Cosmo Films Limited

"Q1 FY2018 Earning Conference Call"

August 11th, 2017

MANAGEMENT: MR PANKAJ PODDAR – CHIEF EXECUTIVE OFFICER
MR. NEERAJ JAIN – CHIEF FINANCIAL OFFICER

Analyst: Mr. Ankit Gor – AVP – Midcaps, Institutional Equity Research, Systematix Shares & Stocks

Moderator: Ladies and gentlemen, good day and welcome to Cosmo Films Limited Q1 FY18 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 for an operator by pressing "*" followed by"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. Good morning to all of you. Thank you for participating in conference call of Cosmo Films Limited for Q1 FY18. From the management side, we have Mr. Pankaj Poddar, CEO and Mr. Neeraj Jain, CFO. I would like to handover call to the management for opening remarks, post which we can start a Q&A session. Thank you and over to you Sir.

Management: Thank you Ankit. Good morning ladies and gentlemen. I am Neeraj Jain, CFO at Cosmo Films. I am joined by my senior colleague, Mr Pankaj Poddar, CEO of the Company, Ms Jyoti Dixit, Company Secretary and Mr Piyush Malik from Investors Relationship. I hope you could go through our financial results which have already been uploaded on our website.

We will first start with key highlights for the June 2017 quarter which may be followed by the questions.

Sales revenue for the quarter was Rs. 471 Crores against Rs. 409 Crores in same quarter last year, which signifies close to 15% sales growth. The growth is primarily driven by 26% volume increase which is mainly coming out of new capacity which was commissioned in Feb 2017.

The increase in revenue could have been higher at least by 10%, had GST implementation related issues not been there. With GST implementation, there has been substantial destocking and deferment of purchases by the customers primarily in the June month, which adversely impacted both volume as well as margins.

Further, there has been reducing trend in the key raw material price (polypropylene), which led to one time stock loss of Rs. 5.3 Crores during the quarter. As quarter opening inventory was sourced at the higher price, with reducing raw material prices it impacted the quarter results adversely.

Unfavourable impact from GST implementation and one time inventory loss cumulatively impacted gross margin by more than 6% of sales. However, this adverse impact was partly compensated by growth in specialty volume by more than 25% on Y-o-Y basis and higher overall volume by 26% from new production line. At consolidated level the EBITDA dropped by close to Rs. 8 Crores.

Going forward we expect GST implementation adverse impact to get stabilized by Q2 FY 18 and our new line is expected to operate at full capacity utilization from next quarter. These two factors should help improve Company's profitability.

Company's proposed specialized BOPET line is expected to get commissioned during late FY18-19, this would further enhance our profitability and growth.

These were few updates on the quarter. Now, we would like to open the concall for the questions please.

Moderator: Thank you Mr. Jain. Ladies and gentleman we will now begin with the question and answer session.

Question: What were the volumes for this quarter & how would we break this into commodity films and specialty films share?

Management: In Q1 FY 18 overall volume was higher by about 26% on Y-o-Y basis. Broadly 40% volume of the quarter came from Specialty and remaining from Commodity.

Question: Can you throw some light on the industry scenario i.e. how many BOPP lines coming up? Do you see an oversupply issue? Why margin has been under pressure?

Management: Well if you see post demonetization the company and industry as such has been recovering the margin slowly on month-on-month basis, but June month particularly got adversely impacted due to GST implementation. Customers have been targeting to run minimum level of the inventory at GST implementation and did substantial destocking. Largely the dip, which you see during this quarter in margin is because of the June factor.

Further to add, we do not see any specific reason which endorses any excess supply in the industry. Even if you apply 12-13% average growth rate on current domestic demand of close to 450,000 MT, it indicates in any case industry need 1.5 lines each year just to sustain the domestic demand level. In next two years, new supply is expected to be in line with this demand growth. However there could be temporarily gap in demand growth and supply which is a fact for majority of manufacturing industries in India.

Question: How much inventory are we sitting on for this quarter which caused inventory loss and are we seeing more pressure on polypropylene prices?

Management: We were running close to 10k MT of the inventory at the beginning of the quarter and there was a drop of Rs. 5 per kg in the polypropylene prices compared to opening price at the beginning of the quarter. This caused close to Rs 5 crores inventory loss. We do not expect polypropylene prices to go down further.

Question: Regarding Q1 FY 18 depreciation, can this be the run rate for each quarter or depreciation will go up further?

Management: There shouldn't be any further substantial increase in depreciation during the year from Q1 level except for depreciation on some routine Capex. Depreciation related to our BOPP line expansion is already considered in Q1.

Question: Is there any further fixed cost increase expected related to capacity addition which will impact margins going forward?

Management: Majority of fixed cost increase related to BOPP capacity addition is part of Q1, FY 18 financials.

Question: In last quarter was it foreseen that this kind of demand fall will be there or is there any projection from our end users in terms of what kind of material they will be buying? What is Company's ordering process?

Management: Generally in majority of cases we supply material within 15 days from the receipt of customers' orders. However in the month of June there was substantial unplanned destocking at the end of customers specifically dealers/distributor category. In fact it was not expected that order flow drop shall be so substantial. At the beginning of quarter, it was perceived that there will be some impact of the GST implementation however it was not expected to be so deep.

Question: What was the average realization for this quarter for specialty and commodity films? How has this moved year-on-year and Q-on-Q basis?

Management: Selling price actually depends on the type of product, raw material price etc. Broadly, I can indicate commodity film price was close to Rs 105-Rs110 range. For Specialty films it could be close to Rs.200 per kg. Year-on-year there is no substantial movement. Q-on-Q there was a drop of Rs.5 per kg. Average polypropylene was close to Rs.80-81.

Question: On the consolidated level performance is not very encouraging, so what is happening there in terms of our subsidiaries in US, Korea and Japan? Again it seems to be dry results on overall performance?

Management: If you look at subsidiaries last year first quarter financials there was a close to Rs 7 Crores EBITDA loss, which reduced to half in Q1 FY18. I think operationally subsidiaries are improving, but yes the progress is not so fast. We expect subsidiaries sales to further improve which should yield better results.

Question: What would be the maintenance capex for next two years?

Management: Maintenance Capex generally is between Rs 10-12 crores in a year.

Question: On foreign currency exposure have we taken any hedges?

Management: There are two type of foreign currency exposers i.e. on foreign currency borrowings and on foreign currency trade side. On trade side, about 45% of Company topline comes from exports and we are a net foreign exchange earner company by about Rs 500 crores last year. On foreign currency borrowings the Company keeps taking foreign exchange hedges in line with Company's risk management policy. Generally hedges are being taken for foreign exchange loan repayments expected in next two years.

Question: What is our weighted average borrowing cost on the entire debt portfolio?

Management: Our debt portfolio is a mix of foreign currency loan as well as INR loans. Average cost comes close to 5%-6% pa.

Question: Can you enlighten us on the other expenses, which have gone up from Rs.59.3 Crores to Rs.75 Crores on quarter-to-quarter?

Management: In Q1 FY 18 there is a 26% volume increase compared to last year. Since a major part of other expenses is variable costs (such as freight, spares etc), it would increase with increase in volume. You would notice other expenses have gone up largely in ratio of additional volume.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Systematix Shares and Stock Limited that concludes today's conference call. Thank you all for joining us. You may disconnect your lines now.