"Cosmo Films Limited Q4 FY-21 Earnings Conference Call"

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MANAGEMENT: **MR. PANKAJ PODDAR – CEO, COSMO FILMS LIMITED**
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MODERATOR: **MR. SAURABH BHAVE – S-ANCIAL TECHNOLOGIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Cosmo Films Limited Q4 FY21 earnings conference call hosted by S-Ancial Technologies Private Limited. As a reminder, all participants' 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. Saurabh Bhave. Thank you and over to you sir.

Saurabh Bhave: Good afternoon everyone and welcome to Cosmo Films Limited Q4 FY21 earnings conference call. From the management we have CEO, Mr. Pankaj Poddar, and CFO Mr. Neeraj Jain. Now may I request, Mr. Neeraj Jain to take us through his opening remarks. Subsequent to which we can open up the floor for the Q&A session. Thank you and over to you Neeraj ji.

Management: Thank you Saurabh. Very good afternoon, ladies, and gentlemen. I am Neeraj Jain, CFO at Cosmo Films joined by my colleague, Mr. Pankaj Poddar, CEO at Cosmo Films.

Our financial results for the March 2021 and investors presentations are available on the company's website. I request you to refer to our new investors' presentation available at company's website which will throw much more light.

Starting with statutory declaration:

Certain statements in this con call maybe forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. These statements are not guarantees of future results. We will start the call with a brief on the performance of the company, which may be followed by the questions.

First talking about the Quarter 4 FY21 results:

The company has posted highest quarterly EBITDA of Rs. 126 crores during the quarter. Consolidated sales for the quarter is Rs. 672 crores which is higher by 17% compared to last year same quarter. This increase is primarily because of higher volume by 7%, higher specialty sale by more than 20%, increase in margins and raw material price increase which got passed on to the customers. The EBITDA has increased to Rs. 126 crores on the back of

- Higher specialty sale by more than 20%,
- Better operating margins,
- Higher volume by 7%. &
- Uptick performance by subsidiaries by Rs. 14 crores EBITDA during March 2021 quarter as against Rs. 4 crores EBITDA last year same quarter.

BOPP films overall margin has been running at Rs. 35 per kg during the Quarter 4, the comparative figure for December 2020 quarter is Rs. 30 and March 2020 quarter is Rs. 28 per kg. This is on the back of a strong domestic demand. On specialty side, Cosmo Films is increasingly becoming a name being recognized globally for newer and innovative solutions. The Speciality Films sales have grown year-on-year in the last three years and growth rate in FY21 surpassed more than 20% despite the base becoming larger each year passing which reaffirms company's strategy about continuous investment in R&D, Sales and Marketing, Employee practices, Quality and Customer satisfaction. The significant share of this Speciality Films overall sales has laid a strong foundation for Cosmo and it will help the company to do much better in tougher times. Investment in R&D continues. We are looking at increasing R&D head count from 24 currently to 30 numbers in next couple of months. Further, 6 new patents are in pipeline.

Some of the new growth areas in the Speciality Films worked out are:

- Synthetic paper, which is nothing but a durable alternate to paper. The global market for synthetic paper is more than 100,000 metric ton. India market is close to 6,000 metric ton, but there's immense potential to grow.
- Sustainable solutions.
- Direct thermal printable film. In fact, Cosmo Films is first BOPP film producer across the world to launch DTP films.
- Sustainable PVC free solution for graphic applications and last but not the least Shrink Label film, and within this specialty companies working to sell high end specialty to do overall margins.

Now I will move to yearly results. On full year basis FY21 PAT has more than doubled, in fact, an increase in 109% compared to last year on the back of, number one, higher specialty sales by more than 20%, operating margin for the BOPP overall basis was running on an average of Rs. 30 per kg in FY21 as against Rs. 20 per kg during the last year. Again, uptick performance by subsidiaries on the full-year basis, subsidiaries taken together posted Rs. 32 crores of EBITDA during FY21 compared to Rs. 18 crores EBITDA during the last year. Of course, the lower finance cost also helped. FY21 ROCE now stands at 22% and Return on Equity stands at 30%, which is one of the best in the industry. EPS increased by 115% compared to last year to Rs. 127 per share.

Moving to balance sheet. The net debt is Rs. 438 crores with close to one times of net debt to EBITDA ratio and 0.5 times to net debt to equity ratio. Needless to say here, that the company is running strong financials. If you recall in Quarter 3 FY21, the company has also bought back 12,67,000 shares at a price Rs. 576 per share. The buyback reflects management's confidence in the company's business strategy with growth prospects and shall also facilitate better EPS and Return on Equity.

Moving to growth projects. On growth side the company is running expansion projects in the form of these specialized BOPET line, Masterbatch line, which got commercialized during FY21 and, of course, the textile chemicals. Construction of specialized BOPET line has started and is running as per plan, even in the significant COVID related challenges, still we are running as per plan. We are targeting complimentary growth in the specialized BOPET line such as Shrink labels and other high-end specialty. For Shrink labels global market is 130,000 metric ton and there's an opportunity in India to convert non-recyclable PVCs which has a market of almost 30,000 metric tons, into more Shrink label film. The internal consumption for Masterbatch is growing continuously and external sales will start soon. The line is expected to run close to full capacity during FY22, which will generate sales of about Rs. 100 crores including internal consumption.

The company has successfully completed development of several textile chemical products, each with specific USPs. Many of the product offerings are unique which should help our customers to reduce energy or the water consumption. We also have plans to launch antiviral & antibacterial wash for garment industry. Indian textile chemical is a large industry exceeding more than Rs. 10,000 crores and mostly dominated by MNC players. These products are currently under trials and with textile manufacturing processes, commercial launch we should have in first half of FY22.

Petcare pilot launch will start in Quarter 2 FY22 under the brand name Zigly and will provide unique value proposition to pet parents across different channels in an industry which is growing more than 25% year-on-year.

The company is taking several initiatives on sustainability, just to count some of these sustainability projects where we are working. Number one offering mono layered structure for ease of recycling. Number two, power, water and gas consumption specialization, rainwater harvesting and reuse of effluent treated water. All of our plants in fact now have solar power as one of the energy source. Rationalization of containers and trucks space to optimize the loading part, waste elimination recycling of the waste and in the last we have also planted 5,000 trees. These will rationalize the costs in the coming quarter, besides some contribution to environment.

I think, these are the few updates on the quarter from the company side. Now we would like to open the con call for the questions, please.

Moderator: The first question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: My question is on the Speciality Films. Like one of the segment Mr. Neeraj mentioned about his synthetic paper and the potential size as well as the target size in the Indian markets also. If you can explain, how is the market for all grades of Speciality Films which we produce, the market size in India or let's say in value terms or either in volume terms our market share out of the total Indian market, so that is question number one. Second is, when you say specialty, so what distinguishes specialty from commodity? Because when we see the presentations of other competitors also, they also say that they are also into various grades of Speciality Films. If you can just explain in terms of what according to Cosmo is a specialty and what distinguishes its characteristics from the commodity films? And last but not least, what according to you are the entry barriers for other players for getting into these Speciality Films.

Management: Cosmo operates in 5 segments which is packaging films, lamination films, label films, synthetic paper, and industrial films. Under each category we have some or the other Speciality Films and our investor presentation does talk about this in some detail. Synthetic paper as Neeraj has already stated is a very niche market and we are continuously increasing our sales in the segments globally. On the label side, there are three segments, there are wrap around labels that you see on a Pepsi or a Coca-Cola bottle, second is injection molded labels, which you see on a paint bucket, which is an integral part of the container itself and third is self-adhesive label which is pasted on a bottle, just like your shampoo bottle. We are already now world's top three player when you talk about self-adhesive label, it's a niche segment and involves lot of technology because the same label goes for many different types of printing and it's not easy to make a film which can accept all types of printing. And there's a lot of research, we took several years to enter this segment and globally there are not more than three to four players who can do it. And Cosmo being in top two, top three positions worldwide on this. It's basically top three players have; I would say more than 90% market share. Injection molded labels, Cosmo is present, though our presence is small. It's again our niche segment, it's a growing segment worldwide again, just like self-adhesive labels and it involves robotics while the injection molding process is on, again a complicated label and just to confirm that all the innovation work that we did in last two years, we are able to create a very unique position for Cosmo and in the coming years, we'll be able to expand this segment as well.

We are introducing another label segment, which is called Direct Thermal Printable Films. If you see credit card slips which has printing which fades away in some days, we are going to do that in a film which has several applications, while the film that we are going to produce will be chemical proof ,waterproof, oil proof and so on. The printing shelf life will be for five years. If you see hospitals, the wrist bands typically are made from Direct Thermal Printable Films. Fourth is wrap around, which I would say is far less niche. Cosmo used to be a very major player in the domestic market. But over the years, I would say one or two more players have entered. What we call specialty is where there are very few players in the global market, I will come to that later on. Then explaining the third segment lamination, which has wet lamination and thermal lamination. Thermal lamination again, we are the world's largest player, though few years back there were only 4-5 players worldwide, in the recent years, there are a lot of players which have started operations in China and even in India. However, Cosmo continues to maintain its numero uno position for so many years. Many companies have tried doing it. They have attained some small volumes, but nobody has even come close to the volumes which Cosmo does on thermal lamination. The fourth segment is our packaging segment. In the packaging segment different companies call different products as specialty. However, what we are working very closely is mono material structures. These are recyclable structures, we are very successful, and we have converted several packaging for very large brands in India from non-recyclable solution to a recyclable solution and the same set of customers have provided us lot of global opportunities, whether these are brands or these are packaging companies. So, these are largely five segments. We classify our product as a specialty when there are very few manufacturers worldwide, not in India, because in India we do not consider anybody is competing us, but worldwide there are not more than 2-3 players or at best 5-7 players and the margins are far superior to commodity. Third important thing is that the margin is protected because it is linked to the raw material. The 5th Segment is the industrial segment; industrial segment has niche application. We normally do not share because there are hardly any companies in the world who are present in the segment, these are very niche applications that we have created over the years and we are kind of leaders. If you really ask, we are leaders in industrial films, we are in top three in the label films and we are again the leaders in thermal lamination films.

Nirav Jimudia: Rightly explained. So, suffice to assume that most of our Speciality Films is planning a markets on the export side rather than in India. So, is my assumption correct in terms of what you have explained right now?

Management: You are right. But export market is much bigger for these, while India is not far behind and I would say some of these applications, like for labels India is a decent market, even for lamination, it's a growing market. I would say that India is also an important market and a fairly large market, but you are right that it has to be global. And that is the reason we have global presence. We have our distribution in more than 7-8 countries. We have sales people all over the world to make sure that we stay close to our customers.

Nirav Jimudia: Last question on this would be like, if you can share us like how much out of our specialty is what we have clocked in FY21 in volume terms, how much would be exported. If you can share the domestic as well as export mix, that would be helpful.

Management: Last year on a full year average basis, we are somewhere between 50% to 55% while the Quarter 4 run rate was more than 60% and two third portion is in export, close to, I would say 70% is in export.

Moderator: Next question is from the line of Yash Gupta from Angel Broking.

Yash Gupta: First question, any specific reason for the increase in the specialty in this particular quarter, as we are expecting around to be 55% for the Q4 FY21, but we have reached around to be 62%. Any specific reason to it and what could be the highest possible percentage achievement in the specialty side?

Management: The highest achievement was in last year only the year that we ended. If you see every year our growth percentages are going up. One side the base is becoming bigger and the other side our growth percentage is getting higher. This is largely because of all the investments that we have done on the research, on the sale, on the customer interest and so on and so forth. Each passing year, our growth rates are growing and in spite of the fact that our base is bigger and bigger.

Yash Gupta: I'll just repeat my question. What could be the highest percentage we can achieve in specialty whether that 80% we are targeting in 2023, that could be the highest or we can even go beyond that also.

Management: We had earlier suggested that by March 2023 we will touch 70% specialty sales of our total volume. The way we are moving, we should be able to do this within the next 12 months, we should be able to achieve 70% target on a full year basis. We feel that without adding capacity we can touch 75%-80% because some customers do ask for commodity and specialty. Increasingly more and more we are pushing our customers to buy only specialty from us. This largely happens in the packaging side because in the industrial side, on the label side, on the lamination side, we are largely selling specialty to our customers. However, in packaging we do have to give a mix of specialty and commodity and we are continuously pushing customers that please buy commodity from other companies and buy only Speciality Films from Cosmo. We are pushing this percentage, but we feel that beyond 75%-80%, it may be difficult unless and until we add further capacities for BOPP as such.

Yash Gupta: Second question on the raw material pricing, as you have pointed out, like we are able to pass on the increase in the raw material price. Just I want to understand, is there any lag between the increasing in the raw material price and the increase in the price that we took?

Management: It depends on customer to customer. Some customers we have 15 days, some customers we have 30 days, some customers we have a quarter. It's very difficult to tell you like this. If you get an increase in one quarter or a decrease in one quarter automatically the next quarter or the next month that benefit comes. So that really doesn't bother to us.

Yash Gupta: And this BOPP margins of Rs. 35 per kg, do you think it's sustainable in this particular quarter also, as we expected like Q1 little bit more affected due to the second wave. So do you think, this particular Rs. 35 per kg will come down in the near future?

Management: I can tell you that, April and May month have gone quite strong. Having said that there are certain sectors like textile bags, which is under pressure. Some smaller converters for packaging are affected and to that extent some packaging demand is also affected. As far as the players who are into commodity, we do see that in last 5-7 days they have some pressure, but for us even our volumes are very negligible in those segments. We do not see Cosmo to be impacted as much. We do expect that markets will open within June. If that happens that will have very minimal impact on the industry.

Moderator: The next question is from the line of Akul Broachwala from IIFL Securities.

Akul Broachwala: Just wanted to get some understanding in this specialty BOPET line. You mentioned that, like you have a capacity of 36,000 tonnes. So, are there any specific domestic players which are also into these this specific niche segment or you would be the only one who will start manufacturing it?

Management: We are going to make films for 3-4 segments. In couple of segments there are Indian players and a couple of segments there are no Indians players. But even those two segments there is only, I would say hardly one player who is doing a small volume.

Akul Broachwala: What would be the kind of realization and margin profile for this particular product versus regular BOPET film? Will it be far more superior than a regular one?

Management: It will be far more superior. Though I would totally like to share with the investors that day one do not expect a 100% capacity will be sold for specialty. The specialty ramp up will happen gradually. The line is capable to make normal packaging films also and these specialized application films. It's a very unique line that we took at least 18 months with the supplier to create this special line for Cosmo. So, initially the line will be utilized for selling commodity and gradually we will within a period of two years ramp up with specialty. We feel that on day one itself we will be able to allocate 25% of the line for specialty application and by second year itself we will allocate 50% of the volumes towards specialty.

Akul Broachwala: I believe that this particular line was also to be used for some captive consumption. Is that understanding, right? Maybe one third of the capacity was to be used for captive requirements?

Management: Not one third, but yes, there will be some capacity will be used for that.

Akul Broachwala: The second question is regarding; how many lines are you seeing to come up in India in this year in BOPP?

Management: We understand that there are two more lines which will come up in this year. One in the Quarter 2 of this financial year and the second line will be coming end of Q3. These are largely two lines that we expect.

Akul Broachwala: Do you expect any pressure on margins because of these lines or do you expect margins more or less to sustain at current levels?

Management: As for the first line when it is coming at that time, there will be a lot of pent-up demand. Therefore, we do not see that this line which is going to come in Quarter 2 will make an impact. As far as the next line is concerned, it may create some impact for the overall industry. But I would like to remind investors that for us, it will be a very minimal impact because our commodity volume has already squeezed so much lower number. But it will make some impact to us also. Maybe in Quarter 3 there could be some impact to the margins for some short period.

Akul Broachwala: Just final one from my end, what would be your tax guidance for the next few years?

Management: Effective tax rate for this year FY21 is close to 28%. We should continue, but since we have a substantial amount of unutilized MAT credit, in reality the cash payoff from the company is equivalent to nearly 17% only, but the effective tax rate for the time being will continue.

Management: I would also like to add here that, the money that we earn in US and Netherlands is totally tax-free because we had accumulated losses and the new subsidiary that we made Cosmo Specialty Chemicals will have only 15% taxation. We do expect that CSC will reach to a very good number within five years and therefore overall effective tax as a group maybe lower than 22%-23% over the next 3-4 years.

Moderator: The next question is from the line of Shradha Sheth from Edelweiss.

Shradha Sheth: Just two questions. One is if you can share the quarterly volumes for the quarter segment-wise? And second is in terms of demand supply, both for BOPET and the BOPP, what is our sense as to whether we are peaking in terms of margins or we believe this can continue. And also, for us structurally with the Speciality Films getting added, we think there is a scope of more margin improvement?

Management: We do not share volumes. As you rightly pointed out for us, commodity margins do not matter as much. It's very difficult to say whether they have peaked or not, because there are so many factors which impact these margins. These could be raw material demand and supply; these could be finished goods demand and supply and so on and so forth.

Shradha Sheth: Just wanted to understand the cycle both for BOPET and as well as BOPP since our capacities are substantial in both. So, is it similar? We expect the run rate to continue, or these are different dynamics for both?

Management: It's very difficult to project that and different for both. Having said that, our entire focus is on improving specialty growth, continue to have majority of the volumes coming from there. As I said, already we have exceeded 60% in Quarter 4 and therefore we do expect that our specialty margins will continue to improve our overall margins too, barring if at all there is any major impact for commodity films that may have some dent to Cosmo overall profitability. But we are sitting at a very-very strong position because of our overall 60% on Speciality Films.

Shradha Sheth: Lastly, the quarterly and the annual profitability per kg as you shared for BOPP, can we share for the full year as well?

Management: Neeraj, do you have any numbers like this?

Management: To mention on an overall basis BOPP margins have been running Rs. 30 per kg compared to Rs. 20 per kg of last year.

Shradha Sheth: This is for the quarter or for the full year?

Management: For the full year.

Shradha Sheth: And what is the quarterly run rate?

Management: Quarterly we mentioned at the beginning of the call. It has been Rs. 35 per kg

Moderator: The next question is from the line of Shubham Agarwal from Aequitas Investments.

Shubham Agarwal: Firstly, I want to understand about the specialty chemical division which is expected to start in first half of this year. What kind of contribution can we expect from this division this year? And the margins that this division can contribute?

Management: We feel that Cosmo specialty chemical should do (+) 150 crores in this year and we expect the EBITDA margins to be at least 17%-18%.

Shubham Agarwal: Secondly, on the working capital side, if I compare it to last quarter when the working capital was close to 170 crores. This time it has increased to 360 crores. So, what explains this substantial increase in working capital?

Management: Neeraj, you can answer this, but I can tell you one thing that the raw material prices were very high in this quarter. And that resulted in increase in receivables as well as increase in raw material. These were large two factors. Neeraj, can you give a more detailed explanation?

Management: Sure Pankaj. As Pankaj rightly mentioned, because of the raw material price increase in absolute value, it may look higher. But if we look at receivables in terms of the number of days, it has dropped compared to the last year. Inventory has been in number of days almost at the same level but because of the raw material, prices have gone up.

Shubham Agarwal: Secondly, my question is slightly near term. Given the current second wave of COVID, do you see any impact on any of the manufacturing side, either due to labor or due to shortage of any raw material? And on the demand side, you already mentioned that May and April were good, but how do you see future demand in near term?

Management: So, there is no impact to our operation due to second wave of COVID. We are doing very well. And I think the overall management by our team is exceedingly good. And as far as demand and supply, I have already answered earlier that most of the demand is very strong, other than textile bags and small converters for packaging. However, Cosmo has a very-very limited sales in these two segments and therefore our demand is extremely strong. And as of today, we have orders till 15th June.

Shubham Agarwal: Lastly, I just wanted to confirm one more thing. What would be our total contribution from specialty film by the end of FY22? I think in presentation you have mentioned 80% for FY23. But this year end how much can we expect the contribution to be?

Management: In volume terms, we are expecting that we should start hitting the run rate of 70% and value terms we should start hitting (+75%).

Moderator: The next question is from the line of Siddarth Mohta from Principal India.

Siddarth Mohta: First my question is about the overseas subsidiary. Quarter after quarter we have been a sharp improvement in the EBITDA number. Now sustainable this number is and any milestones that we are looking in our overseas subsidiaries in 2022-2023.

Management: Subsidiaries number will continue to improve because our growth of Speciality Films is improving in these countries. We hardly see any commodity films in the subsidiaries and our this year budget is even higher than the last year numbers. So as far as subsidiaries are concerned, you should continue to see an improvement.

Siddarth Mohta: Can we assume the base number of might be 14-15 crores of quarter 3 because it's a very sharp improvement that we have seen?

Management: So, we should see further improvement from there.

Siddarth Mohta: Second, as you clearly mentioned from 60% to 80% is our journey in Speciality Films, if you can just highlight some of the product pipelines that is coming or the new customer acquisition that we are doing, that would be very helpful.

Management: There are multiple products which are in the pipeline. We continue to expand our synthetic paper range to seat it for more applications. We are bringing DTP direct thermal printable films. We are bringing more films in the sustainable solution. So, there are multiple things, there are a few films coming in the industrial side. And that's the reason we said that there are 6 more patents in the pipeline.

Siddarth Mohta: How frequently do you review this specialty film product and just showing a particular number if possible as whatever you are doing today, so might be after two years or three years, someone can also copy and there the margins of specialty would not be similar. So, if you follow that particular normal description, that would be very helpful.

Management: The moment there are more competitors in a particular segment, we classify that into commodity and we have done this in the last 3-4 years, we have shifted some products away, but to tell you that 13 segments that we are present is not easy for competition to enter them. Like industrial films, some of the films we are doing for so many years, and we continue to enjoy monopoly. Similarly on labels, there are certain films where we continue to enjoy monopoly worldwide, I am not saying India, worldwide monopoly for the last several years. Thermal films we continue to be number one player for more than 12 years now. So, there are segments where we are the global leaders and because of the research that we have put there it's not easy, but at the same time we review it monthly basis, our overall growth in specialty. And as far as any segment which is under threat, we review it on a quarterly basis.

Siddarth Mohta: You used to mention that the Speciality Films or margin or contribution of margin it is between 2x and 3x. So, if we increase our scope of Speciality Films to 80%, so that particular will it continue there?

Management: Obviously, it also depends on how the commodity margins are there. Last two quarters the commodity margins are much higher and therefore specialty margins would have, as a proportion to commodity would have dropped to 1.8 times because commodity margins which became 1.75 times of the normal. But in general, specialty margins are 2 to 3 times as you rightly said of the commodity margin.

Siddarth Mohta: We would like to maintain that that margin in a normal scenario, even if we reach 80% which is 2x?

Management: In fact, the good thing is all the new innovations that we are doing we are able to command even a higher premium for them.

Siddarth Mohta: My question is that currently our Speciality Films is 60% and when it reaches to 80% do you think that our innovative Speciality Films which carry the high margin, like shrink films, thermal films, it will be forming the larger share of that Speciality Films, some of our innovative products.

Management: Yes, it will be more of innovative products.

Siddarth Mohta: And this carry high margin maybe?

Management: Yes.

Moderator: The next question is from the line of Santosh Kesri, an individual investor.

Santosh Kesri: Congratulations for such a good set of numbers. I have been an investor for a long time now, so it has given me a very good return. I have two questions. One is about the borrowings, when I see the borrowings in the balance sheet and when I see the repayment of the borrowings in the cash flow, so it appears that in the cash flow there is hardly any re-payment of the borrowing. It looks like that we have replaced one debt with another. But in the balance sheet I can see there is a reduction in that. So, what is our level of debt as of today? Is it at the same level as it was last year or there is some repayment lined up in the current quarter, that is Quarter 1 of 2021-2022? That is my first question. And my second question is about pet care brand. Basically, I want to know that what makes us confident that we are going to make a good year and what is the competition? What gives us confidence that we will be able to maintain the margins that we have in our present business, in the pet care business and it's going to be a shareholder value accretive in the long term?

Management: On the borrowing we should always see the net level. Net level of borrowings compared to last year has dropped for us by Rs. 142 crores. So, very clearly this has dropped. And in terms of key other financial parameters linked with the borrowing like the net debt to EBITDA, it is close to one time. So, it’s a very healthy position from that perspective. And within the borrowing the shuffling from short term to long term, it all depends on the requirements. So, we intend to increase the current ratio of the company which is at a very healthy level now. So, that was the key reason for shuffling.

Management: On the pet care side, we have to see that there is no organized player in the pet care other than Mars which is there for the food. And this segment is growing at a phenomenal growth rate.

Last to last year the growth rate was 22%. The last year numbers are yet to come but we expect that the growth rate will be more than 30%. The market is already more than 6,000 crores and with hardly any presence of any large players, organized players. We are coming with very unique solutions both for retail, at home and online experience. I cannot share too many details, but we are extremely confident that we will do a great job. You will start seeing the retail store opening up in the next quarter. You would also see our app up and running from the next quarter. And then you will realize what are the differentiated products and services that we are providing to the pet care.

Santosh Kesri: But the investment plan that I can see in the presentation is not more than 15,000 crore in this. So, are you sure that with just 15 crores we will be able to do all these digital as well as retail operations?

Management: Yes. See, the other reason for this is that this year will be more of a pilot year. We do not plan to open more than three stores and the app, and I think we will be well within the budget for this. Once that pilot run is successful, then we will start scaling up at a country level.

Santosh Kesri: But one question that I am still looking for an answer is that why pet care business, why Cosmo Films would be doing good here? Is it because it's a very good opportunity or there is some extension of our present business line or business practices or the product that we have into pet care business? I don't know much about this, but if that is about providing food to pets and packaging that, so is it the packaging that we are trying to leverage on, or is it about the food itself? Because as I understand the food is not such a core competence for us, maybe it is packaging. So, wanted a bit of clarity on this.

Management: We are not going to manufacture food or anything else at this stage. What we are trying to come up is to provide an easier accessibility to make the life of a pet parent and a pet easier in several different ways. And the reason we entered into this segment is we were looking at, one, consumer business and we were studying several businesses and we said that pet care is one area where it’s a very fast-growing market. It's more than a $10 billion market in America, it's close to a $1 billion dollar market in India and there is no organized player who is able to provide all kinds of products and services under one banner. In America there are companies which are able to do it and they are very large companies. So, we started to get into more details of this segment, and we found very lucrative and based on our detailed study that we did over a period of close to 18 months, we said this is a very good area to invest upon. And in today's world with technology taking such a nice shape, it really does not take as much money to invest. If you do the things in a right way, you are able to create a new setup in much lesser investment and you can scale up at a pan-India level in a much faster way. So, we are going to use technology. It will be a largely technology-oriented business with some retail presence also in all the large cities of the country.

Moderator: The next question is from the line of Himesh Shah, an Individual Investor.

Himesh Shah: What I wanted to ask you is, you have already spoken about the margins maintaining or they will improve going ahead as the contribution increases from the specialty side. I just want to ask you for the broader view. What is it that, first from the pet care vertical, where you said that in the medium-term, we could demerge these two businesses? That's one. And the other thing is what is the broader view, like three years or four years down the line would you want the specialty to go up to around 90%-95%, or will you be comfortable at 80% and like to maintain the 80-20 balance?

Management: We will go step by step. Our immediate goal for the next two years is to hit the 80% number. And once we do that, we will see whether it's possible to go beyond, because as we said that some of the packaging customers especially look for both commodity and specialty solutions at the same time. Though we are pushing them to buy only specialty from us. So, it's a little early, but right now our immediate target is to touch this 80% number within two years. And we should be able to do that earlier than we are indicating to you.

Himesh Shah: And about the pet care vertical about the demerger that you have mentioned in the medium. Can you guide how many years and what are you looking at pet care as?

Management: In four to five years, we are looking to see to 250-300 crore company and even going beyond. See, what happens in a consumer business that initially it takes you lot of efforts in first two years to set up the right base. Once your base is strong, then the scale up happens really fast. So, if you are looking at a three-to-four-year period, we feel that if we are able to scale it up to 250-300 crores, we will do quite a decent job. But once we reach that level then scaling up further will be a far easier task.

Himesh Shah: And even this vertical will have around 20% margin once you scale up?

Management: Consumer businesses once you scale up, then you can control pricing and you can have quite decent margins. That's the reason that the valuation of consumer companies are such high.

Himesh Shah: And you expect to maintain the payoff ratio, the dividend, or the buybacks or whatever it is?

Management: History speaks for itself.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: I just wanted to understand, maybe on a little longer-term basis, your EBITDA per kg which stood at Rs. 30 for that last year and Rs. 35 for the 4th Quarter, so how do you see that range on the little longer-term basis? Currently the scenario is quite strong. But it might not be the same over the next maybe 2-3-4-5 years. So, any comments on that would be helpful?

Management: Mr. Poddar, we have been again and again saying that please stop looking at commodity numbers for Cosmo Films. These are only indicative numbers that we provide you in terms of what happens in the market. If you are in investor in Cosmo, you should track only the growth in the Speciality Films and that is the entire story Cosmo is all about. We are not a commodity player and we have limited interest in commodity.

Moderator: The next question is from the line of Akul Broachwala from IIFL Securities.

Akul Broachwala: Just wanted some clarification on Specialty Chemicals. As you mentioned that you are targeting 150 crores in this year, so I guess it also includes Masterbatches to an extent, right?

Management: Yeah.

Akul Broachwala: And have we entered into specific contracts with these textile manufacturers or what, which gives you this kind of visibility for the year?

Management: See, the product has just been launched. The manufacturing capabilities are under setup right now. But the initial trials have been very encouraging both on the Masterbatch and the chemicals. Just to let you know, the Masterbatches that we are making are made by hardly 4-5 companies in the world. And right now, the majority of the sales from the Masterbatch is for internal consumption and roughly 30% sales is from external customer. We can obviously scale it up by putting more lines in the near future, and I can tell you that of the 10 to 12 products that we decided to make already four to five products are now well settled and being used on a regular basis. There are two large products which are about to be commercialized. The moment they are commercialized within the next one or two months, our volumes for Masterbatches will scale up quite significantly. For textile chemicals, majority of the stage is being done or is being managed by multinational companies. There are only 3-4 companies in India who are able to scale up this business beyond 100 crores. One is Rossari Biotech which got listed I think only a year back which is quite a major player in textile chemicals. Other than this there are two more players if I am correct who are able to scale this business beyond 100 crores. A majority of this business is with international companies like Huntsman, Arcoma and so on and so forth. It's a fairly large market and given the capability of Cosmo from a R&D perspective, we feel that we can clearly make a good entry and become a strong player in this segment.

Akul Broachwala: And just require your CAPEX guidance for this year and next year.

Management: FY22 since we will be executing BOPET projects, part of the CAPEX has already been done on this, but another close to Rs. 250 crores will be spent over there. Beside this, there will be some CAPEX in the specialized chemical and in the Masterbatches. But on overall basis, broad indication is 1.5 times of net debt to EBITDA may be the peak level, in terms of the CAPEX going forward and I am talking about the next one year.

Moderator: The next question is from the line of Jayant Mamania from Care PMS.

Jayant Mamania: I have only one question, if going forwarded single use plastic is banned or restricted, what kind of impact will it have on polyester film packaging industry and what positive impact will it have on synthetic paper?

Management: See, single use plastic is a very misinterpreted term and different people understand it differently. Normally single use plastic means straws, plastic plates, plastic cutlery which are use and throw items and already government has banned a few items. It has no role to play on the flexible packaging aspect and that segment continues to grow at more than 10% for last several years. We have to also remember that flexible packaging reduces carbon footprint by more than 60% versus any other material which is available today in the world. So, it is the most environmentally friendly material. The only challenge is some of the flexible packaging today is not recycled because of the fact that it is multi-material plastic. For that also there are unique solutions which have been developed in terms of putting them as granules into roads, using them for cement factories and so on and so forth. If you really see in last 2-3 years, there's been a great progress in India in terms of consuming these waste material because if you recall earlier all of us used to see a lot of plastics lying on the road. While now these days all these plastics under Swatch Bharat Abhiyan is kind of recycled into different areas. Having said that, if this multi-material plastics can be moved to a single material plastic which is what Cosmo is increasingly focusing on in the packaging segment, then it can be mechanically recycled for much high-end applications and that is the entire intent. And I can tell you some of the large brands worldwide and in India have shifted a very large chunk of their packaging from multi-material to mono material.

Jayant Mamania: And what it will have a positive impact on our synthetic paper?

Management: Synthetic paper is not part of packaging. It is a replacement of paper meant for niche applications where the durability is of prime concern for our customer. And it's growing at a very nice pace for Cosmo.

Moderator: That was the last question. I would now like to hand the conference over to the management for closing comments.

Management: I think very clearly the company's taking steps required to transform into a specialty packaging and specialty chemical company in years to come. Growth projects including specialized BOPET line, higher specialty film projects, specialized pet care are progressing well as per planned. Company's focus shall continue on improving Speciality Films are particularly on sustainability which should yield further results in coming years. These actuals would continue to improve margins and would contribute in long term sustainable growth. We look forward to much brighter days ahead. Thank you.

Moderator: Thank you. On behalf of S-Ancial Technologies Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.