"Cosmo Films Limited
Q4 FY18 Earnings Conference Call"

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MANAGEMENT:	**MR. NEERAJ JAIN – CHIEF FINANCIAL OFFICER**
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MODERATOR:	**MR. SNIGHTER , CONCEPT INVESTOR RELATIONS**

Moderator: Good afternoon, ladies and gentlemen. I am Chris, the moderator for today's conference. Welcome to Conference Call of Cosmos Films Limited to discuss its Q4 and FY18 results. Please note this conference is being recorded. I would now like to hand the conference over to Snighter. Please go ahead.

Snighter: Good afternoon everyone and thank you for joining us on the Cosmos Films Limited Q4 and FY18 Earnings Conference Call. We have with us Mr. Neeraj Jain- the Chief Financial Officer from Cosmo Films. Over to you Mr Jain.

Management: Good afternoon, ladies and gentlemen. We will first discuss key updates on business and financials which may be followed by questions.

During March 2018 quarter, the Company has clocked highest ever quarterly sales volume which is almost 14% up on Y-o-Y basis. This is backed by close to full capacity utilization on new BOPP production line which got commissioned during February last year. Volume jump caused increase in Q4, FY18 consolidated top-line by almost 20% on Y-o-Y basis. (If we take out the impact of the excise duty which was part of the sales last year and not getting included in sales under current GST regime). Beside volume, increase in raw material has also caused some increase in sales value.

The company during the quarter has launched Improved Synthetic Paper which looks like a paper and has real long life. It's non-tearable and is capable to be used in several applications like labels, tags, maps, ID cards or tickets in amusement parks.

The company has also set up office overseas including Poland during the quarter with the idea to be more closer to the customer base.

For FY 17-18, our top line has grown by 22% which is backed up by 25% volume growth over last year. One of the key benchmark in our business is the growth of the Specialty films, which has grown by 20% Y-o-Y basis. Another part of the business is the BOPP film on which margin has not been running good, in fact it has been running almost 30% lower compared to last year. The impact of two favorable factors which are volume increase by 25% and Specialty films sale increased by 20% is wiped out by the margins drop in the BOPP film. This is why you will notice Company's EBITDA level close to the last year EBITDA level.

Going forward, we expect commodity margins should improve in few quarters from now. Although, it's very difficult exactly time out from which quarter it would increase, however it looks it should be on the improving trend considering expected improvement in demand and supply scenario. In next 18-20 months, we do not expect many BOPP production lines to come in India, which should improve Industry demand and supply scenario hence better margins.

The Company would continue to focus on improving Specialty sales mix and internal efficiency such as power, lines efficiency. These are the things which to a large extent will de-commoditize our business model and will provide more stable margins.

During the quarter as well as year, you will notice interest and depreciation have gone up compared to last year. This is largely because of commissioning of the new BOPP production line in Feb 2017. Interest expense for the quarter as well as the year also includes the foreign exchange fluctuation on the foreign currency borrowings. As per applicable accounting norms, foreign exchange loss is getting reflected in the interest cost and foreign exchange gain is getting reflected in the other income. The Company is having a foreign exchange risk management policy implemented to address foreign currency exposures. The Company takes hedges as per approved policy.

Tax expense in Q4, FY18 include tax reversal of about Rs 16 crores primarily due to partial reversal of the deferred tax liability related to a change in the income tax act related to base year change for computation of capital gain.

These were few updates on the business and the financials. Now, we would like to open the concall for questions.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session.

Question: My question relating to some of the news I heard that government is taking action on plastic ban so what is the current status and how it will impact the company?

Management: The central government of India has recently issued revised guidelines in which broadly provisions related to restriction on multilayer packaging has been taken out and substituted by provisions related to further utilization, collection and recyclability of plastic. So now in the new guidelines, focus is on alternate usage of plastic rather restricting the production or consumption. BOPP in any case is considered an environment friendly film among the plastic category.

Question: What is the margin in rupee terms in the BOPP film in last quarter and FY17-18?

Management: Average margin in FY17-18 is Rs. 10 per kg on commodity film which was running close to Rs. 14 per kg last year.

Question: We are entering into the BOPET film business, how is the market there because previously there was a huge over supply issue and what are the margins in PET film business?

Management: In BOPET film business currently demand and supply is running broadly balanced. So I do not see any margin pressure as such there.

Question: Because I have attended the con call of Ester Industries and SRF, they were saying that there is an improvement of Rs. 10 per kg compared to last year margin in the BOPET film, so is it so?

Management: We are not into the BOPET films sale currently although planned a production line as announced earlier. With respect to your question on specific margin, I may not be best person to comment.

Question: Firstly, what is our current share of Specialty films?

Management: In FY17-18 it was close to 40% in volumes terms and more than 50% in revenue terms.

Question: If you are focusing on the Specialty film where do you think that this will go up to and up to what percentage of your revenue?

Management: We are targeting at 75% of current capacity revenue from specialty films in next 3-4 years. This will to a large extent de-commoditized the business model.

Question: What are the current BOPP prices?

Management: Basic BOPP tape film price ranges between Rs. 112-115 per kg.

Question: So for us the crude impact doesn't affect us because we have a cost-plus model?

Management: Yes, actually pricing in the market is on the cost plus value addition basis. So generally whatever raw material price change happen, it gets passed on.

Question: These margins that you mentioned Rs. 10 per kg; these are gross margins or EBITDA margins? In the last quarter also you had mentioned that the current margins of approx Rs 11 to Rs 12 per kg these are very low compared to the normalized margins of 16 per kg and you think that the situation will not sustain for long period of time but looking at the capacities that are coming up because lot of peers are adding capacity in the BOPP space I guess so how long this situation might sustain?

Management: These are the gross margins. If we look at last 14-15 months of India BOPP industry, there are 5 new production lines which have started commercial production although demand side has been week compared to normal demand increase due to events such as GST implementation and Demonetization. In next 18-20 months, we expect only one more production line to start commercial production and demand increase should be better. Hence, demand-supply scenario should improve. Having said so if you look at the current level of the commodity film margins it should not prevail for long as no industry can sustain such low margins for long. The only factor is timing whether it would happen in one quarter or couple of .

Question: But I guess even Jindal is adding one line in the first half of FY 18 of 1,20,000 MT, wouldn't the margin pressure still maintain globally if the lines are being added up or only India is relevant for us?

Management: As per our information, new lines are not coming on the BOPP side in India. From global margin perspective, as BOPP Industry size is more than 8 million Mt, it should not impact at global level.

Question: How margin will look like when the crude oil prices going up?

Management: Crude actually has little impact on margins. Crude prices impact our raw material cost, however in a normal market, generally change in raw material prices gets passed on to customers.

Question: In FY19 can we expect the margins to be in the range of 6.5% or around 7%, EBITDA margin?

Management: Company does not provide margin guidance. During FY17-18, Company has done close to 9% EBITDA margin. I can indicate some steps Company is taking on margins i.e. focus on Specialty films which is growing by close to 20% on YoY basis, we are working on improving internal efficiencies particularly on variable costs which should help in better margins.

Question: What has been the capacity utilization for FY18?

Management: In FY18 we have been running more than 90% of salable capacity.

Question: I could see on the annualized basis there is some other income of Rs 34 crores, can you just give some background this particular detail of Rs 34 crores?

Management: This mainly includes sales tax incentive and foreign exchange gains beside other items.

Question: What would be the annual repayment obligation for next year?

Management: Close to Rs 90 crores.

Question: What is the Capex plan for FY19?

Management: We are looking for a new Coating line of close to INR 25 crores investment on the Specialty side to improve our Coating capacity which has been running at full capacity utilization. Beside this, the Company would complete purchase of adjacent land at Aurangabad. Beside this, there could be some other capex however not sizable.

Question: What's our present tax rate? Is that going to change going ahead, the tax rates?

Management: Current effective tax rate is about 20% as one of our plant is in SEZ. Since Company's SEZ is moving to 50% tax exemption from 100% from FY 18-19 onwards, we expect effective tax rate of 27%-28% in coming years.

Question: Can you give us an idea about finance cost of Rs 50 crore, how much of it is actually the finance cost and how much of is actually the foreign exchange losses and same with the other income how much is the foreign exchange gains?

Management: On a full-year basis about Rs 12 crores foreign exchange loss is classified in finance cost. Other income include about Rs 9 crores foreign exchange gain.

Question: I just wanted to know, are there any plans to lower the interest cost by increasing the equity base by QIP or something?

Management: Currently, we are not looking for any equity raise.

Question: What is our average borrowing cost?

Management: It is about 6%.

Moderator: Thank you very much. Ladies and gentlemen that is all from the conference call. I would now like to hand the conference back to management for their closing comments.

Management: Broadly, Company is working towards improving business model although BOPP commodity films margin has been running challenging. Few aspects to look forward in the coming year shall be better volume from full capacity utilization of BOPP and CPP line, focus on Specialty business and improvement in operational efficiencies. Beside this, movement towards normalization of BOPP commodity films margin should also come. Thank you very much for joining in and we look forward.

Moderator: Thank you very much sir. Ladies and gentleman, thank you for being a part of this conference call.