Cosmo First Limited
Q3 FY23 Earnings Call
February 15, 2023

Moderator: Ladies and gentlemen, Good day and welcome to the investor call of Cosmo First Limited to discuss the Q3 FY23 results. Today we have with us the Management Group CEO, Mr. Pankaj Poddar, and Group CFO Mr. Neeraj Jain.

Starting off with the statutory declaration, certain statements in the conference call may be forward-looking. These statements are based on management's current expectations and are subject to uncertainties and changes in circumstances. These statements are not guarantees of future results. 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.

Now may I request Mr. Neeraj Jain to take us through his opening remarks subsequent to which we can open the floor for the Q&A session. Thank you and over to your Neeraj ji.

Neeraj Jain: Well, very good afternoon ladies and gentlemen. I am Neeraj Jain, Group CFO at Cosmo First, along with my colleague, Mr. Pankaj Poddar – Group CEO at Cosmo First.

Our financial results for the December 22 quarter and investor presentation are available on the company's website. We will start the call with a brief on the performance of the company which may be followed by the questions.

First starting with the flexible packaging business. From the optics, the Q3 numbers look lower from previous quarters, however considering the industry situation, Cosmo has done quite well in Q3. The results could have been better, but because of one-off items, the result got impacted by about Rs. 32 Cr. We are going to further discuss these items. Further, the results also include operating losses of the BOPET line, which got commissioned at the end of the September 2022 quarter as well as the operating losses of the pet care division.

From last couple of quarters, the BOPP and BOPET industry faced excess supply caused due to bunching of new production lines and as well as the temporary demand disruption in the overseas market. The domestic demand continues to grow. The bunching of the supply caused the margin drop, which impacted everyone in the industry. The impact on Cosmo got partially mitigated due to presence in the specialty sales segment.

BOPP margins have been running at close to Rs. 17 per kg during the December 22 quarter as against Rs. 42 per kg during December 2021 quarter and Rs. 20 per kg during September 2022 quarter. This is lower than average historical margins which have been ranging in about Rs. 25 per kg. It may please be noted that, even in such a challenging market, the company's specialty margins remain intact in line with the last year close to Rs. 70 per kg. While commodity margin has come down broadly to 1/3rd of last year margin and semi specialty margins have come down by about 30% compared to last year, there is no impact on specialty margins. Further margin details are available in the company's investor presentation.

The BOPET line which was commissioned towards the end of the last quarter continues to focus on perfecting recipes, processes and quality parameters for various specialty and value-added films. This is in line with the Company's larger strategy to enter into specialty segment in polyester films. There was EBITDA loss of close to Rs 4 Cr from the BOPET line during the quarter. The company is working on a couple of specialty products on the BOPET line which are expected to deliver results from FY24.

The margins are also under pressure in the overseas subsidiaries from last year primarily for two reasons. One is reduced gap between the India raw material price index and US raw material price index and second is weakening of foreign currencies against the US dollar, particularly in Japan and Korea. The margin pressure in the US is due to the lower gap between the two-price index which we mentioned, which has already started easing out from quarter four, FY23 onwards.

Despite all these challenges and abnormalities, the company could post close to 12% EBITDA, which is clearly better than the industry for the December 2022 quarter and all of this is on the back of largely specialty film portfolio. While the near-term outlook for both BOPP and BOPET film is expected to be challenging, however, as many production lines are not expected in FY24, there is a good possibility of upward margin correction in FY24. The downturn is temporary and is driven by the supply side, the demand side continues to grow. The company is confident for its specialty film portfolio and shall continue to focus on the same.

Now coming to December 2022 quarterly results, the consolidated sales for the quarter is Rs. 730 Cr, which is lower by 5% from December 2021 quarter. This drop was primarily due to lower sales volume caused by planned maintenance shutdown besides some other impact due to change in sales mix. The EBITDA for the quarter is Rs. 86 Cr compared to Rs. 124 Cr in September 2022 quarter and Rs 161 Cr in December 2021 quarter. The lower EBITDA is primarily for three reasons. First non-repetitive items of close Rs. 32 Cr rupees. This includes one time inventory loss on the raw material and finished goods close to Rs. 14 Cr, scheduled maintenance of some of the production line which caused close to 10% drop in BOPP volume, Generally, we prefer doing such maintenance activity during the low margin period and the lower specialty film sale, majorly due to inventory correction in Europe and US. We feel this is fairly temporary and can already see that normalization has started to happen from quarter 4 onwards. Besides the one-off items, there are two other reasons for lower EBITDA. The BOPP film margin which we mentioned Rs. 17 per kg compared to Rs. 20 per kg of September 2022 quarter and 42 rupee per kg of last year similar quarter and lower margin in the overseas subsidiaries for the reasons we have already discussed.

The Company’s financial remains strong. The annualized ROCE of the company stands at 20% and return on equity close to 25%. These are one of the best in the industry. The company’s net debt stands at Rs. 355 Cr at December 2022 and which translates to 0.7x of net debt to EBITDA and 0.3x net debt to equity.

Moving to specialty films, which have grown YoY if you look at for more than a three years by about 19%. There is a temporary drop as we discuss in this specialty film sale in Q3. Specialty film for the December 2022 quarter stands 57% of our volume as against 64% in the previous quarter and as we mentioned, this is primarily due to inventory correction in Europe and US. We expect specialty growth to be broadly flat in FY23 and are looking for double digit specialty growth in FY24. On BOPET line as well, the company is looking to kick off few specialty products from the Q1 of FY 2024 which includes window films, security films, PET-G films, and many others.

Moving to growth projects in flexible packaging, work on BOPP and CPP line is progressing in line with the plan. Both the lines will be the world’s largest production capacity lines and will increase Company's production capacity by close to 50%. Of course, it will happen in a phased manner. The CPP and BOPP line will promote sustainability as it will offer a mono layered structure. The capacity additions that is the specialized BOPET line which we did in September 2022 and the proposed BOPP line and CPP line will allow company to further expand its specialty film portfolio.

Moving to specialty chemicals, the company's subsidiary into specialty chemical has posted Rs. 34 Cr of sales during December 2022 quarter, which is close to 31% higher compared to December 2021 quarter. We expect FY23 to close between Rs. 160 to 170 Cr of sales with positive EBITDA. Even after inventory loss in Q3, the Speciality chemical subsidiary should post full year's profit for the FY23. Company has reached close to 75% capacity utilization on masterbatch line and the complementary adhesive business for the packaging segment is planned to be launched in Q4FY23. This is going to add to topline and bottom line from next year.

Moving to pet care division, the Company’s direct-to-consumer pet care vertical, which was launched in September 2021, named Zigly, is progressing as per the plan. The company has opened 11 experience centers at the end of Q3 besides sales-through the online channels, online portal as well as the online app. We have planned to increase the experience centers to 15 by the end of March 2023. The current monthly GMV generated is Rs. 1.3 Cr, which is targeted for 10 times growth in next 2 to 2.5 year. Zigly so far has served more than 10,000 customers with almost one-third repeat customers. Zigly is a valuation driven business which should create value for shareholders in the coming years. Currently, quarterly EBITDA loss for pet care division is about Rs. 4 Cr. This is largely because of the higher growth. The unit level positive EBITDA for Zigly the company is looking in next 2 to 2.5 year.

Now moving to company's growth plan and net debt position. The company is looking for close to Rs. 500 Cr to Rs. 550 Cr of capex by March 2025 mainly related to value-add CAPEX on the BOPET line, CPP line, BOPP line, specialty chemicals and some in Zigly. The net debt stands at Rs. 355 Cr. We are expecting without even considering any bottom-line addition from the new CAPEX, the net-debt to EBITDA should remain between 1-2x even at the peak level of debt because of these expansion.

A quick update on the buyback. In December 2022 the company announced buyback of shares from shareholders, via the tender route with a total outlay of close to Rs. 108 Cr. The offer ended on 9th of February 2023, and payment is scheduled by 28th of February 2023.

I think with these updates now we would like the call to open for questions please.

Moderator: Thank you very much, sir. The first question is from the line of Anshul Mittal from Care Portfolio Managers Private Limited. Please go ahead.

Anshul Mittal: Hi, sir, my first question is, can you please explain the rationale behind holding high inventory during this period and also, has it been fully accounted in this quarter or, there will be some more impact in following quarters?

Management: Yes, so during the last quarter, well, let's say, especially from January till July everything was in shortage and the supply chains taking much more time during the transit. So, for all the imported items, we had to keep higher inventory and post July the supply chain started getting corrected and even the raw-material prices started coming down. So, we started correcting the inventory situation from September- October timeframe. I would say, 70%- 80% of things have been cleared. Still 20%-30% at best is still yet to get cleared, which should get here in the Q4.

Anshul Mittal: Okay. So, going forward also sir, we will be maintaining higher level of inventory or considering the easing supply chain we are going to previous status?

Management Now there is no need and in fact if you see the overall inventory, the inventory numbers have come down in this quarter versus the last quarter.

Anshul Mittal: Okay, understood. Sir, during your presentation, you mentioned that the decrease in spread was due to a slowdown in export demand and also an increase in supply. So, sir, can you please elaborate on which of these factors had a greater impact. And in our previous call also, sir, you mentioned that only 25% of new capacity will be added in the next three years of time. So, how are we witnessing such a bigger impact in such a near term?

Management There are two impacts. One is just the way we bought more material from January to July, our export customers also did the same and they started correcting their inventory again from September-October and therefore in the quarter 3 this year they bought much less than what they were buying earlier in the normal in the past.

Your second question was largely that on the demand situation in India. The demand in India is quite strong, but there is bunching of capacities, especially in last 1 year, 1-1.5 half years, 9 polyester lines have been added. Then in last 1-1.5 years around 4 BOPP lines have got added. Though the demand is quite strong but there is bunching and therefore supply became more than the demand.

In polyester now till ’25 there are only two new lines expected to come and therefore the pressure will gradually get released from the polyester film business. As far as the BOPP is concerned, there are still some more lines to be added in the next two years till 2025. In the next financial year there are only two lines. But after the next financial year, which is FY25 there are 5 or 6 lines, I do not remember the exact number but there are more number of lines coming in FY25 in BOPP.

Anshul Mittal: Okay, sir. So, considering the spread, which has fallen to historically lower level, do we see a bottom happening over here or will it stay over here for some time considering the increase in supply going forward?

Management: I guess we can forecast that, but apparently polyester is suffering now for a good five to six months and BOPP also, the margins have come down. So, it’s a matter of time before some correction happens. The larger correction will obviously happen once the demand supply capacities get better. But in the short term, some improvements should certainly happen. Now whether that happens in February or March or April, is anybody’s guess.

Anshul Mittal: Okay, sir. So, sir, considering the current economic slowdown, as we discussed previously that our target to achieve specialty mix to 80% was by FY24. So, are we still on that target, or will it get delayed?

Management As of now looks like that the run rate will reach 80%. Obviously we have got a jolt in this quarter. We certainly expect to achieve the run rate within the next financial year. What we are targeting is that can we reach to 80% for the full year volumes. But a run rate is certainly expected even with this last quarter impact that we had, because this is a temporary impact and not a permanent impact.

Anshul Mittal: Okay, sir. Understood. Sir, can you please share the figures of volume growth in both the segments, specialty and commodity for both sequential and annual periods?

Management Yes, so we have already stated earlier that this year the specialty volume will remain flat, because what happened is last year we had substantial growth and part of it was because people bought more during last financial year. So, this year, we are not expecting a growth in the specialty looking at the current scenario it will be 2% to 3% plus, minus. As far as the QoQ comparison, we had a de-growth in the last quarter, because of the inventory corrections that customers made.

Anshul Mittal: Okay, sir. How much de-growth would that be?

Management Yes, so a quarter before we were at 64%, 65%, while in the last quarter, we are at 57%.

Anshul Mittal: So, that is volume terms, right.

Management Yes.

Anshul Mittal: Okay, sir and also in commodity segment can you provide the same for annually?

Management I mean commodity there is. I mean, obviously whatever balance is left is a commodity. So, it's a simple calculation.

Anshul Mittal: Okay, that is right. Lastly sir, on Zigly front, given the economic slowdown, could you speak whether we plan to continue with an aggressive approach in Pet care business going forward and as Neeraj ji, mentioned that breakeven will take another two years going forward. Am I correct on that?

Management: We do not see any slowdown in Zigly or even otherwise in India. In fact the pet care business is going very strong and we will continue to invest in this business. These kind of businesses do take three to four years before they turn into profitability. And that is the forecast or not even the forecast I would say. That is how we feel today that next 2, 2.5 years we should be able to start breaking even, and then start making money.

Anshul Mittal: Okay sir. Understood. That's it for now. Thank you.

Moderator: Thank you. The next question is from the line of Varun Gupta from Augmenta Research. Please go ahead.

Varun Gupta: Yes, good afternoon, sir. Thank you for the opportunity. So, the first question, I would like to ask is, how have the commodity spreads moved in month of January and February?

Management They are running at a similar level to quarter three as of now. There is no improvement, but obviously, as I said earlier that it's already been six-seven months since the time polyester is impacted and one quarter for BOPP, four, five months actually for BOPP now. So, we do hope some better sense will prevail sooner than later.

Varun Gupta: Okay, understood. One clarity, I would like on the inventory side is how much inventory of finished goods are we carrying as we exit Q3?

Management In terms of days, in India, we are roughly carrying 15 days of inventory.

Varun Gupta: Yes. Sir, you have mentioned that a lot of lines are going to be commissioned on the BOPP side and some lines are going to be commissioned on the BOPET side. So, in your experience, when you see the supply demand balance to restore both for BOPP and BOPET?

Management See obviously, that depends on lot of factors. As such it is very difficult to predict properly. But we feel that polyester given that only two lines will come up in next three years, so we feel polyester will largely get balanced in a year's time at best. BOPP next year, there will be only two lines of BOPP. There will not be so much extra capacity next year. But FY25 we do see some extra capacity happening there. Obviously, I do expect that the industry players will start exporting more, because some players in the past have not exported as much as the way Cosmo does it. So, we feel better sense will prevail and there will be more exports, and therefore there will be faster rationalization of demand and supply. But polyester largely one year and BOPP next year should be largely balanced. A year thereafter there'll be a little bit of extra supply and FY26 BOPP will again be rationalized.

Varun Gupta: Okay, so what are the spreads that are running on the BOPET side that we experienced in Q3 and what are they now?

Management As I said, there are no changes. The spreads are fluctuating anywhere between Rs. 11 to Rs. 13-Rs. 14 and they are barely enough to even cover the variable cost as of today.

Varun Gupta: Okay, understood, sir. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Yash Dantewadia from Dante Equity Research. Please go ahead.

Yash Dantewadia: Hello, hi. Congratulations on a good set of numbers in a difficult environment. My question refers to page number 14 of your investor presentation. Actually, you have put specialty and semi-specialty volumes in one set, and you put commodity volumes in another set. But the difference between your semi-specialty margins and your specialty margins is almost 40% and

80%. So, it's a lot of difference. Would you be able to separate specialty and semi-specialty volumes with that data?

Management I mean, already we have disclosed quite a bit of information in our investor presentation. Anything beyond at this stage looks difficult.

Yash Dantewadia: Okay, and you said how are the export volumes for this quarter? Are they picking up, Europe and US as well?

Management: Yes, we did see an improvement from January. It has still not reached to the earlier levels. But definitely there is an improvement from January and February is even better.

Yash Dantewadia: And what was your capacity utilization for this quarter?

Management Capacity utilization in the current quarter is running full.

Yash Dantewadia: And the last quarter?

Management: Yes saying the current quarter means the last quarter only, which is quarter 4.

Yash Dantewadia: Okay, okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Anil Nahata, an Individual Investor. Please go ahead.

Anil Nahata: Yes. Good evening. To start with I would like to understand, for Zigly we are by and large on the plans we envisaged for FY23. What kind of a rollout we are looking forward to in 2024?

Management: Yes, so we will continue to scale up digital through opening more warehouses, so that we can give faster delivery all over the country. Similarly, we will also increase our retail presence. Right now, our retail presence is only in Delhi NCR, and Chandigarh. We will scale it up. Now we are in the process of scaling it up to Bangalore and after Bangalore to Hyderabad and Mumbai. So, in both the areas we will continue to scale up to become a pan-India player.

Anil Nahata: In terms of slightly more quantification, would it be a fair assumption to make that by the end of FY24 the store count will be in the range of something around 45- 50?

Management: I do not think so that we will touch that number as of now. We are looking at aggressive expansion, but not so aggressive that we end up doing lot of mistakes. So, I feel that this year we have opened around 15 stores and next year, we will look at opening anywhere like 20 to 25 stores and not beyond.

Anil Nahata: Okay. Got that and today what I would like to understand is the ratio of sales between the stores and online. Is it something like 75%-25% or it is slightly different from that?

Management: It is 75%-25%. It was earlier lesser. Last two months the digital has started picking up, in spite of the fact that we have opened more stores. So, our business strategy is now shaping up very well because the app has been launched, the website has, lots of improvements have happened in that and it is our ongoing journey because website and app we are the first company to have an app for pet care in India and we continue to do a lot of improvements to make really a wow experience for our customers.

So, that is an ongoing process, but every month we are seeing digital is growing actually faster than retail, in spite of the fact that retail also, we are opening lots of stores. So, digital is going through a very, very good growth right now and obviously the numbers are still small. So, normally to that extent, the percentage growth is looking better.

Anil Nahata: Okay, and Pankaj ji, if you can basically have some data around or rather expectation around to think a store should breakeven.

Management: Yes, breakeven, we said that we at this stage we expect 2-2.5 years.

Anil Nahata: No, no, I'm asking at a store level. Typically, what is the kind of a timeframe, you would look for a typical store to breakeven.

Management: Yes, that clearly depends on store to store. Some stores may become profitable in 1- 1.5 years' time while some stores may even take three years. So, it is a lot dependent on that and we are also right now experimenting with different sized stores with different services at different stores. So, there a lot of work going on in the background to understand the customer behavior in different parts of the geography and so this is a learning curve for us, and I would say anywhere between 1- 1.5 years to 3 years is what we feel that each store will start getting profitable.

Anil Nahata: Okay and previously we had also spoken about some exclusive tie-ups with some brands and all that. Can you give some idea about that? How is it progressing?

Management: Yes, so that's an ongoing journey. We obviously as we scale up, right now the challenge is that for many suppliers, especially outside India, or even within India, we cannot give them a full container load or a full truckload. As we continue to scale up the business we will keep adding many more partners. As of now, we have already added some partners who are exclusive to Zigly and as the brand becomes I mean, I tell you the best thing is now suppliers from all over the world have started writing to Zigly. Recently suppliers from Japan wrote to us. So, the noise is going everywhere and I am sure as we scale up and as we become capable enough on our own to buy container loads, many more suppliers around the world would like to tie-up with us.

Anil Nahata: Fair enough and we are looking forward to Zigly coming into Mumbai also where I stay. So, and moving on from Zigly.

Management: You will hear news from us within the next few months.

Anil Nahata: Great. On the BOPET front, when we spoke that this line is primarily for specialty products. I think this financial year we are not going to see any specialty products, but from FY24 when we start looking at specialty product, I mean, how quick a ramp-up of specialty can happen on an approximate basis?

Management: See, we should expect that every year anywhere between 10% to 15% volumes will get converted into specialty and as each year passes that run rate will get faster for next 3-4 years. So, maybe first year you have 10%- 15%. Second year, we may have 15%-20%. Third year we may have 20% -25% because as we gain customers' confidence then we normally see that more customers gets added and the other beauty is that people know us in BOPP specialty, so for some customers, this should ideally be a faster switch and I can tell you honestly, that the film quality that Cosmo is giving is really one of the best in the country. Customers have really loved it. The first batch is going to any customer and is absolutely liking the quality which Cosmo is giving. It is definitely different from what is available in the market today.

Anil Nahata: So, you mean to say even at a commodity level you should be able to demand a slight premium?

Management: I feel so. Till now we have not taken that premium. But personally, the way the quality is coming, even the large customers after the first order itself they are gaining lot of confidence, and the next order is much bigger from them. It is very clear that they are liking our quality and at some point in time, we will be able to charge a premium.

Right now, we have to make sure that the line is fully utilized, even in an overcrowded market and the best part is even in an overcrowded market, we were able to run the line at full, almost close to full capacity last month.

Anil Nahata: Great and Pankjji, as the specialty products particularly the heat control films and all, will it be a B2B play or a B2C play?

Management: Yes, it will be a B2C play. Globally it will be a B2B play.

Anil Nahata: So, are we in the process of setting up the distributor network and branding and everything associated with it?

Management: It is a bit early right now because the product launch will happen in May and it is a very, very technical product with a lot of different SKUs. So, we will start this. We are in the process of hiring a sales team right now. We have hired a couple of people and first is confidence building and there also we feel that we will be able to provide a very good product to the customers, because all our assets, right from day one been planned to do this.

So, we will be able to give excellent quality, but it will take time and first we would like to have a few distributors, let them check the quality, give them their feedback and based on the learnings then we will continue to scale up. So, I feel that by March 2024 only, we will have a reasonable number of distributors across the country.

Moderator: Thank you sir. We have the next question from the line of Nirav Savai from Abakkus AMC. Please go ahead.

Nirav Savai: Hello sir. Thanks for the opportunity. I just missed out on the new capacity in BOPP and BOPET which is going to come in 2024 and 2025. Can you please repeat the same?

Management: Till 2025, BOPET as of now, there are only two lines to come up. In BOPP put together I think there are seven or eight lines, which have to come up in the next till 2025.

Nirav Savai: Okay, so you said about 2024 you will have two lines, followed by some five lines in 2025, right of BOPP?

Management: 2024 two lines and till December 2025 five lines.

Nirav Savai: Okay, and if we were to see in terms of the new capacity which is coming in from the existing capacity, how much would it translate into, this seven lines in BOPP, compared to what the capacity currently is?

Management: Some are smaller lines and some are larger lines, but put together it should be to close to 250,000- 300,000 tons.

Nirav Savai: About 200,000- 250,000 to 300,000 tons. Okay, and what would be for BOPET?

Management: BOPET should not be much. It would be 50,000 to 60,000 tons.

Nirav Savai: All right. And then, sir, you said that this specialty film business would largely be a B2C kind of a business and I mean in your internal assessment, how much time will it take to scale-up, because initially it would be pure commoditized. Will it take two to three years at least to reach a certain size and scale in this B2C kind of a business?

Management: Yes, these kind of security window film solutions does take time. It does not scale up overnight. You have to market the product nicely, you need to have a strong customer base and the other important thing is, a lot of customers today do not have any knowledge about the technicalities of window film. Still many customers do not know why they should have window films and even if they know they do not know why there are so many varieties in window film.

So, people tend to use whatever their applicator says and I personally have seen many applicators also do not have enough knowledge to guide the customer properly. That is the thing that we want to really change in the country where every applicator is educated enough so that they can guide the customers properly. These films can make a lot of difference to the customers, but unfortunately given the lack of knowledge the market for this product is still not as big as the potential is. I feel that the total market is not even 5% of what it should be. So, it will require many years of knowledge transfer to the customers, advertising it well and marketing it well. Build new customers for the Indian market. So, it will be a medium-term journey from that perspective.

Nirav Savai: And so initial growth on the specialty side in BOPET, would it be purely led from exports or where we would be B2B and would that amount to be much faster compared to setting up the entire distribution network, creating a market in India?

Management: Yes, so see window film is one of the specialties we are talking about. Shrink levels is again, a very large segment for us and that itself will help scale up both in India and globally and similarly, there are lot of other things which are very parallel to our BOPP business like thermal lamination film, made out of polyester, cable films made out of polyester. So, there are industries where we already have a presence and it is just that we have to enter with our BOPET film. So, we will be able to enter there even synthetic paper for that matter. So, there are certain clear voids where Cosmo can play a part.

Nirav Savai: Right, right. So, this would be more or less continuing scaling up the existing products with the newer products will take time to ramp up.

Management: So, then, the other thing should still be scaling up faster. B2C obviously is a journey, which every company takes some years to achieve scale.

Nirav Savai: Right, right. Got it, sir. That's it from me. Thank you.

Moderator: Thank you. The next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: Yes, good afternoon. My question is on the mix of specialty versus commodity. Since last couple of quarters, the share of specialty and semi-specialty has come down from 69% to 57%. But the presentation still mentions or maintains that we are targeting 80% by 2024. So, just wanted to know what are your thoughts on that? I mean, is that still achievable or it will be some more time for that to happen?

Management: See, obviously, we are not changing that target for us internally. Obviously this is a temporary blip which has come because of the inventory corrections which our customers have done. So, we are definitely working towards achieving our targets. I had earlier said that from a run rate perspective, we do see we should be able to do it next year. But whether the full-year average will be 80%, at this stage it is indeed a very challenging target. But the management team is working out overnight to try and get this done.

Jiten Parmar: Okay, and what about industry-wide capacity additions which are scheduled for the next couple of years.

Management: Yes, we have answered it. You can see in the commentary later.

Jiten Parmar: Okay, okay, thank you. Thanks. That's all.

Moderator: Thank you. We have the next question from the line of Vipul Kumar Shah from Sumangal Investment. Please go ahead.

Vipul Kumar Shah: Hi, sir. What is the cumulative investment till date in the pet care vertical and have you appointed any CEO for that vertical, sir?

Management: There is a business head for this vertical, who is managing it from day one and he is a specialist in this category. As far as investments are concerned till now we have invested Rs. 50 crores including investment in infrastructure and all the losses that we have incurred in this business.

Vipul Kumar Shah: So, what will be the cumulative losses, sir?

Management: It is anywhere between Rs. 30 Cr- Rs. 35 Cr.

Vipul Kumar Shah: Okay, and can you share the investment which you plan to make for next financial year in this vertical?

Management: Yes, sir, what we expect is over the next two years Rs. 50 Cr can become roughly Rs. 150 Cr, and then we are expecting that within the next 2-2.5 years business should start to breakeven.

Vipul Kumar Shah: And sir, last, you have mentioned this contribution margin. So, it is contribution margin means, it's a gross margin only, right.

Management: Yes.

Vipul Kumar Shah: Okay sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Rahil Shah, an Individual Investor. Please go ahead.

Rahil Shah: Hi, sir. As for the next financial year are you able to give any outlook or guidance in terms of revenue and EBITDA margins for the business at a whole?

Management: We normally do not believe in giving such guidance, but as I said earlier that we just started to stabilize now, when it comes to customer demand in overseas market. So, at this stage, obviously it is a commodity content where it is very difficult to give any forecast. But in general, we expect that next quarter should be somewhat better than the current quarter.

Rahil Shah: Okay, thank you and all the best.

Moderator: **T**hank you. The next question is from the line of Amit Agarwal, an Individual Investor. Please go ahead.

Amit Agarwal: Good afternoon, sir. Sir, my question is regarding the BOPET line. So, it's a new line, what is the monthly run rate we have achieved in the last three or four months? And is it right to understand that BOPET margin right now in commodity business is less than BOPP, this Rs. 13 versus Rs. 17? Am I right?

Management: You are right that BOPET is lesser than BOPP right now. And as I said earlier last month we were almost able to run, close to a 100%. So, every month we are scaling up on this.

Amit Agarwal: What is the turnover? Can you give the guidance for that monthly run rate?

Management: Yes, the monthly turnover is close to Rs. 25 Cr.

Amit Agarwal: Another question is, sir, China has opened up after COVID, so, does that help in getting better rates for BOPP or doesn't make any difference?

Management: China does not impact our business.

Amit Agarwal: China doesn't impact our business, even in export market also?

Management: Yes, Yes, it does not impact. There are hardly one or two categories where it is a small impact. Otherwise, China does not impact us.

Amit Agarwal: And my last question is regarding sir, if I see your standalone results and consolidated results, sir the difference between the turnover is Rs. 100 crores this quarter. Usually, it used to be Rs. 50 crores every quarter, between the consolidated results and the standalone turnover. Could you explain that?

Management: You see, it's a factor of two aspects. One is how much sales the overseas subsidiaries are doing and second is, how much sales standalone India is doing to overseas subsidiaries, because that needs to be eliminated. So, whatever figure of difference you will see between consolidated sale and standalone sale, will be net of these two items. So, to answer your question last quarter, the December 2022 quarter the sales from India operation to overseas operations was low.

Amit Agarwal: Okay. It is a one-off thing or this is the usual thing going on in future.

Management: Of course, one-off, because of the lower demand for which we discussed for the US which should get corrected from quarter four.

Amit Agarwal: And I think previous question had asked about the investment made in pet care? Is it Rs. 50 crores or Rs. 15 crores till now in pet care business?

Management: So, Pankaj mentioned Rs. 50 crores investment so far, 5-0.

Amit Agarwal: 5-0. Okay. Thank you. Thank you.

Moderator: Thank you. The next question is from the line of Nayan Gala from Etica Wealth. Please go ahead.

Nayan Gala: Yes. So, sir. I have a couple of questions. One is in terms of the demand. So, during the last couple of quarters we have seen many global markets showing less signs of the demand. So, are we seeing some stability over there in terms of some revival in demand?

Management: As I said earlier, demand is not impacted it is just the inventory corrections and to some extent it has already happened in quarter three. There is some balance left, which should get over in quarter four.

Nayan Gala: Okay and in terms of which geographical areas, where we can expect to increase our revenues from?

Management: US and Europe, those are the two regions which were impacted.

Nayan Gala: Okay, okay and in terms of sir, like we are going to launch the heat control film. So, by when can we expect that? And what will be the target turnover that we expect on that particular product?

Management: This will be done sometime in May 2023 end and this is product, it's a B2C product in the Indian market, first year it will start to grow. So, at this stage it is difficult to give a forecast for this.

Nayan Gala: Okay and in terms of margins how are the margins for this particular product?

Management: The margins also initially — I mean, this product has a very good margin. First of all, let me say that, but first year will be a year with a lot of trials and samplings. So, first year we may not have any excellent margin on this. As we continue to build this business this product will have one of the highest margins among all our product lines.

Nayan Gala: Okay and any other player who would be manufacturing this in India?

Management: Yes, there is one player. Majority of the film is imported currently in India. But there is already one player who manufactures it. But we feel that we will be very, very superior in terms of the overall quality.

Nayan Gala: Okay, and the plan is to replace the import with the domestic manufacturing?

Management: The plan is much more. Today, we feel that most of the Indian building does not have a heat control film. We feel there is a huge opportunity to educate the customers and build the market. So, it is not just replacing imports because most of the imports are happening for really low-quality films. The plan is to really increase the market base itself by many times.

Nayan Gala: Okay. All the best sir. Thank you.

Moderator: Thank you. There is a follow-up question from the line of Anil Nahata, an Individual Investor. Please go ahead.

Anil Nahata: Yes. So, my last question on the BOPET was, we had announced a Rs. 30 Cr- Rs. 31 Cr CAPEX for the specialty films on the electronic side. Is that a part of the overall BOPET plan, or is it something different?

Management: It is not with BOPET. This is something else.

Anil Nahata: Okay, so can you give some guidance around that? And when is that coming up and what kind of business we see in that?

Management: We will disclose it closer to the date. But this should be launched within quarter one of next financial year.

Anil Nahata: Okay. So, it’s basically four, five months away from now?

Pankaj Poddar: Yes, four, five months away.

Anil Nahata: Okay. And the last question for me, was that when we look at the specialty film ratio for BOPP, this quarter the turnover itself was lower and the ratio was lower still. I mean as the volume ramps up, again, I mean there will be a far bigger bridge to cover in the next coming quarters. So, already two people have asked about that the aspect of about reaching 80% in the next one year. But my question is slightly different.

When we look to your reports, you started reporting between specialty and semi-specialty. And probably in one of the interviews, you said that it is around fifty-fifty. How do you see this ratio moving up going forward also?

Management: Yes, so see obviously both these segments are equally important. Obviously again, specialty makes more money. So, every company would like to grow specialty more. But having said that, we would not like to leave the opportunity on the table, even for the semi-specialty, because that film also makes more margin than commodity. It's a very different thing. We are working on both all the time.

Anil Nahata: Okay. Okay, that answers my question. Thanks a lot, and all the best.

Management: Thank you.

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

Management: Well, to summarize, I think the company's strong specialty film portfolio should deliver superior returns in coming quarters and years. Although there could be a near-term outlook, BOPP and BOPET is expected to be challenging. We are working on several R&D projects and film business which should continue to provide edge. Zigly is rapidly becoming well-known among the pet parents benefiting all pet lovers and company's stakeholders. Specialty Chemicals division should double its revenue from the last year while actively focusing on new product launches.

At the end statutory declaration. Certain statements in this concall may be forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. These statements are not guarantees of future results. Thank you very much for joining. We really look-forward. Thanks.

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