBITDA margin that we can expect from this expansion?

Rajesh Bhatia: So, we spent $50 million in this and the top line that we will -- we are looking to generate from this will almost be the same number. The margins would be -- margins in this are higher because U.S. imports about 80% of its PET food bags, packaging from all over the world. But there is no nearshoring.

So, there is nothing which is being supplied by Mexico, which is next door to this. So that is where we spotted this opportunity. So, the same product we make in India also and -- but that plant had a limited capacity and the larger players of the world, which are brands, which is Purina of Nestle and the two brands of Mars, which are Pedigree and Royal Canin. I think we are -- we'll be looking at selling them largely.

So overall, this business should generate anywhere between 22% to 25% EBITDA margin. The ramp-up will take a bit of a time here because like in Asepto, in anything wherever you pack food, it takes time for you to get the customer validation of the product and all. So, the ramp-up here might take about a couple of years' time.

Chirag Singhal: Okay. So, this is more like, maybe initially, it will take time to ramp up until we have a base. And then I think just like in Asepto, we saw the expansions coming in and ramping up very fast. Are we also looking at this line of business?

Rajesh Bhatia: Like Asepto, this is a very small capacity plant that we are going ahead with. And as you rightly said, when the product is accepted, and America has a huge deficit. They import as much as 80% of their PET food packaging requirements from outside of the USA. So, the opportunity here could be big.

Chirag Singhal: Right. So, actually, my next question was on the exports from Mexico to U.S. So, you mentioned that we have strategically put this plant in Mexico because there is a good demand from the U.S. Now with this new scenario of 25% tariffs, if they get imposed and whenever they get imposed, so what are the alternatives available for us? I mean, our existing Mexico plant, we have one line that is dedicated to the U.S. So, if the tariffs are imposed, then what are the alternatives available?

Rajesh Bhatia: So, I think there are multiple options here. The first scenario is that this does not get implemented. And as we saw, this was levied but then withdrawn the next day and postponed for a month's period. And in the meanwhile, there have been positive statements from Mexican side also in terms of the increasing the border security and all that and infiltration.

So hopefully, if that gets taken care of, there will be no duty. Other aspects are that if there are duty on Mexican products, if not 25, maybe 10, maybe 15, maybe 5, we don't know as yet. So, in all likelihood, all the other countries exporting to U.S. will also have some sort of duties or the other, which will put us on a level playing field vis-a-vis others who are exporting to America.

But let's see. There are a couple of other options as well, maybe job work things also. But I think those are very, very premature as of now. But once there is something final, which is done by U.S., then only we'll take a final call as to what needs to be done on this.

Moderator: We'll take our next question from the line of Prashant Rishi from Cascade Capital.

Prashant Rishi: My question was slightly related to the industry situation right now. If you could give us some color on the current overcapacity in the BOPP and BOPET segments, and some clue on the upcoming capacities in both the segments?

Rajesh Bhatia: So BOPET is, yes, overcapacity is there. And that is where we are seeing that after the Q1 around 15th of June around, there was -- everybody started to look at exports in a big way, and that is where we are seeing that the exports from India have increased. There is a natural demand increase also in India by about 10% or so. So, over the last 1.5 years, we've seen also that coming into play.

And the higher exports from India means that there is a lesser domestic availability. So, to that extent, as of now, there is a near balance in the capacity. With the result that, the capacity utilization levels across -- if we see Q3 of FY '24 in India, we had a capacity utilization level of 73%, which is now 77%. It will gradually increase in FY '26 as well. So more or less, the pain on the PET side seems to be over.

On the BOPP side, it's quite balanced as of now. There is not much overcapacity, but there are 4 new capacities which are coming on stream in FY '26, June onwards. I think there will be some impact of that on the BOPP prices. And it will take maybe a couple of quarters the way PET industry behaved during this, while there was a price war that got started, but everybody realized that it does not help anybody.

And so there has been an overall discipline and there has been export orientation by all the players, which has helped stabilize the prices on the PET side. So maybe if similar things happen on the BOPP side also, I think we see the much lesser pain than what was seen at the BOPET times.

Prashant Rishi: What is the extent of capacity that is coming? You said 4 different capacities are coming in the BOPP line in FY '26, if you have any idea?

Rajesh Bhatia: Each plant, if you take about 4,000 tons also, per month, so about 15% and 80% capacity utilization levels. So, every month, there will be an excess product of about 12,000 to 13,000 tons given the presently it is balanced.

Prashant Rishi: 12,000 to 13,000 tons per month of capacity will be there by FY '26 in BOPP?

Rajesh Bhatia: Yes.

Prashant Rishi: And sir, in PET segment, is there any new capacity in the offering in the next 1 or 2 years?

Rajesh Bhatia: I think next 1 year or so, there will be one plant more, which will be coming. That will be maybe in FY '27 or maybe later part of FY '26.

Prashant Rishi: And the extent of capacity there, which is coming?

Rajesh Bhatia: 4,000 tons a month.

Moderator: We'll take our next question from the line of Darshan Jhaveri from Crown Capital.

Darshan Jhaveri: Firstly, congratulations on a great set of results, sir. So, sir, just wanted to know on a broad basis like how do we see the industry currently? And like the performance that we did in Q3 will it be similar in Q4? And how do we see FY '26 panning out for us?

Rajesh Bhatia: So, I think Q4 should be better for us given that this is the peak period for Aseptic, and the new capacity will give us some extra volumes for sure. The Q4 will also have some impact of Egypt PET facility coming into play and giving us additional volumes. So, these 2 are the incremental ones. And if we are able to maintain our base in the way we've done in the Q3 with the base being there, these 2 add-ons should give us a better numbers in the Q4.

And obviously, FY '26, when we have a full year working of these 3 investments available, I think, as I said already, we are looking to add from there about INR2,000 to INR2,400 crores kind of the revenue. And taking an average EBITDA margin of about 15% or so. So that should be able to give you additional EBITDA for FY '26 over and above your baseline for FY '25.

And there might be some impact of the BOPP extra capacity coming into play. I'll not be able to foresee that. But given that as UFlex, we are a very small player in BOPP in India, and we are a much larger player on the BOPET side in India. I think that impact can be easily absorbed quite comfortably.

Darshan Jhaveri: Correct, sir. But I think the 3 new capacities, you are saying INR2,000 crores, but that's at optimum level, right? What kind of utilization do we expect for like the next year, sir?

Rajesh Bhatia: So, I think the first year because the PET chips will not add to the revenues much. Why I'm saying so is because ultimately, if we are using that in our own plants and all that, so that sales will get negated. That will ultimately add to the margin profile. But Aseptic, if first year we are able to utilize from the new plant 80% capacity, I think we hope to grow in the next year.

Darshan Jhaveri: Okay. Fair enough, sir. So, any broad like revenue guidance on a consolidated or EBITDA consolidated basis that we could look for, sir?

Rajesh Bhatia: I think we should look at about 12% to 15% over FY '25.

Darshan Jhaveri: Okay. And with margins getting better?

Rajesh Bhatia: Margins will be better, I can't say anything right now. So, FY '25 looks like we'll be able to achieve about INR2,000 crores of EBITDA, as I had said at the beginning of the year. So, we have already achieved INR1,425 crores in the first 3 quarters. And if we replicate the same number as what we achieved in Q3 and Q4, then we are about INR1,950-odd crores. And the additional volumes from the PET chips and Asepto expansion should take us to about INR2,000-odd crores of numbers for sure.

Moderator: We'll take our next question from the line of Kaushik Poddar: from KB Capital Markets.

Kaushik Poddar: You have given the debt to EBITDA at around 3.25x. How do you see that panning out for '26 and '27?

Rajesh Bhatia: '26, we have to add on the debt because of the 2 projects that we've announced. We are looking at about INR750 crores of expansion, the money to be spent on these 2 expansions. And then there is $126 million of Asepto packaging expansion announced in Egypt, of which about 19-20 million is already spent. So, I think we will spend about INR1,700 crores more in the new expansion, what is happening in the next couple of years.

And so that will increase the debt. But as I said that if you see FY '25, 9 months, we've spent INR1,100 crores and the net debt increase is about INR550-odd crores. So, the natural amortization, which is already into play, which is about INR1,000 crores a year, will take care of the debt. Not much of the debt will get added to the overall numbers as of now.

But still, I think we will have to see as to how much -- given that there is a INR1,700 crores of the new expansions, which are announced, which have to sort of get concluded over the next couple of years. So, there will be some debt which will get added and about INR2,000 crores is the normal amortization during this period as well.

Kaushik Poddar: Okay. But you don't have a ready-made number at hand?

Rajesh Bhatia: I don't have that number as of now.

Kaushik Poddar: Okay. And see, in Egypt for the aseptic packaging, has the first phase come into operation? When will it come in operation?

Rajesh Bhatia: No, no. Egypt, we just announced in the last quarter. So, we are expecting completion in FY '26 that we had given to the team, which means that even if it happens on time. So only FY '27 onwards, the operations will come into play.

Kaushik Poddar: So, this is a new 7 billion units, right?

Rajesh Bhatia: This is new 12 billion units.

Kaushik Poddar: It's straight away 12 billion?

Rajesh Bhatia: Yes, yes.

Kaushik Poddar: Okay. So initially, it was 7 billion, you have hiked it to 12 billion, and it will be 12 billion whenever it gets the commission?

Rajesh Bhatia: Egypt, we planned directly for 12 billion. 7 billion is the India existing capacity, which has been upgraded to 12 billion packs now.

Kaushik Poddar: Okay. But this 3.25x, whatever you have shown right now, can this be a ballpark figure at least for the next 2, 3 years?

Rajesh Bhatia: It might go up a little bit when but then as the operations will -- because when you complete the project, the debt gets added, but the revenue and profitability does not. So, it might go up a little bit when the project is under implementation.

Kaushik Poddar: And as to the recycling of used polymers, so for example, likes of the Hindustan Unilever or Nestle, they will obviously be using you for that percentage, right? I mean, so you'll be supplying them the combined recycled as well as virgin plastic. Is that the way it works?

Rajesh Bhatia: To their converters.

Kaushik Poddar: Yes. So, they will push their things to the converters, right? So, you're giving a certificate that this packaging is, say, 30% recycled and 70% virgin. Will it work that way as a converter?

Rajesh Bhatia: Yes.

Kaushik Poddar: You said yes, is it?

Rajesh Bhatia: Yes.

Kaushik Poddar: Okay. So, have you been talking to the likes of Nestle and Hindustan Unilever on this issue?

Rajesh Bhatia: We're talking to all our clients that they need this support on an urgent basis because the law comes into force from 1st of April and industry as a whole is not ready with this capacity.

Kaushik Poddar: Industry as a whole. So, because of this industry not being ready and you people are ahead of others probably in this industry, some amount of...

Rajesh Bhatia: It's a yearly commitment little bit. First year, everybody feels that the government will not be as rigid as it will be, but I think we'll have to see that how does this pan out.

Kaushik Poddar: Do you see any scope for increase in margin because of this new regime?

Rajesh Bhatia: 100%. There will be definitely a scope to increase your margin because not many people will be able to sort of do that.

Kaushik Poddar: And do you expect the margin to be around 15% next year?

Rajesh Bhatia: Margin I think let's keep 14% as of now.

Kaushik Poddar: That's the bottom, is it? I mean, 14% to 16% can we take it or it's around 14%?

Rajesh Bhatia: I think around 14% is more comfortable. Let's see one more quarter. This quarter has been 13.8%, but let's see the next one quarter and then probably for FY26, then we can make a better guidance.

Kaushik Poddar: So plus minus 14% is what we can take it, is it?

Rajesh Bhatia: You're right. So blended if you see for the year FY25, 9 months is 12.6%. So, while for this quarter it is 13.8%, but for 9 months it is 12.6%. So, a guidance of 14% for the whole year FY26, I think, will be decent numbers to not very aggressive and not very unduly lower also.

Kaushik Poddar: And which hopefully will get ramped up with the commissioning of the other plants in '27, full year of functioning of some of the plants?

Rajesh Bhatia: Recycling will definitely give you more margins to begin with as the industry will settle and all that. Obviously, the margin profile will get – in India it is normal there is a common thing going on then everybody wants to go in that field because everybody sees the extra margin. The leading players will take a lead, but then slowly and gradually everyone will come into recycled capability.

Kaushik Poddar: And this PET food packaging plant will be coming up in Mexico when?

Rajesh Bhatia: Food packaging, also, we are targeting completion towards the end of '26.

Kaushik Poddar: Okay. Thanks. I think I have taken a good amount of your time. Thank you.

Moderator: Thank you. We'll take our next question from the line of Mehul Savla from RW Equity. Please go ahead.

Mehul Savla: Sir, just on the packaging business, while we are seeing growth, it's mainly coming from the liquid side. So, a flexible packaging outlook if you can give will be great?

Rajesh Bhatia: Flexible packaging we've not done any capacity expansion there. The only thing we are trying to do is we are trying to improve our profile in that moving on to the more retort pouches and all that and leaving the roll form business, the lower margins roll form business. So, we're doing that trend. I saw Huhtamaki posted only about 5%, 5% odd operating margins, EBITDA margin in that business.

So, I think that business, clearly, nobody is expanding the capacity. And even we are also not expanding any capacity over there. So, that in a way the focus remains to do more value-added products rather than look to expand capacity because the margins still are very, very low in that business. So, it's a business which is there for us, but clearly not focus of any growth or any new initiatives other than that you move up the value chain in terms of what you are doing.

Mehul Savla: Got it sir. And sir while having this whole shift to this mono-polymer, that also I think it seems to be more regulation driven rather than voluntary adoption. So, does that impact us in any way?

Rajesh Bhatia: So, with the new guidelines, which do not differentiate between a monomer or a multiple multilayered from a recycling perspective, I think India has settled the things. Europe also, the recycling is coming into play in a big way in the next few years. They are also starting now. But I think India has said that irrespective of whatever you use, whether you use monomer or X or Y, you have to have so much of recycled content in your material.

Now BOPP clearly cannot be recycled mechanically. While PET and PE, polyethylene can be mechanically recycled. So, if the guideline is that it should be 10% in that to begin with, and BOPP is not recyclable. So, the impact will come in PET, and you have to do balancing. It will come more at PET around 15%, 20% and in PE it will also come more.

So, I think those adjustments have to be made because the concept is on a mass balance basis and not, if you have a structure where you use BOPP, BOPP and PE, and the regulation is overall 10% should be recycled content. So those which cannot be recycled for that you can use 100% virgin, and which can be recycled you can use higher recycled content in overall you will achieve 10% of the norm.

Mehul Savla: But from a technological point of view, that is not like a big challenge?

Rajesh Bhatia: No, that's not a challenge.

Mehul Savla: That's it sir. Thank you very much.

Moderator: Thank you. We'll take our next question from the line of Aman Kumar Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir, my question is related to Asepto. Sir, there is two parts of this question. Number one is that, sir, recently in Uttarakhand and UP government has announced that they have made it mandatory to use Aseptic Packaging in local liquor. So, how much market will it create for UP and Uttarakhand?

And if it rolls over to other states also, then how big capacity requirement will be there? This is number one. And number two, sir, our total capacity of Asepto, 60% we sell in the domestic market and 40% in the overseas market. Sir, when we start this Egypt facility, so that 40%, which we used to export in the international market, Egypt will take care of that market, but that 40% will be increased in the domestic market. So, 40% plus this 5 billion extra capacity. So, whether we will be able to sell the entire capacity in the Indian market?

Rajesh Bhatia: Please understand that there is still 1-1.5 years remaining for the Egypt plant to become operational. Our current focus is to utilize the excess capacity of 7 to 12 billion packs as soon as possible. Once the new plant is installed, we will assess how much production will shift from India. Meanwhile, the Indian market is also growing. By the time the new plant is installed, if we can utilize the full capacity of 12 billion packs in India, with 30% being exported, and the Indian market continues to grow, everything will fall into place.

So, this tetra, which is coming in liquor and all that, this is a very big market. At present, there are only 2-3 states utilizing this packaging. UP already has been doing it, but they are talking of a special category. As I mentioned previously, the potential is enormous. If all states adopt tetra packs for liquor, we will need to increase our capacity by 4-5 times to meet the demand.

Unfortunately, two players are there in industry and in that we have a domination there. Tetra Pak is not big in this category. However, the focus on this category is not widespread across the industry yet. Governments are beginning to recognize the importance of this packaging to prevent counterfeiting and deaths caused by spurious liquor. This transition will happen gradually, but if it occurs suddenly, the existing capacity may not be sufficient to meet the demand.

Aman Sonthalia: Our recycling business is currently operating at 65% capacity. We are in the process of installing a new plant in Noida. Once this new plant is operational, do we expect to receive enough raw material to potentially achieve 100% utilization.

Rajesh Bhatia: See raw material PET bottles which is there in India it is plenty and in this industry the government has allowed that you can import that also. So raw material side there won't be any constraints. The existing capacity utilization for this recycling facility is low because nobody wants to pay extra money for the recycled material given that there is no legal requirement to do so.

So, all the big brands will do this under the compulsion of the law. Voluntarily there is not much scope. The self-discipline, the self-things that we say probably are only seen in the media reports and all that. But when it comes to actually putting the money on the table and spending a bit extra in terms of the recycled content, the companies don't do that.

But with the regulation coming in, so as of now we have not done any large investments in this line because there was no regulation. But we knew that this is going to happen one day or the other. So, we were just keeping ourselves up to date with the smaller pilot plants or smaller investments to test the waters, to test the efficiencies. To test the technology so that as and when it comes, we have the head start that we have got, gives us an advantage over the rest of the competition. That's what the whole endeavour was.

Aman Sonthalia: Sir, does it still seem that it will start from 1st April? Or are there still doubts?

Rajesh Bhatia: Sir, February is going to end so the government has not given any relaxation so far. So, assuming, it will happen, but the testing will be done for the year as a whole only. So, for the initial months, probably because the material is not going to be available so widely, it will take time for things to mature. So, it is the same as the battery charging stations versus the EV cars.

Aman Sonthalia: Sir, the ultra-high barrier film that we are planning to make in Hungary. Already we have received a lot of go ahead from customers. How big is this market and how big will be our capacity for it and how much margin will it have?

Rajesh Bhatia Sonthalia Ji, I think I'll have to address this offline.

Aman Sonthalia: Okay. And sir, one last question, sir, regarding this debt. Every quarter, some debts increase because we see an exciting project every time. I think this is dampening the stock price a little bit in the stock market. So, whether the company is planning to trim this high leverage, is there any planning to keep it a little lower?

Rajesh Bhatia: I think as of now, I have no sort of guidance on this. So, whatever we are planning as of now, we are planning through a mix of debt and internal accruals. As I said, even if in the next 2 years we spend INR1700 crores and INR2000 crores gets repaid, so you are not added on to your ultimate debt level. If you see our overall debt-to-EBITDA, from the last 2 years we've done investment, but debt-to-EBITDA ratio is around the same only.

Aman Sonthalia: Sir, one last question. Sir, the big investment we have made in BOPP and BOPET, If we concentrate more on value-added films, then we will have less capex and more margin. So are we planning something like this, instead of putting new BOPET and BOPP plant, if we concentrate more on value-added films which will give us more margin?

Rajesh Bhatia: We had planned value-added films only in Hungary and Egypt. But when COVID came, there was a huge shortage of the raw material. So that time, everything was selling because the material was in short supply. So, we didn't get the opportunity to sort of start working on that value-added films. And sir, value-added films, so we made good money during that period.

Our plants and our investments got implemented at the right time by the grace of God, those were the good times to implement and start producing. But eventually, I think you are right because we'll have to do that. But sir, for value-added films, base films are necessary. For value-added films, you will have to make base films. So, I think we are now realizing that when these things became normal after 2023-2024, that is where we started putting emphasis on the value-added products.

Moderator: We'll take our next question from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Sir, our presentation that we release is very complete. And in that, you express all the points in a descriptive manner in the form of literature. So, please continue this pattern. With this, we, the investors and analysts, get all the detailed information. So, I thank your team, sir. Sir, the second thing is about our debt levels. So, as on date, sir, what is our net debt in stand-alone and what is the net debt on consolidated? Can you tell us the absolute numbers?

Rajesh Bhatia: So, you want India's and overseas?

Saket Kapoor: Yes. Net debt level?

Rajesh Bhatia: Yes, I will give it to you now.

Saket Kapoor: Secondly, if you provide the specifications of the engineering activities that we do, what is the nature of it and what is the growth inclination in it?

Rajesh Bhatia: So, the net debt in India is INR2,650 crores. And the total consolidated is INR6,150 crores.

Saket Kapoor: Okay, sir. And, sir, tell us the split between long-term and working capital?

Rajesh Bhatia: So, your long-term is INR2,300 crores in India and INR5,450 crores overseas. This is gross.

Saket Kapoor: Yes, this is gross. So, you have to balance the net cash?

Rajesh Bhatia: Yes, so the net cash balance will be required for both working capital and that too. My team is saying that the information is given in slide number 27 in our PPT.

Saket Kapoor: Yes, sir, I will see again, sir. Sir, the second point is that the engineering activities that we show as a line items, what is the key constituent of it? And what kind of work is this that we club in engineering activities?

Rajesh Bhatia: So, there are two types of things in engineering activities. One is our engineering facility where we make printing machines and packaging machines, including Aseptic Packaging machines also. So, that facility is used for making printing machines for the converting industry, and also for the packaging machines at the customer end.

Now, if you want to fill bhujia in it, you need packaging machines for that. Or if you want to fill liquid in Aseptic, you need packaging machines for that. So, all these machines are made there. The other subset of that business is cylinders which are required in the printing. So, those cylinders, because they form part of the engineering activities, they also get clubbed under the engineering activities.

Saket Kapoor: So, sir, we source materials in this, and we do the finishing work as a job or this total engineering, everything is in-house work?

Rajesh Bhatia: Everything is in-house. We buy the raw materials. If, for example, copper is used in cylinders or whatever components are required in engineering steel, aluminums, whatever is required, we buy all that. We have a full workshop of our own where we make these machines. We don't do any trading as such. We make it at our plant and give it to the customers.

Saket Kapoor: I joined a bit late. So, if you have given this answer in the beginning, the trajectory of BOPP and BOPET margins, which we ended in the December quarter, the average, is it trending upwards or at what levels?

Rajesh Bhatia: It is at the same level.

Saket Kapoor: Regarding the value creation exercise, Mr. Surajit addressed investors in one or two forums, discussing how investors can derive the right value of the company through listing overseas subsidiaries or other corporate actions. Could you please provide an update on the current status of this initiative and when we can expect fresh information?

Rajesh Bhatia: Look, it is still in the discussion stage. Nothing is finalized yet. So, it will be a little difficult to say at what stage the discussion is. When things will be done, you will be the first to know. We try to interact with consultants to guide us on how to add value, how to create value for our shareholders, we keep doing that.

Unfortunately, we have not been able to reach at final stage yet. But as soon as we reach, we will keep you informed. Endeavour is there clearly, but the timeliness of the final decision making and all that is clearly, I am unable to give you any guidance on that.

Saket Kapoor: Sir, you are correct. However, if a company operates with a specific purpose, it should have a clear timeline, such as achieving certain goals within 2 years, 2 anniversaries, or 2 calendar years. We should not make statements just for the sake of saying something; there must be merit in what we communicate. That is why I asked this question.

Rajesh Bhatia: When you decide that you have to do it, then only you will be able to provide the guidelines and timelines. So right now, it is at such a stage that we are identifying what should be done. When it is decided what to do, then we will be able to provide the guidelines and timelines.

Saket Kapoor: There are two more questions, sir. Our PAT margin is currently in the range of 2% to 3%. Will this remain the same in the long run? While the EBITDA number is important for investors, the PAT and PBT numbers are crucial for deriving our earnings. Other line items are primarily used to service our banks. Are we aiming to maintain this 2% margin, or are we working towards incremental margins? This would likely require rationalization in our employee costs and other line items.

Rajesh Bhatia: Sir, as a business, we see at EBITDA margin basis. In this industry, our capital may today be more financed from the debt level that. And that is why at the PAT level, we have a higher interest. And the depreciation, we use that money to pay our loans. But eventually, when these get knocked off from the balance sheet, then only.

Sir, regardless of the actions taken, depreciation will remain on the balance sheet. It represents a charge that corresponds to an actual cash outflow, as it is used for debt repayment. But even if that debt repayment is zero, that charge will remain in the balance sheet. The charge that can be reduced can only be the interest rate. For reducing this interest charge, we will somewhere sacrifice our growth and whatever is the new trending in the business and all that. So, unless the management says, we will fund our growth subsequent from the IPO market or from raising the equity and all that and very nominal amount from the debt financing levels and all that, then it's a different story.

But at present today, with the kind of projects we have and the debt financing we take for that, I think you know I feel that these two liabilities expenses on the balance sheets - interest as well as principal - will remain.

Saket Kapoor: And last two points to conclude sir, our other operating income and other income, the two-line items we show in income, if you can tell us the constituents of this and what are the factors that influence our other operating income and other income?

Rajesh Bhatia: I think we can get back to you offline on this.

Saket Kapoor: Okay, understood. I think so this has been the best quarter in terms of the profitability also and also the operational performance. So, according to the current quarter's performance, what consistency do you see? If we concentrate on the number above the exceptional line item, that is the PBT number before exceptional item, for consolidated level was at INR147 crore.

Regarding the major constituents like other income and other operating income, how much consistency can we expect in these numbers going forward? Are the factors that contributed to this quarter still strong, or do you see them reversing? How reliable are these numbers for projecting our future work and planning?

Rajesh Bhatia: I think it is 100% achievable. The consistency is achievable ahead also. One factor I mentioned is the expected overcapacity in BOPP from the first quarter of FY '26. What is the impact of this as of today, and how soon will the industry address it? Other than that, all other aspects of the business seems manageable.

Saket Kapoor: Sir, what will be the percentage representation of BOPP, BOPET and Aseptic Packaging in our overall sales mix?

Rajesh Bhatia: Our BOPP will be in India only. In India our total capacity is 164,000 out of which 31,000 ton is BOPP which is approx. 20% of India capacity.

Rajesh Bhatia: So, India has a capacity of 20% BOPP of India's capacity and 80% is PET or CPP.

Saket Kapoor: And at the consol level?

Rajesh Bhatia: On a consol level, total capacity is 6,20,000 tons and out of that BOPP is 1,50,00 which is ~24%.

Saket Kapoor: Ok, so we have a sense of overcapacity on this because of the commissioning of the new capacities. And sir, the power and fuel line item which you had discussed earlier, this line item is such that by investing in renewable we can lower our cost. Many manufacturing industries are doing this. So, what is the sourcing of our total power in the renewable segment and what is the future investment?

Rajesh Bhatia: So, right now, in Gujarat, our plant in Dharwad, we take about 70%-80% power from renewables. We have another big plant in Noida. So, we have contracted in Noida, but some policies of the UP government had to be changed because of which we were able to take electricity under that contract. We think that ultimately, in all the plants, we will take about 70%-80% power from renewables in the next two years.

Saket Kapoor: And what is our mix right now, sir?

Rajesh Bhatia: Right now, it is coming in just one plant, 70%-80%, which is our plant in Dharwad.

Saket Kapoor: Okay. If we look at the total number, what is the percentage?

Rajesh Bhatia: I don't have the total number right now, sir.

Saket Kapoor: Okay. And lastly, sir, the line-item number 10, in which you mentioned items that will be reclassified to profit and loss account. Is this our investment losses or how should it be studied?

Rajesh Bhatia: These are our equity investments.

Saket Kapoor: Okay. These are for our foreign companies?

Rajesh Bhatia: Yes.

Saket Kapoor: Okay. So, sir, why do we have to review the losses of INR1,233 crores?

Rajesh Bhatia: That comes due to conversion, due to FX conversion.

Saket Kapoor: Okay. It is a translation loss only?

Rajesh Bhatia: Yes.

Saket Kapoor: Thank you, sir, for your detailed information.

Moderator: We'll take our next question from the line of Aman Kumar Sonthalia from AK Securities.

Aman Sonthalia: Sir how is the industry pricing in Europe because in the past it was very high so whether it has come down?

Rajesh Bhatia: Yes. The prices are now normal, double of what they were pre-COVID. But it's manageable.

Aman Sonthalia: And sir, There will be an overcapacity of BOPP. So, whether it is confined to India or it is applicable to Hungary and Egypt also?

Rajesh Bhatia: We'll have one plant coming in Turkey also. But it is more of an India problem.

Aman Sonthalia: And sir there is a comment from Trump that the paper straw was removed, and it doesn't matter. They have re-implemented it. Do you think that this will boost plastic consumption?

Rajesh Bhatia: I think that's a very valid point, what you have raised that he has endorsed plastic in a big way through his statement of this.. It's a good movement. But let's see its long-term implication. I think it's good for the industry because he realized there is no life without plastics.

And he said that I don't want to even manage this plastic like everybody else is saying. It's a good beginning, but sir, I don't have a clear visibility on this as to whether it will remain or it goes when he has to leave the office after 4 years because he's not coming back again after that ever.

Aman Sonthalia: But in the short term, there is no problem for the next 4 years?

Rajesh Bhatia: There is no problem.

Aman Sonthalia: And, sir, what is the margin in Flexible Packaging?

Rajesh Bhatia: We don't give a separate margin. If you look at the balance sheet of Huhtamaki, you will find that they have 5.3% in this quarter. We are clearly much better than them. Because we are more of integrated play. We have our own films, packaging cylinders, chemicals and inks. We definitely have a better margin profile than the competition at present.

But again, the fact that we've not grown in that business in capacity, that itself clearly shows that the margin profile in the industry is not up to the desired level, and that is why we are not investing in that business. In fact, in the last 7 years I've been with this company, I think we would have invested only in some balancing equipment here and there but never added any capacity in that business.

Aman Sonthalia: Sir, there are a lot of players and there is a lot of competition. That's why the margin has come down a lot?

Rajesh Bhatia: I think there are multiple reasons. One, you rightly said that this is a business in India where MNCs also look to buy at the cheapest cost rather than look to buy from the quality suppliers. And they use those players to bring the quality suppliers value also down. So, if you compare me with a person who is father and son who are operating the plant at a floor shop level basis and all that not comply to labor guidelines, do not comply to any directives or when I do all that, and I'm subjected to audit also from these setups vis-a-vis. So, they show me that this person is able to give them at a lower cost than me and I should match its price. That cannot be achieved, sir. I don't know. This sector is only there in India, not in other mature jurisdictions. As I said that the margin profiling because of these small outfits is not so good. So that is why we are not expanding this capacity.

Aman Sonthalia: Sir, in Holography, the business is growing consistently, and margins are good?

Rajesh Bhatia: Yes, the business is good in holographic, so we will do that only.

Aman Sonthalia: And the margins are quite good?

Rajesh Bhatia: Yes.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Surajit Pal: Thank you, ladies and gentlemen, for your engaging questions and active participation. We will soon have the transcript of this call on our website, **www.uflexltd.com**. We look forward to connecting with you again in the next quarter. Thank you and have a great day.

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

(This document has been edited for readability purpose)

Note: This document has been translated from Hindi to English wherever Hindi was used during the call, to assist non-Hindi-speaking readers. For the exact text, please refer to the Earnings Conference Call - Webcast.

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