



Cosmo Films Limited
“Q3 FY2017 Earning Conference Call”

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

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Moderator: Ladies and gentlemen, good day and welcome to Cosmo Films Limited Q3 FY17 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 Q3 FY17. From the management side, we have Mr. Neeraj Jain, CFO and Mr. Pankaj Poddar, CEO. 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. Very 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. I hope you could go through our financial results and Investor’s presentation which have already been uploaded on our website.

We will first start with key highlights for the Dec 2016 quarter which may be followed by the questions. As filed with the stock exchanges recently, we have successfully commissioned 10.4 meter width BOPP Line ahead of the schedule and at capital cost lower than plan.

The new 10.4 meter width line is installed first time in the country and is having name plant capacity at 60,000 Mt. This will be close to 40% capacity addition to Company’s BOPP capacity. The new line is expected to contribute substantially in the sales and the profit from FY17-18 onwards.

During Dec 2016 quarter, as the new line was under installation, we had to take shutdown at couple of our existing production lines. Besides, there was demonetization impact also which adversely impacted the volumes and margins. These two factors caused a volume

drop of close to 6%. The demonetization had impacted the Industry adversely particularly in the food packaging and the textile segments. We believe we could reasonably cap the impact of the demonetization. Besides, due to demonetization, there was impact on the overall margins of the company by close to 100 bps to 200 bps depending on the product line.

The tax for the quarter is net of the tax reversal of Rs. 6.2 Crores comprising of Rs. 4.5 Crores pertaining to the last year. This is related to SEZ tax exemption.

I think 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. The first question is from the line of Rohit Shinde from Market Memories Wealth Advisors.

Rohit Shinde: Good morning Management Ji and good morning Management ji. Sir I am Rohit Shinde from Market Memories. I want some update on the QIP of your's, which you were planning when we met last time. So can you give us any update on the QIP for Cosmo Films?

Management: Company is studying couple of new projects which may involve capex. Once the Company decides on the same, we would come out with more detail on QIP. It is not planned in next couple of quarters.

Rohit Shinde: Thank you sir.

Moderator: Thank you very much. Next question is from Shivani Viswanathan from Way2Wealth.

Shivani Viswanathan: Good morning Sir. I just request you to please repeat the tax statement that you made earlier, the tax reversal statement.

Management: Tax for the quarter is actually net of reversal of Rs. 6.2 Crores. Out of 6.2 Crores, 4.5 Crores is related to the last year. The reversal is because of the SEZ tax exemption. At the time of making the income tax provision at the year end, SEZ tax exemption was

calculated based on provisional basis, which has been actualized now while filing the income tax return in Dec 2016 quarter, hence the net gap is a tax reversal.

Shivani Viswanathan: Okay Sir. What can we expect the tax rate to be from this year and for the year coming ahead?

Management: Currently we are between 18% to 20% effective tax rate. So, you can expect broadly similar effective tax rate for the current year. For next year since our new line is going to be commissioned outside SEZ, some part of the profit related to new line will come outside SEZ. Accordingly effective tax rate may change depending on profit ratio between SEZ and outside SEZ, however broadly may be in range of 23%-24%.

Shivani Viswanathan: Also Sir can you please explain this stock adjustment line item to us. What exactly is this movement, the change in inventory number, 32 Crores?

Management: This is increase or reduction of the finished goods during the quarter.

Shivani Viswanathan: How is the US subsidiary performing Sir?

Management: US is continuously improving, but this quarter typically there is seasonality impact on q-o-q basis.

Shivani Viswanathan: Just your view on the plant has now been commissioned, the shutdown and teething issues are over or next quarter again we can see a little bit of tepid fixed cost leveraging coming in.

Management: From February, the plant has started to run and first two months it is just like a new car where you are not supposed to run the car at full speed, so there is a ramp up in this line also. So, right now the line is under ramp up and I think from April onwards the line shall be running at full speed. Almost every week, we are doing the ramp up of the speed.

Shivani Viswanathan: Sir, how is the order inflow coming in. Are we seeing orders? How do you expect the capacity utilization for this plant to be in FY18?

Management: Till now whatever we are producing, we are selling.

Shivani Viswanathan: Okay. Great Sir. I will come back in the queue after people asks, if I have any more questions. Thanks Sir.

Moderator: The next question is from Rahul Soni from Baljeet Securities.

Rahul Soni Sir, good morning. I have joined the call late, so I don't know if you have mentioned, I want to know the volumes and how were the volumes and realizations during the quarter on Q-o-Q and Y-o-Y basis.

Management: As indicated at the beginning concall, The Company has lost about 6% volume due to two factors i.e. we were under the installation of the new line at one of our plant and due to demonetization. The demonetization impacted adversely the margins also. We believe demonetization impact is fading away now.

Rahul Soni: How was the price movement Sir?

Management: As there is drop in the margin, so to that extent, yes there was movement in prices. Other than this, change in our key raw material cost largely gets passed on to the customers who also impact price movement.

Rahul Soni: Do you expect this negative impact of demonetization, starts showing some significance on the company in the quarter ahead.

Management: Impact of the demonetization has already started fading away. It is happening in the phases. We already see a much better order book now.

Rahul Soni: Sir last question regarding your new plant, what kind of revenue potential it can offer in the next financial year.

Management: The new Line is having 60,000 metric tonnes of annual capacity on name plate basis. This will add close to 40% to existing BOPP capacity. In terms of the top line, although we do not provide any guidance as such, but it is expected to add close to Rs.400-500 Crores of the top line at the full speed run.

Rahul Soni: Okay. Thank you Sir.

- Moderator:** Thank you. Next question is from Manish Ostwal from Nirmal Bang Securities.
- Manish Ostwal:** Hello Sir. Good morning to all of you. My question first on during the quarter what was the total volume, how has been the realization?
- Management:** Taking your first question, volume was lower by about 6% from previous quarter due to factors i.e. Demonetization and installation of the new BOPP production line. Beside this, there was margin drop between 100 bps to 200 bps depending on the product due to Demonetization. Does that answer your question?
- Manish Ostwal:** Second, now things are recovering in the post demonetization, so going ahead how do you see the volume pickup and secondly further increase in the crude derivative input prices, how do you see profitability going ahead.
- Management:** As we indicated we have just started our new production line, which will substantially add volume to the company's current capacity. So, the line is expected to run in a couple of months at a full speed, in phases we are increasing the speed of the new line. So, you can definitely expect much better volume to come from the first quarter. Even the fourth quarter of the existing year, we will have better volume from the new line and from next quarter onward, it will be almost at full speed of the new line.
- Manish Ostwal:** Out of total volume, how much is specialized film's volume.
- Management:** Well in volume terms, we do close to 40% of the specialized films.
- Manish Ostwal:** Capex plan for next year Sir.
- Management:** As we indicated, there are 2-3 projects we have currently studying. Once the company takes decision on the same, we would be able to share more detail on future capex plans. As of now there is only one small project of cast polypropylene line that is there. But that is a very small investment and if you are asking for any larger investment within next few months then I think in the next year in any case there will not be any significant capex. As of now, we don't foresee a very significant capex happening next year other than there is a land that we bought earlier in the Aurangabad for which part payment is to be done and CPP line which is going to be commissioned next year.

- Manish Ostwal:** Sir, last question on what you call in the analyst meet you had indicated that the company may look for acquisition and because of that equity dilution so in FY18 anything possibility on that side sir.
- Management:** Well although the company is open for the acquisition, there is no immediate acquisition in the pipeline. We do not see it is happening immediately.
- Manish Ostwal:** Okay Sir. Thank you for answering my questions.
- Moderator:** Thank you. The next question is from Mr. Arjun Sengar from Reliance Mutual Fund.
- Arjun Sengar:** Hello. Good morning Sir. Sir, you said that you are increasing the capacity by 60,000 and your current BOPP capacity is roughly 2 lakh tonnes. So, just wanted to understand who does this equate to a 40% capacity addition?
- Management:** Two lakhs tonne is including the new capacity addition of 60,000 Mt, prior to that it was close to 1,40,000 Mt.
- Arjun Sengar:** Got it. Secondly Sir, you have planned to do a QIP three to four quarters ago. What was the reason for postponing it?
- Management:** The basic reason for planning QIP was for part funding Company's future Capex plan. As the Company is yet to decide on further Capex plan, it got postponed. Basically, the financial ratios and cashflow generation remains quite strong.
- Arjun Sengar:** So will the new capex be in the packaging space?
- Management:** It will be in the specialty space in all probability. It will be much related industries where we already have domain knowledge. As of now we cannot share more details. Rightnow, we can say that next couple of quarters you may not expect any QIP announcements from us, but once these projects are finalized the Company would take decision on whether to go for QIP or not.

Arjun Sengar: Secondly, Sir can you give us some sense of what is the industry capacity addition recently and which is expected to happen over the next one year and roughly as the percentage of the existing supply what does the equate to.

Management: Yes, last calendar year there was a capacity addition of one line, which was a smaller line, which was roughly 35k-40k tons in terms of nameplate capacity. This year our line has been added. There are two more projects that are expected to come by the end of 2017 or in early 2018. As per our knowledge, there are no further projects likely to come in short to medium term. As the domestic demand is growing between 12%-15% each year, India in any case need about two new lines each year.

Arjun Sengar: Okay so the supply basically what you are saying is roughly in line with the demand.

Management: Broadly balanced.

Arjun Sengar: Sir suppose if crude prices go up from here, is your demand side strong enough to pass it on because I see the sales have been sluggish recently.

Management: In this industry historically, the commodity pricing is passed on to customers, which has become an Industry practice over a period of time.

Arjun Sengar: Okay Sir. Thank you Sir. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Dhiren Shah from GEPL Capital. Please go ahead.

Dhiren Shah: Good morning Sir and congratulation for the great set of numbers. Sir what is the current debt in the book.

Management: Currently, we are close to INR 543 Crore net debt.

Dhiren Shah: 543 Crore. How much is the long term and working capital.

Management: Working capital out of this will be close to 150-160 crores. Remaining is the long-term debt. Major part of the new BOPP line debt is already included in this.

- Dhiren Shah:** What is the debt to equity ratio Sir?
- Management:** It is close to 1.1 times at consolidated level.
- Dhiren Shah:** Sir what is the average price of polypropylene last quarter?
- Management:** Polypropylene, it depends on the timing, but broadly it's about INR 75-80 rupees.
- Dhiren Shah:** Sir what is the outlook on margins.
- Management:** I think once the demonetization impact fades away, which has started, the margins should get better.
- Dhiren Shah:** So it should be again double digit. We have seen the margin dipping to 9% and nine month EBITDA margin is around 10%, so we can again get back may be 11% to 12%.
- Management:** November 2016 onwards we did have an impact because of demonetization in Q, but that should be corrected. Already, we are seeing the signs are fading away from February onwards.
- Dhiren Shah:** Okay Sir and what is the current market scenario. Is it improving compared to last quarter?
- Management:** Certainly yes. I think November/December were not good months. January became better and I think now demand is again in growth mode.
- Dhiren Shah:** Can we expect high single digit kind of a volume growth in Q4?
- Management:** Oh yes certainly post the new line, certainly will see more growth.
- Dhiren Shah:** Okay and Sir any plan to reduce the debt?
- Management:** Given we do not have too much new debts coming to our balance sheet in next one year. So I believe net cash generation will be largely utilized for debt repayment.
- Dhiren Shah:** Thank you Sir. That is it from my side.

- Moderator:** Thank you. The next question is from the line of Anurag Arora from Narnolia Securities.
- Anurag Arora:** Good morning Sir. I just wanted to know the capacity utilization in the BOPP and the specialty during last quarter.
- Management:** During the last quarter around 6% volume drop was there due to installation of new line and demonetization impact. Beside this 6%, we were running at the full capacity.
- Anurag Arora:** In Specialty also Sir.
- Management:** In specialty, we have some excess capacity lined up for growth hence not at full capacity utilization.
- Anurag Arora:** Okay Sir just one thing more. I wanted to get the sense of the raw material price as well as your margin correlation.
- Management:** The change in raw material prices gets passed to the customers generally.
- Anurag Arora:** Can we expect some improvement also going forward?
- Management:** Yes, because of the impact of the demonetization is fading away, so you can expect some improvement in the margins.
- Anurag Arora:** Okay Sir one thing you are using homopolymer, which is updated on the reliance website, so when I just go by the site, there are different, different kinds of grades, which grade you are using exactly could you tell us?
- Management:** Yes. It is a BOPP grade.
- Anurag Arora:** Okay thank you Sir. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Shivani Viswanathan from Way2Wealth. Please proceed.

Shivani Viswanathan: Hi Sir just one question. Sir how do we see the margins going forward in light of the new capacity coming in? Since it is a low cost model that we had setup and the cost per ton is also expected to be lower can we see some margin growth coming in FY18.

Management: Once the new line is fully into the operation, since it's going to be much more cost effective line in terms of power consumption and wastage ratios, we expect to make higher margins on BOPP Line-X. However, I think that the other thing that needs to be considered is in the short term the specialty would not increase while the commodity would go up.

Shivani Viswanathan: So mix?

Management: So the mix will play its part and you can never say that specialty margins will always remain very high, but I think this is a very dynamic scenario. As we move quarter-on-quarter, things would look different. So it is very difficult to predict numbers at this stage, but you have to also consider the mix impact, which would be there in the short term.

Shivani Viswanathan: Correct, but Sir if we just compare out commodity existing with the commodity new plant, the margins in the new plant would be better than the existing commodity film plant that we have.

Management: Yes, within the commodity.

Shivani Viswanathan: Correct and Sir what is your outlook on crude prices now. How do you see your raw material moving now?

Management: Largely stable. We have seen as crude goes up, America Shell gas starts production. So we feel that it will be a range bound. However, at the end of the day it's just estimation.

Shivani Viswanathan: I agree. Okay thanks Sir. Thank you. That is all from my end.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematix Shares. Please proceed.

- Ankit Gor:** Thank you Sir. I have a couple of questions Sir. First you mentioned about cast BOPP line to be setup some more details about it. What is the cost and when it is expected to come on stream and also revenue expected from this Sir.
- Management:** Capex will be about USD 2 million and expected to start in Q2 FY 17-18.
- Ankit Gor:** And you are setting up this in Indian plant?
- Management:** Yes it is being setup in Baroda plant where we have put up the BOPP line.
- Ankit Gor:** You had mentioned that you have bought additional land there what would be the cost of that Sir and what is the cost of that payment?
- Management:** Total land cost shall be close to INR 40 Crore rupees. Out of this, advance has already been given and the remaining shall be paid in FY 17-18.
- Ankit Gor:** And this is for future expansion right if I am not wrong.
- Management:** Yes.
- Ankit Gor:** Sir this capex for this new line 60,000 tonnes was it 200 Crores or lesser or what was it Sir?
- Management:** We have planned for 200 Crores and now expect to to close lower than INR 200 Crores. Although, exact amount quantification will be difficult at this stage.
- Ankit Gor:** This expense like this one land payment, one is this Cast PP and this new line, and the expense will be booked in this year's balance sheet right, FY17's balance sheet.
- Management:** CPP will come in the next year FY17-18, so to the extent of the work done on the CPP by the end of the March, it will be in current balance sheet, and otherwise full impact will be in the next balance sheet. With respect to the land, yes advance is already coming in the current balance sheet and the full land value will come in the next balance sheet. Besides these two, there is no other major capex planned at this stage.
- Ankit Gor:** In this line, there is around 200 Crores capex. This will be in this year's right?

Management: Yes this will be in this year.

Ankit Gor: This debt figure which you mentioned, which also include majority of 200 Crores Capex?

Management: Yes majority part of this is already included i.e. about 170 Crores.

Ankit Gor: Okay Sir, Thanks.

Moderator: Next question is from a followup from the line of Arjun Sengar from Reliance Mutual Fund.

Arjun Sengar: Sir I just wanted to confirm you said you did a capex of 200 Crores for the 60,000 tonne line is that correct.

Management: That is correct.

Arjun Sengar: And Sir can you tell me roughly what gross margin per tonne you do in your commodity films compared to specialized films.

Management: It all depends on the timing. Broadly Specialized film margins are more than double of commodity films margins on average basis.

Arjun Sengar: Okay and how many days of inventory do you hold?

Management: Close to 30 days.

Arjun Sengar: How much would be your working capital days.

Management: Broadly, we maintain about 30 days Inventory, 30 days Receivable and close to 30- 35 days Payables.

Arjun Sengar: Okay. Thank you Sir.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to Mr. Gor for closing comments. Over to your Sir!

Ankit Gor: Thank you Pankaj Ji and Neeraj Ji for giving us a chance to host this call. If any you can give your conclusive comments and we can conclude this call post that.

Management: Thanks to all of you for joining the call. As discussed, Q3 got impacted due to demonetization and work related to the installation of the new line, however we expect to much better in coming quarters.

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.