Cosmo First Limited
Q3 & Nine Months FY'2024 Results Conference Call
February 14th, 2024

Moderator: Ladies and gentlemen, good day and welcome to the investor call of Cosmo First Limited to discuss the Q3 and nine-months FY'2024 Results. Today, we have with us from the management Group CEO, Mr. Pankaj Poddar; and Group CFO, Mr. Neeraj Jain.

Starting off with the statutory declarations, 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, CFO of Cosmo First Limited, to take us through his opening remarks. Subsequent to which, we can open the floor for Q&A. Thank you, and over to you, sir.

Neeraj Jain: Thank you very much. Very good afternoon, ladies and gentlemen. I'm Neeraj Jain, Group CFO at Cosmo First; along with my colleague, Mr. Pankaj Poddar, Group CEO at Cosmo First.

Our financial results for December 2023 quarter and investor presentation both are available on the company's website. You may like to review the same. We'll start the call with a brief on the performance of the company, which may be followed by questions.

Firstly, talking about flexible packaging business. During the December 2023 quarter, the domestic margin, both on BOPP and BOPET shrank further due to desperate and below cost selling resorted by the industry. The company could withstand the disorderly market movements and outperformed the industry at large on the strength of its Speciality film portfolio.

BOPP film margin has been running at close to INR9 per kg during December 2023 quarter, as against INR18 per kg during September 2023 quarter. BOPET margins were running negative on the commodity part of business. Overall, the margins remained historically lowest. The company could post 9% consolidated EBITDA, mainly on the back of its Speciality film, and outperformed a large part of the industry as we discussed.

Consolidated sales for December 2023 quarter is INR625 crores, which is 6% lower compared to September 2023 quarter, mainly due to lower volume. The company actually has kept about 5% of its capacity under shutdown due to lower margins running in the industry. Out of the capacity shutdown in quarter three, partially the company has restarted the same from January 2024 onwards.

Coming to EBITDA, EBITDA for the quarter is INR56 crores as compared to INR72 crores in September 2023 quarter. As indicated earlier, the EBITDA is lower due to a further drop in domestic margins, both in BOPP and BOPET films.

The near-term outlook for BOPP and BOPET margins is expected to remain subdued because of substantial capacity addition in the industry. At the same time, we are expecting some upcoming capacity to get deferred, which should help in the normalization of margins in the medium term. Although, it will be very difficult to find the same.

The company's credit rating has been reaffirmed by CRISIL as AA-, along with a stable outlook in January 2024.

During the December 2023 quarter, the company commenced operations of two business verticals related to packaging industry. First, metallized capacitors for electronic industry. Second, Rigid Packaging under the brand name Plastech. The company is expecting to reach full capacity utilization of capacitor-filled metallizer in Q1' FY 2025. The capacitor metallizer is estimated to generate close to INR40 crores of annual sales at full capacity utilization with double-digit EBITDA, which we expect from FY 2025. The market size of capacitor films in India is about 15,000 metric tons. In Phase 1, Cosmo's capacity is 600 metric tons annually.

Coming to Rigid Packaging business launched under the brand name Cosmo's Plastech. This actually will manufacture in-wall containers and sheets for a wide range of FMCG products, particularly for the food industry. It's a very large market of about INR10,000 crores in India. Cosmo's capacity in Phase 1 will be close to 5,000 metric tons, which can generate between INR75 crores to INR80 crores of annual sales at full capacity utilization. The market response for Plastech launch has been very exciting. And the company expects to hit more than 80% capacity utilization in the next two quarters to three quarters with, of course, continuation towards EBITDA.

The company, if you recollect, in the previous quarter, we announced some core rationalization steps. Moving towards that, initiatives are working fine as per plan. And we expect bottom line addition of cost rationalization initiatives from FY 2025. We expect an annual bottom line addition of between INR45 crores to INR50 crores from all these initiatives from FY 2025.

Moving to Speciality films. BOPP's Speciality films sales is running close to 64% of total volume on a December YTD basis, compared to 63% last year. In BOPET as well, the company has started selling Speciality for about 10% to 15% of volume. The company is working towards launch of sun control film, high-strength film and many other films to enhance its Speciality on BOPET line as well.

It should please be noted that even in such a challenging market, the company's Speciality margins broadly remained intact in line with last year, except for some mix change impact and uneven orders from its Speciality export customers having high margins. As we discussed earlier, we expect these Speciality orders to inflow back from FY 2025.

Now, I'll move to packaging growth projects. Work on our BOPP and CPP lines is progressing in line with the trend, both the lines will be world's largest production capacity lines and will increase company's production capacity by close to 45% to 50% in a phased manner by March 2025. With high-speed lines and larger grid, it will rationalize cost of production between 3% to 5%, depending on product.

Moving to company's subsidiary to Speciality chemicals. The Speciality chemical subsidiary is progressing as per plan and is at the cusp of delivering double-digit EBITDA with high teens rolling from FY 2025. Potent chemicals and adhesives, along with master batches, these three verticals, including Speciality chemicals, will drive future growth for the company’s subsidiary.

Moving to Petcare vertical, Zigly. Zigly has undergone revamping of its IT infrastructure, making it future-ready for harnessing the exponential growth expected in the industry. The marketing attrition has been improving with improvement in RoAS, which stands for Return on Advertising Spends, and other key parameters. The current monthly revenue, which is GMV, is about INR4 crores monthly. This is on the back of, of course, expanding the retail footprint with 23 stores and an increased online presence. With the exponential growth of the healthcare industry in India, we are confident for Zigly to become a significant wealth creator.

Moving to growth and balance sheet key indicators. The company is looking for close to INR400 crores CAPEX in the next one and a half years, broadly on the BOPP and CPP lines from now onwards. The company’s net debt at December 2023 is close to INR600 crores, which is 2.4 times to EBITDA and 0.46 times to equity, and financials remain strong.

I think with this, I will take a pause and open the call for questions, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gaurav from Investec Enterprises. Please go ahead.

Gaurav Zanzaria: My question to the management is that when the margins are shrinking like this, the first thing as an investor we would like to seek is that, is there any prior incident when such kind of rock bottom margins were last observed?

And second thing, the kind of expansion that we are taking off in the BOPP and the BOPET, right, so what is the rationale that when margins are shrinking anything like this, and we are expanding our capacity. So, isn't this going to increase the supply in the market and further reduce the margins or how is it? So, these are my two questions to the management.

Management So, as far as BOPP is concerned, there is not so much overcapacity, though margins have certainly shrunk. I would also like to tell you that, see, though we have reported 9% EBITDA, we are having close to 2% EBITDA losses from all of our new businesses, largely coming from Zigly. And then close to 2% EBITDA losses also happened on polyester businesses. So, effectively if we talk about BOPP, in spite of such a tough market, we are running quite a healthy business.

As far as the new capacities coming, we are not coming up in any BOPET capacity. What we had come up with was a year and a half ago. And our clear target there is also to move into Speciality. We are happy to share that by December end we have already reached 15% Speciality. And by January, the run rate has moved to 18%. We will continue to grow our Speciality business in BOPET also. And we expect that even when there are contribution losses at a variable cost, Cosmo will be able to breakeven and start making money in three to four quarters from now.

So, there's one capacity addition that we are doing in BOPP. We do expect that by the time our line comes, the demand and supply will be very nicely balanced, and the market will require a line. And obviously, what we can also say is that what we are finding is that the current margins of BOPP are definitely not logical because they are hardly 5% to 10% overcapacity of the market. Unfortunately, some of our competitors are not able to export enough and they are following a policy of price reduction. But to me, this is personally not sustainable for too long.

Gaurav Zanzaria: Sir, within this I asked a question that is there any prior incident when we have observed such kind of rock bottom pricing? In this history, last one decade, two decades, have we seen such kind of a low rock bottom margin?

Management: I would say, at least if we talk about since 2000 onwards, on two, three occasions it has happened that margins have remained subdued for close to a year or so. The good thing is in the past whenever such things happened, Cosmo also struggled to report profitable EBITDA. One change which we have been able to bring in the last few years is that BOPP on its standalone is making reasonable margins.

Gaurav Zanzaria: And any guidance on that what would be the maximum debt that we would be looking for in a year or two? Considering we are now at, I think, INR600 crores, and considering the expansion we are taking up, what would be the maximum top of debt that we would be looking? That we can sustainably service, considering the margins that we are running now?

Management: It's very difficult, because if the markets improve then things look different. And if the markets don't improve, things look different. We are basically doing INR400 more CAPEX in the next one and a half years. And after that, I mean, we have not gone ahead with more projects. So, these were the committed projects which we had committed to two, three years back, which we are finishing. And if the current situation prevails, then obviously we will not do any further CAPEX till the time the market improves. But what we feel is that if you're doing INR400 crores and we are generating cash from operations, so I mean we personally expect that the total debt level should stay around INR900 crores, INR950 crores, in those ranges. Neeraj can give more clarity.

Management: And just to add to it, you see, even at the peak level of that also, we don't expect net debt to EBITDA to exceed 3 times.

Moderator: Thank you. The next question is from the line of Amit Agarwal from Leeway Investments. Please go ahead.

Amit Agarwal: My question is regarding how much money we have invested in Rigid Packaging line and the other line we started, like the capacitor films?

Management: In the capacitor we have created infrastructure for two lines. We have ordered one line and we have invested close to INR23 crores. The incremental CAPEX for the second line should be INR15 crores. So, right now it's INR23 crores, and effectively the infrastructure is built for two lines.

Amit Agarwal: Sorry, I'm asking for Rigid Packaging.

Management: Yes. Rigid Packaging, the total CAPEX is close to INR100 crores.

Amit Agarwal: We have already invested that or are we supposed to invest further?

Management: No, no, all put together.

Amit Agarwal: So, are these lines adjustable to BOPP line or they are separate lines altogether?

Management: Sorry?

Amit Agarwal: Is this infrastructure totally separate from the existing lines of BOPP and BOPET?

Management: Yes. This is there in the same premises, but the facets are under different roles. So, we have basically two sheet lines. We have 12 injection molding lines, and we have two thermoforming lines. These are the total investments we have done as a part of Rigid.

Amit Agarwal: And in this next year, two to five years, we are expecting, both the Rigid Packaging as well as capacitor films lines working more than 50% capacity, right?

Management: Yes. We have just started this in September. But for these businesses, we expect that capacity fill-up should happen faster. The beauty about these businesses is that they will help us to connect with the brands in a much bigger way, because these are going to be sold directly to the business or to the brand, where there's a cost-plus pricing. Unlike films which get impacted so much by the market vagaries, in the Rigid business, you sell to the brands on a cost-plus model.

Amit Agarwal: And my next question is regarding, if I heard it right that you said BOPET line was shut down because of lesser margins during the month of December. And it started from the 1st of January, am I right?

Management: The closure also happened; one is obviously the market conditions. But also typically that's the Diwali time and Christmas time. And during the holiday time, typically the demand dips. So, one is, anyways there's pressure because of oversupply. And then, there was a further impact because of Diwali and Christmas. We decided rather than to sell below our cost, it's better that we shut down a small capacity, which Neeraj has clarified that in January most of that capacity -- I mean, it's just 5% and most of it has already been restarted in January.

Amit Agarwal: Right now, the margins are improved compared to the last quarter.

Management: I don't think so. No, not really. Till now the margins have not improved.

Amit Agarwal: So, any reason that you started the line again?

Management: Yes. Because there was a temporary blip in demand. So, overall with this additional volume, we will make some absolute -- I mean slightly better absolute margins. But what I was trying to answer is that in the market at large, the margins of the commodity films have not gone up. But certainly, we are trying to look for more exports.

Amit Agarwal: And my last question is regarding exports only. Has the Red Sea, because we are exporting our goods through shipping only, so has the Red Sea problems created our export to slow down, or have they hit the margins of exports?

Management: Honestly, it has not impacted us much, barring the fact that the freight costs did go up in the end of December till January. And we now hope that by March the freight rates will come down. In the majority of the cases, we were able to recover freight from the customers. But though there were some cases, because it was such a short window, that some customers didn't agree to pay. So, it's not a very major impact on our P&L. There is some impact to P&L, but it's not so significant.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir, I just wanted to ask that we are also investing in Zigly and it also requires working capital apart from growth CAPEX. So, beyond that INR400 crores CAPEX that we are setting up, how much cash is being allocated towards Zigly, and even our Speciality chemicals business?

Management: Yes. So, one of the things that we expect in the next year is that most of our new businesses will start earning money. So, whether it's Cosmo Speciality chemical or Rigid Packaging, Cosmo Plastech, both these businesses will start earning money. Zigly right now is making losses full year at close to INR30 crores at EBITDA level. And we do expect that next year also, we will be making losses, though the budgets are not yet finalized, but we will be making closer to similar loss numbers. But month-on-month we are growing on the revenue side. And it's a very high valuation accretion business. I'm sure the investors must be reading the valuations, which are being given to multiple players in the Petcare industry. They are still small and getting very good valuations because the industry is expected to grow very significantly in the years to come.

So, Zigly, as such, doesn't require much working capital other than some inventories that we have to keep in retail because all the sales is on cash. So, there's no receivables which gets involved, just the inventory per store that we have to add up, and some inventory levels at the warehouse. But we do not expect any major movement on the working capital side. We will continue to incur some losses when it comes to Zigly business.

Bhavesh Chauhan: Okay. And sir, in terms of Zigly also, I mean, how are we competitively placed? And who are the largest players in this industry? And what is the competitive advantage that we have, or we are trying to build in this business?

Management: Yes. We are the only player which has built an ecosystem where we provide veterinary services, we are giving diagnostics, we are giving grooming, we have training services, and the entire product line. And we continue to build some of our own house brands within Zigly as such. It's just the beginning of the house brand, but we will continue to build more house brands in the times to come. So, the best thing is that we have the entire ecosystem, which is available online and offline both, for the customers.

Bhavesh Chauhan: And sir, about peers, who are the peers who are also doing similar kind of work?

Management: Yes. So, there's two, three players who have now become prominent because a lot of investments have come from key players and them. So, one is Heads Up for Tail which I think one, one and a half years back was, if I recollect correctly, on a INR75 crores revenue, they were valued for INR750 crores. Second is Supertails, which got a valuation yesterday only. I think for a small stake they got $15 million capital. Apparently, their valuation has been done for INR1,500 crores to INR2,000 crores. And third is, Just Dogs, which is largely into retail. But obviously, we are the only player who has built the entire ecosystem as such. But these three players are emerging players and there are a lot of other small players also. And most of them are getting valuations because this industry will be a growth-oriented industry in the times to come.

Bhavesh Chauhan: And sir, lastly, what would be our sales of Zigly on a quarterly basis?

Management: The monthly run rate has now increased to roughly INR3 crores on a net revenue basis. On a gross level basis, we are close to INR4 crores.

Moderator: Thank you. The next question is from the line of Jinal from Emkay Global Financial Services. Please go ahead.

Jinal Fofalia: Yes. Good afternoon, sir. Thank you for the opportunity. Sir, I have a few questions. Sir, the first question is, how do we define Speciality, Semi-Speciality and commodity business? It would be helpful if you can put more color on this.

Management: Yes. So, Speciality is defined, there are either no competitors or there are just two or three competitors around the world, where we have stable margins and most of the business is MoU-oriented. Semi-Speciality is something which is where the margins are linked to commodity, but normally you end up getting some better margins on those products versus commodity products. And commodity is which is completely linked to the market, domestic market, where if the margins go up you earn more, and when the margins go down you earn less.

Jinal Fofalia: Second question is, in the total sales how much percentage is contract sales in 2023? And in contract, do we do it on a financial year basis or calendar year basis?

Management: We operate on, obviously, on a financial year basis. And most of our export sales are MoU driven. And as far as Speciality is concerned on a year-to-date, last year we did 63% and this year we have hovered at 64%. Obviously, there was a decline last year from September till June of this year, and now for the last five months, six months we are seeing an upswing in the Speciality business.

Jinal Fofalia: And these contract sales, would it be on higher prices? And is there any revision of the contract for 2024? Does the company expect less margins in this business?

Management: Not really.

Jinal Fofalia: And sir, just want to understand the profitability and volume of coating and thermal lamination films and this specific business.

Management: These are specific details which we do not divulge.

Jinal Fofalia: Pardon?

Management: These are specific details which we do not divulge.

Jinal Fofalia: And what is the current debt level of the company? And how companies are trying to stay the same and, as you could see that EBITDA is going down?

Management: Yes. We are sitting at 2.4 times EBITDA. So, we are in quite a comfortable situation. And we have a treasury of INR400 crores, so I don't see that to be of any concern as such.

Management: And just to add to it, you will also notice, you see, at the end of December some of the capacity is not at full utilization. And on top of it, some of the CAPEX has already been done on the CPP and BOPP line, which is yet to generate revenue on the bottom line. So, that is, with the time to come, once the full capacity is operational, the numbers will further get restored.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir just wanted some more color on your Speciality, Semi-Speciality business. See, I mean, it is somewhat counter-intuitive that despite having a very high share of these businesses, our margins overall are falling like a commodity company itself. So, I mean, what is causing such high fall in the margin despite you claiming that two-thirds of the business is coming from Speciality? Because mathematically if you run the numbers, it shouldn't have fallen so much.

Management: See, first of all, as stated in the beginning of the call that we have reported 9%, but you have to also understand that we have incurred close to 2% EBITDA loss in our new businesses, especially Zigly. And then we have also incurred close to 2% EBITDA losses in Plastech, where the business is still largely commodity, only 15% in December is what we could reach to Speciality numbers. So, BOPP business still is at a very healthy level.

The second thing is that you have to also see vis-à-vis competition results in terms of how they're performing. I would not like to name any of them. Investors can check in terms of what is the industry profitability, and what value Cosmo is able to bring in such tough conditions.

We never said that we will totally be not impacted by what's going on in the industry because we still have close to 35% commodity business and close to 25% of Semi-Speciality business, which does get impacted by the commodity margins. So, we will have that impact. In good time, obviously, both businesses will earn more. And at that time we will get impacted. But what we can clearly know is that, obviously, how the industry is performing and how Cosmo is performing.

Management: So, we request you to refer to the presentation which has been recently updated, which has a slide very clearly indicating separately the margins for the Speciality, Semi-Speciality, and the commodity part of business. And you will see a dip there very clearly in the commodity part of business. But the Speciality is largely not going to be ups and downs. Semi-Speciality obviously had some impact, but obviously very low compared to the commodity part of the business.

Sarvesh Gupta: And is there any part of the business, which was previously considered as Speciality, but is now understood to be more commoditized, given how some of the fall in the margin has happened? So, have you also changed any classification between these three buckets of products pursuant to this fall in the margins?

Management: There's nothing to do with the fall in the margins. We do this exercise every six months. And if we find that any segment is gradually becoming Semi-Speciality or from Semi-Speciality to commodity, that is reclassified on a six-monthly basis. Good market, bad market, we do this analysis six-monthly. And wherever there is a shift in the Speciality categorization or Semi-Speciality categorization, we do that.

Sarvesh Gupta: So, that's what I wanted to understand that let's say you are having 65% under this category, let's say, they're one-third, one-third, one-third. So, going forward, let's say, in another couple of years, what portion of these Speciality and Semi-Speciality would slip to the commodity segment? And how do we plan to sort of mitigate that?

Management: We have a very big pipeline of new products. And if you look at our last five years, every year we have grown on the Speciality numbers. Only when last year, because of post-COVID, there were supply chain corrections that we had a small dip, I mean, it was a reasonable dip, it was not a small dip, for six, seven months or let's say nine months. But beyond that, for five years we continued to grow. There are some segments, which during the year might have come down on margins and categorized from one level to second level, and then to third level. But overall, we have grown. We have a very strong product line where we will continue to push this and continue to grow our Speciality and Semi-Speciality business.

Sarvesh Gupta: And sir, from a capital allocation perspective now, again, I think most of the money is going to be spent on the BOPP lines, etc., which will have a similar nature. And while we are investing in the adjacent business-like Rigid plastics and all that, do we see that a major chunk of our allocation of capital going forward can be into the adjacent area rather than the core area? Or how do we see the overall opportunities that we have?

Management: Yes. So, after this new BOPP line, I don't think for the next few years we are going to invest in any of these film lines. If you really see, even our last BOPP line came in 2017; and after '17 the next BOPP line is coming in 2025. So, that way we have kept a very good gap between the BOPP. The polyester line was meant for Speciality. And as I said in the last call, that is because our shrink film line had certain issues which got sorted out only in December end, which we are going to scale up very significantly in the next two years to three years.

So, polyester line was actually not supposed to compete on the commodity products. But we had to go that route because of delay in our PET-G capability part, which is now fully sorted out. So, we are not going to invest in these BOPP, BOPET lines for the next few years. And the new allocations would actually be done in all the new businesses, whether these are window film businesses, whether it's Rigid Packaging, chemical business, or Zigly. These are the four businesses in which we will be investing more in the times to come.

In the film business, our investments will go more in the value addition part. So, it could be some kind of coating or any special kind of metallization, and things like that. Those are the areas which we would like to invest. This is one of the reasons that in the last three years, four years we are looking at areas beyond film. And therefore, you have seen that we have invested in capacitors, window films, these are all very unique areas. But the challenge in these areas is that if you invest in new areas, it takes some time to start yielding results.

And as I said, Rigid business is expected to start yielding results much faster. And so is the chemical now, it should start yielding quite decent results from next year. So, there's always a two, three-year lag when you start some of these new businesses. But the good thing is that in the good times we've invested in these new businesses, and this will help us to continue growth in the coming years.

Moderator: Thank you so much. The next question is from the line of Vipul Kumar Shah from Sumangal Investment. Please go ahead.

Vipul Kumar Shah: Yes. Thanks for the opportunity. Sir, my question is, what is our cumulative CAPEX for Petcare vertical?

Management: You see, Petcare vertical is not CAPEX-centric, except some CAPEX needs to be done, while we open these stores, there is no significant CAPEX as such. So, it's largely OpEx-centric. And as Pankaj said, we are close to INR30 crores of negative EBITDA in the current financial year for the Zigly.

Management: And the good thing in Zigly is the percentage losses on revenue are continuously coming down, and they will continue to come down before we reach a point in which we start making money in that business.

Vipul Kumar Shah: So, can you quantify what is our current EBITDA loss as percentage of revenue for the latest month?

Management: Latest month, we are still hovering close to 90%, I mean, roughly close to 80% to 90%, somewhere in that range. But you see, that's a business which should be seen in a different way, because a large part of the structure on the cost is committed now with the revenue growth which we expect in the years to come. So, those costs and percentage of revenue will get rationalized. And over a period of time, you will see it making a positive EBITDA.

Vipul Kumar Shah: Sir, my second question is, in light of substantially reduced cash flows in our core film business, are we reviewing any of our capital-intensive projects like BOPET line where we are spending roughly INR350 crores? Are we rescheduling it or postponing it? So, what is the management thinking?

Management: You see, as we said, from now onwards we have commitment of close to INR400 crores of CAPEX, largely only BOPP line and CPP line. So, besides this, currently we are not reviewing any other major projects. So, I do not see any major CAPEX s in the next two years, three years' time.

Vipul Kumar Shah: No, the question was, are we rescheduling this line also?

Management: Not really. One is, it's already too late. And second is, as I said earlier, we understand that BOPP margins are so low, but we also said that BOPP oversupply is not so bad. So, right now some of the players perhaps intentionally have cut down their prices, which to us is not logical. A better sense will prevail in this market. And we do expect that in 12 months of time, the demand and supply should be pretty balanced, and margins in any case should go up. So, I don't see that as a huge concern as such. Though obviously then our line will come up and we'll see at that point in time. But by that time you also expect the Speciality will continue to grow.

But to answer your question, we are not expecting to delay this process. That will be more, I would say, problematic in the sense that we have already done a major part of the CAPEX. So, that is not going to help really to defer that CAPEX. We will start earning money on that BOPP line, given the wide variety of products that Cosmo makes when it comes to BOPP films.

Vipul Kumar Shah: And sir, my last question is regarding the share of Speciality and Semi-Speciality. It is hovering around 63%, 64% since last one and a half to two years, means we are not able to move that percentage higher. So, does it mean that our new products are not gaining market acceptance? So, what is your view on that, sir?

Management: No, actually the European market was quite subdued, actually it went down, as I said earlier. In fact, last year, one of the months it exceeded 70%, when the going was going very well. Though the quarter numbers were still at 60% to 67%, but one month we touched 70-plus-percentage. And then all of a sudden supply chain corrections happened, and it went down to 57%, it has gone up again to 67% in the last month.

And one of the segments where we are present, there the supply chain corrections as per the customer has still not completed. And therefore, that segment numbers are not coming, which otherwise was quite reasonable for us. So, if that segment had been operating now, we would have crossed or we would have been close to 70% again. So, we are growing, it's just that the supply chain corrections hurt us in between. And now we are seeing a new state of growth coming in the Speciality.

Moderator: Thank you. The next question is from the line of S.B. Bhaiya, an individual investor. Please go ahead.

S.B. Bhaiya: My question is only one. Pankaj, you just now said that, right, you have seen these sorts of cycles twice since the year 2000. So, what is your experience, sir, actually how long it continues, 12 months, 18 months or whatever? And right, this particular cycle, what we are seeing right now, when it started, if you can just throw light on that?

Management: So, typically what we have seen is these cycles remain from a year to two years. When it comes to BOPET, it's already been 18 months now. But to be honest, in BOPET we never had seen so much of overcapacity. Right now when I talk about BOPET films, there's close to 30% overcapacity, which is quite a difficult scenario. So, it's very difficult to project when the BOPET margins will become positive.

As a company when it comes to BOPET, our focus remains on creative Speciality portfolios. As I said that December, we touched 15%, in January we touched close to 18%. So, we are putting a lot of efforts on increasing Speciality in the BOPET business. And as I said earlier in the next three quarters to four quarters, we expect that in such a worst market we'll start to breakeven and start making some money even in the BOPET business side.

Coming to BOPP, there is not so much overcapacity, but some players are resorting to price reductions just to make sure their lines are running. To me, that's not so logical, honestly. But we have to live with the market reality. We do hope that in the next 12 months demand and supply will be more balanced, and BOPP should perform better. But to answer you, in the past we have seen that these are like for 20, 24 months.

S.B. Bhaiya: And when did this present cycle started, in your opinion?

Management: I wish that only God can tell. On a rational basis, BOPP should not take so much time. On a rational basis, BOPET, there's a lot of overcapacities, so that can take time. But typically what we have seen is, even last time when it happened in BOPET in '17-18, what we saw is one major player globally busted, and then immediately the margins improved. So, these are situations where something has to change, and it all depends on who has how much capability to literally deal with it. And then something happens, either the raw material starts falling short or something happens with somebody or the other, and the demand keeps growing, and then the margins get corrected. So, there is a cycle in the commodity cycle, and we have to live with it. So, as far as projections are concerned, I can give you a rational projection where science does not go completely with logic as well.

Moderator: Thank you. The next question is from the line of Viraj from Aryan Capital. Please go ahead.

Viraj: I just wanted to ask, if you could just mention the contribution margins that you answered in the previous question, I missed that part. How have they moved from Q3 till date in BOPET and BOPP both?

Management: You see, in Q3 there was a drop very clearly in both, and this is BOPP and BOPET. You asked Q3 versus Q2 or you asked Q3 versus Q4?

Viraj: No, sir. From Q3 till date. So, in the month of Jan and just the start of February, first week of February, if you can just highlight how margins have moved. So, are they on the improving trend, or are they the same, or have they gone down?

Management: So far, the margins are running broadly in line with the Q3.

Viraj: And sir, by when do you expect a recovery in these margins? Is it still a six-month game or do you think it's more of an extended period beyond that as well?

Management: So, I think Pankaj just tried to explain this in previous question, very difficult to time it. But definitely in the medium term we see margin to get normalized.

Viraj: Lastly, sir, if you could just let me know the guidance going ahead for FY 2025 and 2026.

Management: Sorry, we do not provide any guidance.

Moderator: Thank you. The next question is from the line of Deep Chaitalya from Nine Lace AQ Research. Please go ahead.

Deep Chaitalya: My question to you is, what will be the sales mix in FY 2025 in terms of various kinds of films?

Management: FY 2025 it's very difficult because it's linked to raw material prices and the margins on assets and commodities. This year there's a volume growth still the revenue numbers are coming down. So, it's very difficult to share these numbers. Broadly, it will stay close to INR3,000 crores plus or minus some percentage.

Management: Just to add to it, you see, in FY 2025 the company's new capacity is getting kicked in, in terms of CPP line, which has nameplate capacity of close to 25,000 metric tons. So, this will be a significant addition. And some of the capacities which we started during the current financial year, like the thermoforming capacity metallizers, those we expect to run close to full capacity utilization next year. So, those will provide further support to topline growth.

Deep Chaitalya: Sir, my follow-up question, is the excess capacity, is it only due to domestic markets or is it due to higher imports or dumping?

Management: There is no import. I mean, if you see the import-export data for India as well, there is no significant imports happening in the flexible packaging industry in India. So, that is largely the additional capacity in the domestic industry.

Moderator: Thank you. The next question is from the line of Marshall, an individual investor. Please go ahead. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, just to continue on the previous question. So, we are now investing more and more capital in the adjacent business, so I mean are the opportunities meaningful enough to drive meaningful growth for the overall company? I mean, while these opportunities are there, still they look to be of a small sort of a size compared to our overall level of the sales and EBITDA.

Management: Yes. So, these industries, I mean, whether you talk about window films globally, they are close to $2.5 billion market, expected to become $4 billion market by 2032. Rigid Packaging is again a very big market in India. Chemicals is a huge market in India, whether it's adhesives or coatings or master batches. And Zigly again, is expected to grow very significantly in the years to come.

We have invested in growth industries. Obviously, on day one in a new segment you would not like to invest huge money. You have to go step by step and that's what we are doing, we are going step by step. As we see more momentum in these areas, we will scale up and grow. But you do not end up creating INR3,000 crores company in a short period, these things take time. We are first trying to make sure that we are making a decent entry. And then once we do that, we'll probably scale them up. All these are scalable, there's no doubt to their scalability as such.

Sarvesh Gupta: And what do we bring onto the table? Is it like selling to the same customers or is anything else that we bring onto the table which will put us at an advantage vis-à-vis anyone else who is trying to enter into these new segments which are still sub-scale?

Management: Yes. I think this is kind of its own niche. If I talk about the chemicals business, that's a technology business. If you are able to give better properties to the customer, then the customer is ready to work with you. And obviously, we have that credibility and goodwill with the customers.

When you talk about Rigid Packaging, that helps you work greatly with the brands, which is what any company wants because then you have to become a Tier 1 supplier.

And there, unfortunately, there are not many organized players. You see only a couple of players in that. One is Moldtek, that we know which is there in Rigid Packaging. Then second is Manjushree, which was later on acquired by a PE firm. So, there are not many organized players and therefore brands are looking forward to working with bigger players. And that is the reason that already a couple of very large brands have signed up with us.

When you talk about window films, it's a global business. You know already one of our competitors do make window films and you know about their financials as well. And there also it's about bringing unique products. That itself is a complete business in itself with several solutions which you provide to the customer. And Zigly again, there are a host of services and products.

There are a lot of unique value propositions that you have in each one of them, and all of them are scalable. And we intend to invest step by step in all of them. And as I said earlier in the call, we have right now invested quite a bit in the films. In the times to come we will be investing more in these new businesses.

Sarvesh Gupta: And on Zigly, so what kind of capital is required to sustain this sort of a level? So, let's say we are at INR35 crores, INR36 crores net revenue business right now, so what kind of capital we have invested in? And incrementally for every unit of sale, how much capital do we need to deploy? That is apart from the P&L losses, which I understand that maybe in 12 to 24 months, we might reach breakeven. But what kind of capital is needed in addition to the losses to support this business?

Management: In the last two and a half years we have invested close to INR55 crores in Zigly. And over the next two years we expect that we will be investing another INR80 crores to INR100 crores. And certainly, for the next two years to three years we do expect that we will become profitable. And we expect that we will also carve out a separate company within the next two years, which we also announced to the market earlier.

Sarvesh Gupta: So, in the next two years maybe we were targeting maybe around INR200 crores or something thereabouts in terms of the net revenue GMV, net revenue value?

Management: Net revenue, I don't think so. Because we are right now running at a INR3 crores run rate, so reaching to INR200 crores may be too optimistic. But we will certainly try and target somewhere. I mean, its again giving projections, and we don't see any reasons of giving too many projections. But for sure, I mean, we feel we will be in the range of INR125 crores to INR175 crores, somewhere in between.

Moderator: Thank you. The next question is from the line of Gaurav from Invesco Enterprises. Please go ahead.

Gaurav Jakhotia: Sir, these new businesses that we have launched in the last two years specifically, right from Zigly and then to this metallized capacitor film, and now in the Plastech segment, which is a Rigid Packaging films, right. So, what is our expectation that in, let's say, the next two to three years these can add, in terms of percentage, to our top line? So, will it be 10% of our top line, 15% of our top line? So, what is your expectation on this?

Management: If the film business would not been growing, then I would have said they would reach 15%, 20%. But the fact is, the film business will also continue to grow quite a bit. So, right, overall, we feel that they should be close to 10% with the way even the film business is expected to grow.

Gaurav Jakhotia: In terms of the EBITDA margin in these new products, so Zigly, we know that it is an e-commerce platform kind of an offering. But in the Rigid Packaging or the metallized capacitor films, or I would say, sun protection films also, is the EBITDA margin going to be somewhat higher, or it going to be on the same lines that we are running in our traditional business?

Management: The film business is a fluctuating margin business, while all other businesses will have much more stable business. We do expect that next year Cosmo Chemicals, Capacitor, and Rigid Packaging will start to make money. We do expect in three to four quarters, even in this worst market, polyester will start too breakeven. Window film will take at least a year, year and a half to turn profitable because that also is a consumer business. And Zigly will continue to make losses for another two, two and a half years.

Gaurav Jakhotia: Sir, last question from my side, if you can hear me. I'm not sure if I heard correctly during this call. But in the Rigid Packaging are you competing with Moldtek Packaging in some way, in some of the product segments that you have launched?

Managementr: Yes. The IML containers are competing with Moldtek, and we are also making thermoform containers and trays, which is competing with Rajshri. That's it.

Gaurav Jakhotia: And sir, in sun protection films that you did, are you competing with Garware in that segment, in the export market or in domestic? Is that correct understanding or I am having wrong impression in that segment?

Managementr: Yes. Garware is the producer of these films. But as you may be aware, Garware as of now doesn't sell much in the domestic market. Though, obviously, now they are also trying to increase their domestic market presence. But yes, there are the other competitors in India. And globally, there are close to four to five established players in this segment. Though in China there are multiple producers for everything and so is the case for window films. But as far as established players are concerned globally, there are close to four years to five years.

Gaurav Jakhotia: And our focus in this particular segment is going to be domestic or export?

Management: Both.

Moderator: Thank you. The next question is from the line of Poorni Khanna from RoboCapital. Please go ahead.

Poorni Khanna: I have one question about the CPP and the BOPP expansion in FY 2025 and 2026. What do you see as the revenue's contribution from this expansion and realization?

Management: See, CPP will be added up in 2024, 2025, and BOPP will start from FY 2025, 2026 first quarter. So, both will start from the first quarter of the respective year. As far as both put together, they will add up to close to INR1,000 crores on reaching full capacity. But we don't expect that within the first year itself they'll reach full capacity. They may take some time.

Poorni Khanna: And also on the margin front, what do you expect it to be?

Management: See, to be honest, in the first year we would be largely dealing with commodities. So, we'll be dealing with commodity margins on these new capacities. But here also the target is that we are working with different, different segment customers and build Speciality. When I talk about CPP, we are already working with so many different brands to give them very unique solutions. We have already made four, five very innovative products that we are in the process of launching with our existing CPP lines.

So, there the focus will remain on Speciality. But in the first two years, three years, commodity business will be more, and gradually it will get converted into Speciality business. Commodity business is very difficult to comment on any margins because they keep fluctuating. But BOPP, as we said, is largely at least going to be balanced by the time online comes. So, we have to see how the commodity margins play out.

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

Management: From the closing comments perspective, I have two key messages. One is on the margin side for the flexible packaging. We feel the near-term outlook for the BOPP and BOPET is expected to remain challenging. However, it should normalize in the medium-term. The company's strong Speciality film portfolio shall continue to help during this period, and which in any case we are further expanding like sun control foams.

Second is, among the new business verticals as well i.e. CSC, which is Speciality Chemicals, capacitors metallizers, rigid plastic under the brand name Plastech, all are expected to earn decent EBITDA from FY 2025. While Zigly may take some time to become profitable, it should be a significant value creator.

With this, we would like to thank you all for joining the call. At the end of the call, I would like to repeat the 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 uncertainties and changes in circumstances. These statements are no guarantees of future results. Thank you for joining.

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