"Cosmo Films Limited Q4 FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Cosmo Films Limited Q4 FY2017 Earnings Conference Call, hosted by Systematix Shares & Stocks Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Shares & Stocks. Thank you and over to you!

Ankit Gor: Thank you Raymond. Good afternoon all. On behalf of Systematix Shares I welcome all the participants to Cosmo Films 4Q FY2017 Results Conference Call. From the management side, we have Mr. Pankaj Poddar, CEO and Mr. Neeraj Jain, CFO. Now I request management to give details about the 4Q FY2017 Results, which will be followed by Q&A session. Thank you and over to you Sir!

Neeraj Jain: Good afternoon ladies and gentlemen. I am Neeraj Jain, CFO at Cosmo Films. I have my senior colleague as Ankit has indicated, Mr. Pankaj Poddar, CEO of the Company and also have Jyoti Dixit, who is the Company Secretary of the Company. Our financial results are already uploaded on the Company's website hope you could go through it. First may be we will go through the Q4 financial year 2016-2017 key highlights and which will followed by the questions.

In the Q4 the Company has commissioned its new BOPP 10.4 meter width production line which has started at the Karjan plant from February 2017 beginning. So accordingly our revenue and volumes are higher in the quarter four.

During the quarter the Company could achieve 20% growth in this specialty films sale on year-on-year basis; however due to lingering impact of the demonetization India margins were under pressure. The adverse margin impact has started to fade away in the latter part of the quarter and we expect this margin improvement trend to continue.

The Company could compensate although the major part of the adverse margin impact by specialty film sales growth by 20% as well as by the overall volume growth also for the Company which has been 14% on year-on-year basis.

The Q4 income tax in India is favorably impacted by investment allowance, under the Income Tax Act, which indicates 15% tax deduction on the investment in plants and machinery. As the Company has commissioned new investment in the plant and machinery it is eligible for investment allowance having overall impact of Rs.9.8 Crores on its tax.

Our overseas subsidiaries continue to be on improving trend operationally. The Q4 break even for the overseas subsidiaries taken together at EBITDA level. This has been achieved largely because of the two factors one there the better sale in the US subsidiary by $1 million and second the forex hedging loss which used to be there until quarter three then those has wide away.

Now broadly for the full financial year 2016-2017, on the topline there appears a marginal drop however there is a 5% volume increase. This is largely because raw materials drop in the prices, which got passed away to the customers. In a full year basis there is a 35% drop in the commodity pricing with the Company to a large extent to compensate by increasing its specialty, but it late teens percentages, higher volume and internal efficiencies. Internal efficiencies were largely on account of the power cost.

Now for the next few years, we look forward for two major aspects. One during the 2017-2018 the new BOPP line is expected to add additional 35% to 40% volume, in FY2018-2019 when our specialized Pet film project will get commissioned from the quarter three it will add to Company's revenue and the profitability. I think those are the few updates for the quarter and the financial year. Now we would like to open the call for the questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Shivani Vishwanathnan from Way2Wealth. Please go ahead.

Shivani Vishwanathnan: I just had a few questions with regard to the new plant that has come up what is the current capacity utilization that we worked on in Q4?

Neeraj Jain: Actually Shivani what happens when you put up a large BOPP production line you release the speed of the line in phases so although in phases also we are running above the one month ahead of the supplier schedule we expect the full speed to get released by the end of the current quarter which is by June of this year. For the quarter four the speed release was there in parts.

Shivani Vishwanathnan: So I just wanted to know in FY2018 what sort of ramp up can we see in this capacity utilization?

Neeraj Jain: From the June month onwards we expect full utilization of the capacity addition. As I indicated at the beginning of the month we will expect between 35% and 40% additional volumes FY2017-2018 over the last year.

Shivani Vishwanathnan: Sir just for the increase in the commodity film line how is our mix going to change in FY2018 between commodity and specialty with the new plant coming in, in Q3 for specialty also?

Neeraj Jain: Last quarter we have grown more than 20% for the specialty film. Whole organization is clearly focus towards growth of the specialized film. So I think that will work towards better mix.

Shivani Vishwanathnan: Sir can we get a breakup between specialty and commodity films?

Neeraj Jain: For the last year.

Shivani V: FY2017?

Neeraj Jain: So broadly we did 42% from the specialized film in volume terms.

Shivani V: And in value term Sir.

Neeraj Jain: Value terms it will be more than 50% actually because the average selling price of the specialty film is higher than the commodity films.

Shivani V: But with the ramp up of the new capacity are we going to see a drop in the contribution of specialty films to our profitability and topline in FY2018?

Neeraj Jain: There will be two aspects. One, the new production will come from the new BOPP line addition which is expected to be 35000 to 50000 tonnage extra and part of it we should be able to convert into the specialty.

Shivani V: Sir coming to the gross margin we have seen our raw material costs significantly increase?

Neeraj Jain: As I indicated at the beginning of the call there was a lingering impact of the demonetization so what happens in our industry and that is true to the large extent to the whole of the packaging industry when there is a drop in the end products demand, which was close to December month or so there will be lingering impact coming to the associated industries including the packaging industry so this is why I think quarter four was impacted for the whole of the packaging industry.

Shivani V: But we have passed on the raw material to our customers the raw material movement?

Neeraj Jain: The raw material movement either side is generally passed on quarter four margins got dropped largely on the commodity films so yes there was shrinkage in the margin and largely we see this because of the demonetization effect.

Shivani V: Sir how is crude remains at these levels how do we see margins panning out in our commodity films what kind of margins can we see in the commodity films?

Neeraj Jain: Crude, as we discussed in the past actually has very insignificant impact on our margins. What we have witnessed in the past also that whatever movement happens in the crude pricing of the our raw material polypropylene prices to a large extent that gets passed on to the customers and that resetting formula is also clearly fixed amount to customers.

Shivani V: Sir just one last question on the subsidiary. We have seen that the subsidiary is actually eaten away quite a lot of our profit this year. What are the steps that we have taken for FY2018 where we will see some sort of what are the steps we have taken for the US subsidiary for the improving the performance. I know in Q4 we have seen breakeven but is this largely because of forex movement or operational efficiency?

Neeraj Jain: Two parts actually let me take the first question. If we look at FY2017 versus the last year there was two items, which has immediately impacted our overseas subsidiary operations, and both of these are the onetime items. One was the Japan the hedging loss on account of the forex. So all of it taken together their delta was close to Rs.10 Crores in FY2017 higher loss, besides this I think in Korea also there was some one-time exceptional item of around Rs.2 Crores so if we exclude this frankly operationally the subsidiaries and not been that bad. There is an improving trend in the overseas subsidiaries like the last quarter we broke even sorry. So I think we expect for the coming quarters also that further to improve. There are two three steps we are taking in the overseas subsidiaries. One is the in the US we launched, received more product lines largely the last year we are selling more the thermal lamination film only. Now we launch the new products including packaging films including some coated specialized film for the US market, which are getting very good response in fact. So that should add to the bottomline in terms of the improved sales beside this for the Korea market also we have started selling the BOPP packaging films beside the thermal lamination. So we are trying to expand the base for the other overseas subsidiaries, which is getting favorable response. So we expect overseas subsidiaries to reap the benefit in the coming quarter.

Shivani V: Just one last tax rate for FY2018 we can expect 22% to 23%?

Neeraj Jain: What is the 22%?

Shivani V: Tax rate for FY2018 Sir?

Neeraj Jain: Yes effective tax rate you can expect between 22% and 24%.

Shivani V: Thank you that is all from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Anurag Arora from Narnolia Securities. Please go ahead.

Anurag Arora: I have a couple of questions. One, on the gross margin side, your gross margin have deteriorated sharply it is 420 BPS quarter-on-quarter basis. As you have mentioned that you have seen 20%

growth in the specialty films and specialty films itself constitutes 50% of the revenue so it itself showing that 10% overall revenue growth from the specialty line and rest 4% should be from the BOPP line you are mentioning so why there is a sharp decline in the gross when you have better margins in specialty films, which already has seen 20% Y-o-Y growth so why this is sharp decline in gross margins?

Neeraj Jain: Anurag, see if you look at the full of the last year 2016-2017, the commodity margins got dropped almost by 35% and which is a significant number for our Company and the Company could to a large extent compensate this margin drop by increase in specialty films by almost 5000 tonnage, which has almost contributed 5 Crores to the bottomline besides this the volume increase by 5000 tonnage so these two steps has taken away the larger part of the commodity drop and commodity in a market where in the Q4 we were running almost at the bottom. That perspective we only see pushing for the improvement in the commodity margins from here on in fact during the later part of the quarter four the recent trend also we already witnessed there is an improving trend on the commodity market.

Anurag Arora: I understood the point you have mentioned about the commodity prices but this sharp decline is on Q-on-Q basis like from last quarter to this quarter there is no significant change in the polymer prices there is only 6% increase in the polymer prices whereas your margin have declined 400 BPS and also when there is a 20% growth in specialty films where your margins are higher than BOPP so they should not be decline to this much I am 400 BPS is very much decline, last quarter your margins were 38.7% whereas in this quarter your margins were only 34.5% so it could not match this point from the raw material side like raw material if the margins are to be decline it should be much lesser than this 400 BPS decline?

Neeraj Jain: Anurag, I think the very relevant question you have. The 35% drop which we had indicated to you was only year-to-year basis but if you look at the quarter four commodity margin drop it has been much more deeper. It has more than 50% impact and this is why you might not be able to reconcile the number but if you look at the more than 50% drop in the commodity pricing do not get compensated by around 2000 tonnage extra sale of the specialty films and some efficiency improvement on the power and one last is the volume increase.

Anurag Arora: What was the volume of BOPP and specialty in Q4?

Neeraj Jain: That will be close to 30000 tonnages.

Anurag Arora: 30000 tonnages in BOPP you are saying.

Neeraj Jain: Taken to that.

Anurag Arora: Sir can you please give me the breakup of these two?

Neeraj Jain: Well that was close to 13000 I think we have done the specialty.

Anurag Arora: And what was the realization for the films?

Neeraj Jain: Realization number maybe very difficult actually to indicate that as I indicated you while the in the commodity side there was a drop substantially.

Anurag Arora: Thanks a lot Sir. I will be in the queue if any questions I have. Thank you Sir.

Moderator: Thank you. The next question is from the line of Kartik Gada from ValQ Investment Advisory. Please go ahead.

Kartik Gada: Just continuing on this the point about the last question this 50% drop in commodity pricing so what time period are you referring to this is Y-o-Y or on a Q-o-Q basis?

Neeraj Jain: No it was Y-o-Y.

Kartik Gada: How do you see the margins then panning out going forward? I know it will be tricky because of the commodity element but what kind of impact you are seeing currently and going for what is expect if the BOPP element from the new line remains high would it be result in say the margin being lower on a Y-o-Y basis comparatively for FY2018?

Neeraj Jain: I think let me slightly touch on margins. This was largely a demonetization one-time impact and the margins have already started towards the normalized margin from March onwards and further there is an improvement in the margins in the element so we definitely expect in the next few months it will be very normal margin for the commodity films.

Kartik Gada: So would you put some sort of numbers see 10%, 11% what sort of range?

Neeraj Jain: Well it is slightly difficult but it is generally closer to 15% is the normal range.

Kartik Gada: The other thing you mentioned that there was some benefit on the tax because of the investment allowance on the new capex so that is all accounted for in Q4 itself or there will be some impact even in FY2018.

Neeraj Jain: All of this is already accounted for in the quarter four.

Kartik Gada: In the opening remarks I just missed one point Sir I think you mentioned something $1, $1.5 million I think related to the overseas subsidiaries can you just repeat what was the point?

Neeraj Jain: There is a better sales in the US subsidiary by around $1 million, which has favorably impacted the subsidiaries immediately? So broke even for the quarter four right.

Kartik Gada: If I have anything else I will come back in the queue thanks.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Taking the point forward of my previous speakers can you give exact what was the commodity pricing in quarter four of last year and what was the commodity pricing in quarter three and quarter four of current year so that we can have a better idea of what is going on?

Neeraj Jain: I can actually indicate in terms of the percentages there is more than 50% drop.

Vipul Shah: More than 50% drop in pricing or margin because I get confused between the two.

Neeraj Jain: Yes 50% drop is in the margin.

Vipul Shah: So what was the absolute drop in the pricing that I want to know? What was the average price realization in the last quarter of last financial year and how does it compare with this year average realization in this quarter and the last quarter.

Neeraj Jain: Actually in our industry there are multiple types of commodity films basically the packaging films the textile films all these films goes into the commodity range and on an average the value addition from the raw material can be typically anywhere between Rs.25 and Rs.45 a kilo depending on the film this went down from Rs.25 to Rs.45 range to Rs.18 to Rs.30 range depending on the nature of the film. If you talk about the average value at over the raw material it drop from roughly Rs.40 kilo to may be Rs.25 kilo roughly.

Vipul Shah: So average realization roughly went down from 40 to 25.

Neeraj Jain: Yes at a very broad level.

Vipul Shah: Of course you have different types of films, which carries different price to it right Sir and regarding this new line that is our commodity line right or any portion of that will be converted into specialty films.

Neeraj Jain: See initially in the first couple of sales we intend to use this line for commodity purpose only because from commodity perspective this is a very low cost you know it is one of the lowest cost line in the world as of now; however, as we move along we do intend to do lot of value adds in any new recipes and loose some process changes also because lot of these things can be modified at our rent so to begin with this line is used largely for commodity but as we move along our objective is to do higher and higher specialty which we really see company has been tracking very nicely on the specialty and we will continue to do so.

Vipul Shah: So I think it was also indicated that now that commodity drop in commodity price has largely been recovered so 48 become 25 so now 25 has become to what level so any idea Sir?

Neeraj Jain: It has been changing everyday. I would say it is on an improving trend I think there is still time for it to go back to Rs.40 level but definitely it is right now on an average basis I would say has it stay in the range bound between Rs.30 to Rs.33, Rs.34 a kilo.

Vipul Shah: Still so 40 is a long way yes.

Neeraj Jain: I mean you cannot say long way because it went down at a very quick pace and you never know when it comes back because obviously the demand is pretty good in the market. We are able to sell whatever we have been producing so as per this demand has come back and the demonetization effect is already faded away.

Vipul Shah: Sir lastly since the new line is in commodity space so will it be margin dilutive in current year.

Neeraj Jain: Yes as the mix you are right that commodity films have lesser margin but there are two things that needs to be considered. One is that the cost from this line will be significantly lower versus our other line and second factor the specialty mix is going at a very fast pace last year full year basis we have grown by 17% while in last quarter Y-o-Y basis we have grown by 23% so things are moving in a very positive direction and our intention will be to maintain in 2017-2018% maintain the mix that we had in 2016-2017, and 2018-2019 onwards grow this to higher level this is what we would like to do.

Vipul Shah: So by March 2019 what type of mix we should expect between specialty and commodity.

Neeraj Jain: Very difficult to predict.

Vipul Shah: No roughly Sir.

Neeraj Jain: Very difficult because no numbers we cannot give our future guidance right now.

Vipul Shah: I think currently it is around 40% if I heard you correctly.

Neeraj Jain: Yes it was full year yes it is 40% last quarter I think it will be similar, so last quarter also it was 40% as which is right now at 40%.

Vipul Shah: Thank you Sir and all the best for the future.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings. Please go ahead.

Pranay Jhaveri: Thanks for the opportunity. I just wanted to understand the overseas subsidiaries in FY2014, I think we had a loss of about 25 Crores in FY2015 was about 11 Crores and FY2017 is about 24 Crores I understand your point that in Q4 things have there is a breakeven point in the US but I just trying to understand from the overseas viewpoint when exactly can we see that assets sweating and other thing is if I just see the employee cost over there is about 50 Crores so I am just trying to understand what is the capacity utilization over there are there any reversal or any reduction in the employee cost?

Neeraj Jain: Sure, so for FY2017 number actually you need to divide it in two parts one is the one time losses which was close to about Rs.13 Crores expense so if we exclude this you will notice some operational improvement for the overseas subsidiaries and that improvement has slightly better off in the quarter four, but having said so in India also we do see sizable business related to overseas subsidiaries. We sell to overseas subsidiaries and the overseas subsidiaries further sell in the local market so in any case as an overall basis this business is a profit making business even today.

Pranay Jhaveri: So when do we see a sizable or considerable upswing over there in terms of our consolidated results?

Neeraj Jain: Well FY2017-2018 we look forward to have some profitability from the overseas subsidiary.

Pranay Jhaveri: Your thoughts on the employee cost.

Neeraj Jain: On an exit rate basis. FY2017-2018 I indicated there should be some profitability coming for the overseas operations this I indicated for the exit quarter basis.

Pranay Jhaveri: What about employee cost?

Neeraj Jain: Employee cost as you know there is no fixed cost what you need to this rightly take into consideration, which countries and our overseas operation includes the US, Japan and the Korea and although these three two are the markets where the employee cost is fairly sizable cost. So each country you need to consider there premium attached to the product sale as well as the employee cost so it depends basically on the way where you want to do the investment.

Pranay Jhaveri: Is my understanding right like if I compare your standalone and consolidated the sales is about 129 Crores your employee cost is about 15 Crores?

Neeraj Jain: The sales for the overseas subsidiary taken to then it shall be close to 150 Crores.

Pranay Jhaveri: So what capacity utilization are we running there?

Neeraj Jain: I think this is about 60% to 70%, it is 60% to 70% utilization. Just to add to it as I indicated at the beginning of the call they are to the new product launches we have done for the overseas subsidiaries and if this is successful it has potential to add substantial amount to the revenue of the overseas subsidiaries.

Pranay Jhaveri: What would be the depreciation for FY2018 and the interest cost for FY2018?

Neeraj Jain: So we had kicked off new BOPP Line in this quarter, which will add close to Rs.8 Crores of the depreciation on annual basis, and interest cost shall be around Rs.5 Crores.

Pranay Jhaveri: So depreciation for the full year should be in the range of 48 to 50 Crores and interest in the range of about 35 Crores.

Neeraj Jain: Depreciation should be closer to at a consolidated level you are looking at.

Pranay Jhaveri: Yes at consolidated level.

Neeraj Jain: So it should be closer to between 46 and 48 Crores.

Pranay Jhaveri: And interest of about 35 Crores.

Neeraj Jain: Yes.

Pranay Jhaveri: IF I have got it right you are saying that for FY2018 you can expect at least 30% growth in the topline if the prices remain the same?

Neeraj Jain: Yes so we indicated volume growth, yes you are right that if the raw material price remains same that should get reflected fully on the revenue.

Pranay Jhaveri: Your consolidated EBITDA, which is around 10% for the full year and the normalized, can be about 15%?

Neeraj Jain: No from where you got the 15%?

Pranay Jhaveri: No I am just taking it from the balance sheet your profit before depreciation and interest which is 164.78 Crores?

Neeraj Jain: FY2016 was a fairly normalized year, the last year.

Pranay Jhaveri: Which was about 12.5%?

Neeraj Jain: Yes so closer to 13% we did for the FY2016 I think that is fairly normalized year.

Pranay Jhaveri: So normalized margin it can be expected around 13%.

Neeraj Jain: Yes at that mix FY2016 but since we are improving on the mix part because of the specialty films in the coming year that impact will also get reflected in the margin.

Pranay Jhaveri: Thank you that is from my side.

Moderator: Thank you. Next question is from the line of Parveen Sharma he is an Individual Investor. Please go ahead.

Parveen Sharma: Sir I just wanted to know what is the debt to equity ratio you are comfortable with?

Neeraj Jain: Currently, we are very close to 1:1 and clearly if it is balancing between the growth of the company as well as the leverage you want to take on the balance sheet.

Parveen Sharma: Next year the new plant, which you are planning it will be on internal accrual basis or does it is that further for that?

Neeraj Jain: For the next capex we are funding it by internal accruals and debt SME. Does that answer your question?

Parveen Sharma: No I just missed the sentence in between.

Neeraj Jain: Next capex we are funding through internal accruals as well as the debt so it is going to change mix for the funding.

Parveen Sharma: I recall Sir at certain stage there were talks of QIP so where we do the stand on that?

Neeraj Jain: You said QIP right.

Parveen Sharma: Yes.

Neeraj Jain: See as we indicated it was an enabling provision and which already got expired at the beginning of the current year so it was originally taken to parts on the Company's growth plan but as an internal accruals generation sufficient to fund the growth plan we cumulatively do not see any need of the QIP.

Parveen Sharma: So you have not gone to revise that approval and the clause as of now maybe in future you may think in that direction?

Neeraj Jain: We are not looking for this.

Parveen Sharma: Sir last question is basically there was this vision of billion dollar sales in next three or five years are we on track how do we see going towards that?

Neeraj Jain: You must have notice that company announced the certain growth plan so all of this is working towards the Company's vision.

Parveen Sharma: So do we see going there in next few years?

Neeraj Jain: Yes we have said in five to six years.

Parveen Sharma: That was like a year back or year and a half back so like currently we are at around I think we have to scale up by around maybe 300% from the current level so I am so are we thinking of any inorganic growth opportunities or the vision is to grow organically only the way we are doing currently?

Neeraj Jain: We are not think that any immediate inorganic growth but we are always looking to we are open for opportunities available to us but as of immediate short-term I do not think so there is anything on the radar.

Parveen Sharma: Thank you Sir.

Moderator: Thank you. The next question is from the line of Anurag Arora from Narnolia Securities. Please go ahead.

Anurag Arora: Sir my question is what was the homopolymer price, which we used in the raw material in Q3 and average raw material price in Q4?

Neeraj Jain: It ranges about Rs.80, Rs.82.

Anurag Arora: In Q4 Sir?

Neeraj Jain: I think it was close to Rs.84 so not much of the gap.

Anurag Arora: So there is 2% to 3% hike in Q4 versus Q3 so could you not pass on the raw material price hike to the customers in this quarter?

Neeraj Jain: As we indicated see the polypropylene raw material change pricing generally gets passed on in the industry. Q4 it was slightly unique position because of the demonetization impact. I think the thin margin was largely due to demonetization.

Anurag Arora: Sir my another question is on the working capital cycle your working capital has just under pressure in FY2017 as your inventory days and receivable days are higher in FY2017 so could we expect better working capital in FY2018 and 2019?

Neeraj Jain: This basically we commission the new plant at the last quarter four with this situation what happens working capital requirements immediately increases both for the inventory and receivable but if you consider trailing 12 month of the sale you will finally hire in terms of the number of days once we will have trailing 12 months revenue generation from the this new BOPP line. Then your number will get aligned to the normal working capital cycle, which we have. Medium to long-term we should maintain 30 days inventory, 30 days receivables and 30 days payable so networking cycle would be close to 30 days only.

Anurag Arora: In FY2017 your long-term debt is higher by 126 Crores versus FY2016 so is it the part of the new project funding that is the breakup.

Neeraj Jain: It was largely the BOPP project funding which we commissioned recently so full debt related on the new project is in the balance sheet at March 2017?

Anurag Arora: What increase we can expect in FY2018 for the bucket project Sir?

Neeraj Jain: We are currently earning 1:1 of debt equity ratio we should continue to maintain or better rate for the next few years.

Anurag Arora: Thanks a lot Sir. That is it from my side.

Moderator: Thank you. Next question is from the line of Arjun Sengar from Reliance Mutual Funds. Please go ahead.

Arjun Sengar: Sir first question was that the total production in India rate now it is around 600000 tonnes right of BOPP films?

Neeraj Jain: Yes between 550 and 600.

Arjun Sengar: So we have added around 10% of that 60000 tonnes and can you tell us what has been the addition by other players during this year in tonnes?

Neeraj Jain: During the year two lines got commissioned one was at the beginning of the year from Jindal Polyfilms and then Cosmo Films at the later part of the year and having just one change here is on the nameplate capacity addition is 60000 tonnage but actual output from this because of the micron difference should be between 40000 and 45000 tonnage and generally on the current industry size for the domestic if we applied 12% to 15% annual growth rate generally this industry needs around two production line each year.

Arjun Sengar: And how much was the Jindal Polyline volume wise?

Neeraj Jain: So it was just fairly low line about 30000, 35000 tonnage in capacity.

Arjun Sengar: So my point was that if we have about 15% to 20% growth in capacity but the demand is not going even at 10% is that the case because FMCG volumes are not growing at that rate?

Neeraj Jain: No as Pankaj also indicated on the call actually whatever from the day one we are able to produce that I think sold off so demand is not an issue whatever production is happening for the industry is getting sold.

Pankaj Poddar: See there is two three things happening there one is that we obviously do not supply just to the food segment we supply to several other industries. So what is happening is there is lot of demand coming from new segments like we did new film for the cement industry so there is a new segment that is added up then there was something that we did for Lidding Film so that is the way there are lot of innovations happening in BOPP film. Second is BOPP is also taking market share form lot of other products like aluminum foil like a branch PP film, a branch PVC films so it is also picking an paper as well so it is picking market share from lot of other segments and third thing is that all the brands want to use a thinner and thinner films. So though you have lines, which are we can produce thicker films and thinner films too but it is also reducibly tonnage of the industry so these are three factors due to which every year we are seeing that at least two lines are easily getting absorbed in the system.

Arjun Sengar: But thinner films are do they have a higher margin per kg for you.

Pankaj Poddar: Per kilo yes as a contribution per day is similar at times it is slightly higher at times it is similar.

Arjun Sengar: So no major change basically.

Neeraj Jain: There is no change in terms of per day contribution.

Arjun Sengar: So can you also tell me what is the geographical split in volumes roughly share percentage wise?

Neeraj Jain: What do you mean by that?

Arjun Sengar: As and you have sales also in US, Korea and Japan right?

Neeraj Jain: In volume terms, I think we are exporting 40% domestic sale is 50% in value terms it is almost 50:50 but with a new line domestic share will go up a little bit and because exports we largely time focus on specialty so in the short-term or domestic sales may increase but in the medium term we would like to keep both at 40% to 50%.

Arjun Sengar: What is the capex that you will be doing for this BOPET line?

Neeraj Jain: 250 Crores.

Arjun Sengar: What will be the volumes?

Neeraj Jain: Volume the nameplate capacity is 36000 tonnes. Our lines will be completely dedicated or to a large extent will be dedicated to specialty films there will be lot of value adds also that need to going on this on the film made from this line so the actual production we do not expect to be a very high number. It should be somewhere between 25000 and 30000 tonnes that we will have to see as we move along.

Arjun Sengar: So by value added you mean coated films, metalized films and these kinds of things?

Neeraj Jain: This is confidential. We cannot disclose of this thing.

Arjun Sengar: No I am saying is this nature that you have already doing or is it something drastically different from that?

Neeraj Jain: A lot of it is something we are doing it and a good part of it is something, which we are not doing also.

Arjun Sengar: Sir you would also given us the volume for this quarter at 30000 tonnes of which 13000 tonnes was specialty can you give this number for the same quarter last year also?

Neeraj Jain: They are not available immediately but we have all because you can back calculate them.

Arjun Sengar: Sorry I cannot get your sentence Sir?

Neeraj Jain: We are saying we have already given you the growth number. We do not have an immediate number to that we have shared you the percentage growth so you can back calculate it.

Arjun Sengar: What is the growth?

Neeraj Jain: You mean in specialty.

Arjun Sengar: Total growth?

Neeraj Jain: Total growth was roughly 20% to 25%.

Arjun Sengar: For Q4.

Neeraj Jain: Yes Y-o-Y basis in the fourth quarter.

Arjun Sengar: What is the 14% growth number that I heard that is what or did I hear it wrong?

Neeraj Jain: I do not think so there is any number of 14%.

Arjun Sengar: Okay so 20% to 25% as a growth that you have done.

Neeraj Jain: Yes in the fourth quarter.

Arjun Sengar: That is it Sir. I will get back in the queue. Good luck.

Moderator: Thank you. Next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Sir any debt is getting refinanced this year so that we can have some benefit of interest rate reduction?

Neeraj Jain: You are referring the loans refinancing is it?

Vipul Shah: Yes loan refinancing.

Neeraj Jain: We could rationalize some of our finance cost so of course it is not refinancing from that perspective but we could reduce our finance cost release in quarter.

Vipul Shah: No I could not. This year how much benefit we got and next year what type of interest reduction we can expect?

Neeraj Jain: This year total interest saving could be 1 Crores to 1.5 Crores and for the next year you can expect around Rs.4 Crores or so.

Vipul Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Sir what is your volume growth number for the full year FY2017?

Neeraj Jain: 5% volume.

Dhiral Shah: If you can give me the number in terms of tonnes?

Neeraj Jain: That will be slightly difficult actually.

Dhiral Shah: Sir you said you have grown 20%, 25% in Q4 so where is the demonetisation impact there?

Neeraj Jain: Say again please?

Dhiral Shah: Sir you said you have grown 20%, 25% in Q4 and in your commentary you said there was a demonetization impact also but looking at your growth I do not see any kind of negative demonetization impact on your business?

Neeraj Jain: As we indicated volume wise there is no issue. Whatever we are able to produce is getting sold off. The demonetization in that was only margin side largely in the quarter three and four. If you see our results also for the full year for the first half you will notice in EBITDA terms the India results were better than the last year, but from the time the demonetization has started from the November 2016 major part of the margin drop is coming from that time only so quarter three and four margin was largely because of the demonetization impact, March 2017 onwards we are already witnessing increase in the margins.

Dhiral Shah: Sir I am not getting it sir how is this demonetization will impact your margins?

Neeraj Jain: If there is a drop of demand at the end of the end consumer.

Dhiral Shah: We have grown at 20%, 25% there?

Neeraj Jain: Volume has grown there is no issue at all but this we have grown for the company.

Dhiral Shah: Yes.

Neeraj Jain: So if at the end of the FMCG player who happen to be our key customers and the pay customer's textile customers these are the three industries who we supply generally. At the end of day there is drop in the textile bags so say FMCG product lingering impact on the related industries. So at the end of the December because of the drop in the demand at the end of the end customers they were running the high level of the inventory so accordingly the infrastructure industry they place the lower order.

Dhiral Shah: Sir if you can give me your revenue mix between how much is the FMCG how much is the TAPE and how much is the textile sector?

Neeraj Jain: We track it generally not industry wise. We track it in the four buckets which we have on the company's website also which is packaging, lamination, labels and the industrial applications so very broadly 40%, 42% come from the packaging, labels is around 40%, lamination is about 28%, 30% the remaining is the industrial applications.

Dhiral Shah: Sir how much margins you expect from this upcoming new line BOPET?

Neeraj Jain: That will be very difficult to say but as Pankaj indicated this would largely be dedicated for the specialized product so we can expect better margins.

Dhiral Shah: So it will be better than the existing margins which company is quoting right now.

Neeraj Jain: Yes.

Dhiral Shah: Sir lastly so at optimum utilization what could be the revenue at the consolidated level?

Neeraj Jain: So FY2018 we expect about 35%, 40% volume growth so if the raw material prices remains the same you can expect the same should get reflect in the volume side.

Dhiral Shah: Sir what is the current utilization including our new capacity?

Neeraj Jain: For the new capacity speed is getting unlocked in phases. There was a speed we are getting unlock it is getting fully absorbed.

Dhiral Shah: So on a blended basis?

Neeraj Jain: Pardon.

Dhiral Shah: On a blended basis your capacity utilization?

Neeraj Jain: Blended basis since we have recently from the February only it will be very difficult to saying but the speed is getting released and the full production should happen from the June to current year.

Dhiral Shah: Thank you Sir. That is it from my side.

Moderator: Thank you. Next question is from the line of Anurag Arora from Narnolia Securities. Please go ahead.

Anurag Arora: If you could please tell me the BOPP sales volume growth number for Q4?

Neeraj Jain: BOPP sales growth number.

Anurag Arora: Yes sales volume number sorry?

Neeraj Jain: 50% in FY2017 from specialty so remaining everything is commodity.

Anurag Arora: I am asking about Q4 BOPP only?

Neeraj Jain: Overall growth is about 20% and 20% is the growth for the specialty so remaining is of course very close to 20% growth shall be for it.

Anurag Arora: What is the combined volume number Sir for Q4?

Neeraj Jain: Does that answer your question?

Anurag Arora: Sir I am asking about BOPP Q4?

Neeraj Jain: As I indicated quarter four very broadly the volume was 30000 tonnage 42% of this is the specialty. Is there any further question on this?

Anurag Arora: Sir I am asking can we expect normalizing EBITDA margins in the range of 12% to 13% for FY2018?

Neeraj Jain: FY2016 as we discussed that it was a very normal year so we did between 12% and 13% EBITDA in this year so that is a normal range actually and with the improvement further in the specialty film mix it may further improve.

Anurag Arora: Thanks a lot that is it.

Moderator: Thank you. We have the next question from the line of Mr. Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: Thank you. Sir my question with regards to a new line which is BOPET line which is coming on what is total capex we are doing and how we are planning to fund it 70% debt 30% internal accruals is that the one or not?

Neeraj Jain: Very broadly, it will be 75% but the debt in 25% by internal accruals.

Ankit Gor: Capex we do 50 Crores right if I heard right?

Neeraj Jain: Right.

Ankit Gor: This line is expected to commence in Q3 FY2019?

Neeraj Jain: Expected to commence from the quarter three of 2018-2019.

Ankit Gor: Sir broadly what kind of revenue can we see from this once it is fully utilized for example and 100% realization what kind of revenue we can expect from this 36000 tonnes?

Neeraj Jain: 36000 tonnage is the nameplate capacity. A lot will depend on the mix actually since we are looking for the higher level of this specialty mix in this line so revalue number may not be very high but the margins will be better.

Ankit Gor: Thank you.

Moderator: Thank you. That was the last question, as there are no further questions, I would like to hand the conference back to the management for any closing comments.

Neeraj Jain: I think very broadly although the quarter four was having the impact of the demonetization, we look forward for the better margins in the coming months, which is already scenario which is getting witnessed. Besides this the company is eagerly looking forward for this 2017-2018 to have the full production capacity from the new BOPP line and 2018-2019 the specialized Pet line to be start commence operations. Thank you very much. Thanks for joining.

Moderator: Thank you very much. On behalf of Systematix Shares and Stock that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.