Huhtamaki PPL Ltd.

(Formerly **The Paper Products Ltd.**)

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19th August, 2016

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Sub: Transcript of Conference Call held on 10th August, 2016

Dear Sir/Madam,

Further to our intimation dated 6th August, 2016 in relation to the conference call on the financial results of the Company for the quarter/half year ended 30th June, 2016, please find enclosed herewith Transcript of the said conference call held on 10th August, 2016 for your perusal/records.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For Huhtamaki PPL Ltd.,

Huhtamaki PPL LTD.

D V Iyer
Company Secretary & Head – Legal

Encl: As above

Transcript

Conference Call of Huhtamaki PPL Limited

Event Date / Time	**:**	**10th August 2016, 03:00 PM IST**
Event Duration	**:**	**56 min 28 sec**

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Honeyla, moderator for this conference call. Welcome to the Huhtamaki Paper Products Limited conference call hosted by Aditya Birla Money Limited. At this moment, all participant lines are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Shreyans Mehta from Aditya Birla Money. Over to you sir.

Shreyans Mehta: Hi, good afternoon friends. Welcome to the Paper Products conference call. We have with us Mr. Parag Vyavahare, the CFO of the company. He will be addressing the concall and post that we will have the question and answer session. Over to you sir.

Parag Vyavahare: Thank you Shreyans. Good afternoon ladies and gentlemen. And thank you for taking this interest and I welcome you all on this call. First, I will just quickly cover couple of highlights for this quarter. In the Q2 2016, we have grown sequentially by around 8.9% in value terms and 5.2% vis-à-vis last year. If we look at the volumes, we have grown from the Q2, from the Q1 to Q2 by roughly around 11½%. However, this quarter has been remarkably impacted by the one factor which we had mentioned in the last conference call, wherein in the last quarter we had benefited by the lower raw material prices, but high selling prices situation prevailing, which we had said that which we do not expect to continue for long. And that expectation has lived through in this quarter. So, this quarter we had a situation of the selling prices have gone down, with reference to the Q1 raw material prices. But, unfortunately the raw material prices have went up. And the third factor has been some mix issues which we have faced and as a consequence the margins have come under pressure. And that is what the results which are there with you show.

So, that is what and I will leave the floor open for questions and answers. Over to you madam.

Question and Answer Session

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, the first question comes from Mr. Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Hi. Sir, I have a couple of questions. The first one is, as you had mentioned the 5% of value growth in this quarter on a YoY basis, how much is in volume?

Parag Vyavahare: So, compared to last year I don't have that data readymade unfortunately Praveen. I only have it for the current quarter. So, because last year we had a bit of some issues, so that data is not readily available. But, indicative one I can tell you. Indicative one, no, it is slightly difficult. No, I think I will skip that thing.

Praveen Sahay: Okay, fine sir. The second question is, as you had mentioned, the prices, raw material prices have gone up this quarter. And obviously the last quarter raw material prices were down and you passed on and the margin is under pressure. So, going forward we can expect, as the raw material prices have gone up, we will accordingly pass on these as well?

Parag Vyavahare: Yes, yes, we will pass on this increase on the raw material. That is our standard strategy and that is something as usual we will do. We will try to pass on the raw material increases to the customer. But, as you know it is always a time drawn process and it does take anywhere between, somewhere between one month to four months or so.

Praveen Sahay: Okay. So, we will not see the margins improvement in the next quarter numbers as well, because it will take time to pass on?

Parag Vyavahare: No, I cannot unfortunately provide guidance on that thing. Of course our efforts will be that of to recover whatever we have lost. But, how much that will be straightaway visible on the P&L account right now, I would not like to hazard a guess on that number.

Praveen Sahay: Okay. And any sense on the GST side sir? Maybe now it has been passed, is there any kind of benefit that Huhtamaki is going to receive?

Parag Vyavahare: At this point of time it is a bit premature to really decide, because many of the answers still are not out. Because what is really is out is only what they have done is the constitutional amendment which they have passed and the GST (not sure) they have given. But, the regulations, the rules have to come out, the schedules have to come out and the couple of some of these important things like as to some of the existing various concession arrangements, how they will really get phased out and some of the valuations related aspect, which they have put, which are still being debated and being hotly debated. So, it is slightly premature. So, I would not like to put, we still are working on evaluating the impact. So, at this point of time I may not like to comment on what should be the impact.

Praveen Sahay: And lastly, I just wanted to know, because lots of players for BOPP manufacturers or BOPET manufacturers are coming up with capacity. So, what is your take on that? Will that impact on the pricing of our raw material?

Parag Vyavahare: It will really depend on as to and people talk about expansion, when the expansion will really come in on the stream. And at that time how is the demand and supply situation in the BOPP market? These really will depend on that thing. Right now, it is very difficult for one to say as to this is what will happen in the next quarter or this is what will happen in the next of next quarter. It is very difficult. It will really depend on how each of those quarters…

Praveen Sahay: Sir, can you give any information on the past, like when in the past in 2010-2011, there are lots of capacity of BOPP and the BOPET has come up. How has been the pricing movement at that time?

Parag Vyavahare: If you see, I remember 2010 and 2011, that was one of the worst times, because at that time BOPP, often I don't remember the BOPP situation, but at that time I remember the polyester prices had gone through a major upswing. I remember that in a span of nine months, the polyester prices went up from something like Rs.100 to something like Rs.245, because there was a lot of shortage in the market and whatever.

Praveen Sahay: So, after the capacity came up and the prices have cooled down?

Parag Vyavahare: That is right. That is right, which subsequently happened from November 2011 or so, I think after that I think the prices started cooling down. But, we had faced that challenge at that point of time, in the 2010-2011.

Praveen Sahay: Thank you sir. Thank you for this.

Moderator: Thank you sir. Sir, the next question is from Mr. Ankit Ghosh from Systematics. Please go ahead.

Ankit Ghosh: Yes sir, hi. Sir, question with regards to OPM, you said that the operating profit margins impacted due to the raw material price going down and some mix issues.

Parag Vyavahare: No, no, I didn't say raw material price going down. I said raw material price going up and selling prices going down.

Ankit Ghosh: Selling prices going down. Sir, but in that case, that was the only issues with regards to that or any operational issues were there?

Parag Vyavahare: No, some mix issues. Some mix issues also were there.

Ankit Ghosh: So, what was that mix issue mean?

Parag Vyavahare: Mix issues, sometimes what happens is certain products we are selling, overall though we try to maintain a margin of, value addition margin of at that X level. But, in a basket always there would be some products which will be slightly more profitable and there would be some products which are slightly lesser profitable. So, now what happens is that, it is not something which is 100% controlled by you. It is something which is a customer driven situation, how customer's product is doing well or bad or which particular product he is trying to push. That kind of mix situation also has spread out to some extent in this quarter.

Shreyans Mehta: Just restrict the questions to two per participant.

Ankit Ghosh: Correct me if my understanding is wrong here sir.

Shreyans Mehta: Moderator of the concall that right now just announce that two questions per participant that is it.

Ankit Ghosh: Yes, yes, I got it. Sir, my question is, correct me if my understanding…

Shreyans Mehta: We cannot entertain more than two questions.

Ankit Ghosh: Sir, this was the first question I asked and this is the second question I am going to ask. Shreyans, please cooperate. Okay, my question is, my understanding is what, correct me if my understanding is wrong here sir. If considering that there is no realization growth and YoY revenue grew by 5%, considering that is all because of volume and while raw material prices, raw material as a percentage of sales cost have increased substantially. For example, on a standalone basis it has increased to 73%, while it was 70% last year. So, in that case we have processed so many commoditized or less margin normalized products rather than value added stuff. Is it fair to assume or if you can clarify?

Parag Vyavahare: No, no, I said it is three reasons as I mentioned. One is that the selling prices have gone down, because of the corrections which were due from the last quarter. Whereas in the current quarter the raw material prices instead of being stable or going down, they went up, so that is because of the second effect. And the third effect I will say is the margin effect. Sorry, the third effect is basically to some extent the mix effect. But, the major effect if you ask me is not the mix effect. The major effect is coming from the selling prices and the raw material price situation.

Ankit Ghosh: Okay. I will join back in the queue. Thank you.

Moderator: The next question is from Mr. Darshan Padmanantha from Sundram Mutual Funds. Please go ahead.

Darshan Padmanantha: Can you hear me?

Parag Vyavahare: I am able to hear you.

Darshan Padmanantha: Yeah, sure. My question is, if I am actually looking at your standalone versus your consolidated, I would assume that on the profitability side the subsidiary has actually shown better margins, because the drop seems to be substantially higher on the standalone versus the subsidiary. Sir, can you give us some understanding on how both the subsidiaries are doing, that is Positive Packaging and Webtech Labels and how the things are going to go ahead in terms of performance?

Parag Vyavahare: If you see in the current quarter, the margin drop has been the situation in which both the HPPL as well as the Positive have faced. But, however in the case of HPPL also, some impact has come because of the mix issues and also because of the growing base of mixes because of which the volume growth in HPPL is much higher. So, that is why you are seeing slightly pronounced effect on the margins and the profitability on a standalone basis. Also, one should keep this factor in the mind is that the HPPL debt level is more stable, because we haven't repaid any major debt repayments are not carried out, so that also is having its own effect on the PBT level. Whereas if you look at the Positive, yes, their margins also have come down, but compared to the last quarter, since they managed to pick up some growth in the current quarter, the effect has slightly got moderated I will say. And second, they have also got benefited because of the good cash generation which had happened over the last quarter, last three quarters. Their debt has substantially gone down and that has brought down their interest burden. So, that has aided in their PBT growth. Coming to the second subsidiary which is the Webtech, the Webtech as you know is a slightly different business, which is into the specialty labels business. It is a different business. The dynamics of that business are slightly different I will say, because it caters to the specialized market like pharma, agrochemicals, healthcare, cosmetics and (not sure). For them, this quarter has turned out to be slightly much better than expected, because of the various customer launches or the new requirements which have come from the customers. And also in light of the fact that the monsoon was expected to be much better, the demand from the various segments which they had was very healthy. So, it has helped them to get not only the good growth, but also their mix also slightly got improved better and that has helped them in improving their margins. So, that is why Webtech you will be able to see that their performance has improved.

Darshan Padmanantha: Sir, on the raw material side, given that there is fair amount of volatility, just to understand, how do we gauge as an analyst or probably as a person looking at this sector and specifically your company to actually say that, because you also kind of mentioned that there would be a quarter or couple of quarters lag, before you actually pass on the higher cost into the system. So, is there any way in which or is there parameters that we can track to identify whether this is actually slightly better bulge that is coming in or whether it is turning favorable for you, just from your perspective?

Parag Vyavahare: I myself am not very, very sure. No, I myself have not been able to site any specific indices or something like that thing, which gives us readymade. Because what happens in our case, it is not one raw material which is the key raw material, there are N numbers of raw materials. There is the polyester film, there is the BOPP film, there is aluminum file, there is paper, there are polythene resins are there. There are inks, adhesives, solvents. These are multiple materials. And there is paper board is also there. So, each of these raw materials constitutes substantial portion on the overall raw material consumption basket. So, what happens is that looking at only one material does not really help you. And the price leader of each of these materials could be different depending on not only looking at the prima facie as one of the inputs being oil, but also it is dependent on the supply demand situation in the respective markets. Somebody has closed down his factory or somebody, the preventive maintenance, people take a shutdown etc. etc. There are N numbers of different factors. Or, somebody's new capacity is coming on the stream etc. So, those different factors play. And the behavior between the materials tends to be divergent at that point of time. So, you cannot have one uniform index or uniform some kind of benchmark. So, that becomes a challenge. So, it is a challenge for us also.

Darshan Padmanantha: Sure, thanks a lot sir. I will join back in the queue.

Moderator: The next question comes from Mr. Vivek from Shiv Sagar Investments. Please go ahead.

Vivek: Hello sir. This quarter I think Huhtamaki Foodservice packaging division got ValPack. So, why is this deal through the parent and not through your Huhtamaki Paper Products? So, could you please elaborate?

Parag Vyavahare: Sure. If you see the Huhtamaki, throughout the world they are organized into basically into four segments. One is, which is your food service segment, which is basically into the hot cups and cold cups, which will primarily go into your cold beverages and hot beverages segments like coffee, tea and soft drink, beverages etc. etc. That is the one segment. Second segment which we are, in which Huhtamaki is present is into the flexible segment. Third segment is which is what we are into presently, the flexible segment. The third segment they are present is what is known as the molded fiber segment. It primarily goes into the eggs and foods packaging. And the fourth segment what they have got basically is the Americas segment. Americas, they have classified as a segment, which is effectively is the combination of the food service and the molded fiber segment. They operate in America as a combined segment. But, if you see worldwide, Huhtamaki has followed a strategy, where these are the different segments. And there are Executives, Vice Presidents who are in charge of these respective segments. And of course the organizational structure is aligned to that thing. So, at the top you can see the Huhtamaki board and the group executive and the management sits there. And you can see, under that there are four businesses and these are you can virtually call, in a very lose parlance one can call, these are four individual subsidiaries you can call. Each of these subsidiaries is in a different business and they are managing business reasonably fairly independent. That is the broader picture you can keep in mind and you will get clarity. Throughout the world wherever they are present, each of the segment tries to pursue its growth, acquisition or divestiture or different expansion or contraction, whatever those strategies, or which markets to go or which markets not to go strategy, they follow independently. And that is why to keep the reporting lines very clear and accountabilities and responsibilities very clear, they have followed a strategy that in any country if multiple segments are present, they will be present through different, different entities and not through one entity. And following that strategy, in India also when they acquired this company, they have picked up this stake of 51% in ValPack; they have picked it up through their Foodservice entity.

Vivek: Okay. Thank you sir. And what is the capacity utilization of the company and what is the asset turnover of the company like of the industry as such?

Parag Vyavahare: You are talking specifically for the Huhtamaki PPL?

Vivek: Yes, the listed company. What is the capacity utilization for this quarter? What is the asset turnover ratio for the industry as such in which you are present?

Parag Vyavahare: Industry, I really will not be able to say anything. But, our capacity utilization today is very close to around 85%-86%, that is the level we are operating. And our own capital output ratio is roughly should be in the range of around 2.2.

Vivek: And what is the standard EBITDA you try to maintain over or the product mix? What is the standard which you would like?

Parag Vyavahare: Sorry, there is one correction on the capital output ratio. Capital output ratio is roughly around 1.8 to 1.9. Sorry, I lost your next question. Could you please repeat that please?

Vivek: What is the standard operating margin you would like to continue with over the longer term, which will make you feel comfortable?

Parag Vyavahare: Okay, our long term objective is that we should keep on generating somewhere between 10% to 12% EBITDA. That is what the long term average which we would like to maintain in that range I will say.

Vivek: And what is the growth you will see in this sector, like in India, in flexible packaging, like it will mirror the GDP growth?

Parag Vyavahare: Generally they say that the FMCG sector grows somewhere between 1.8 to 2 times of the GDP. And the flexible packaging sector grows in sync with the FMCG sector growth, plus or minus 1% or 2% points here and there, depending on your various factors. So, that is what one can look at.

Vivek: Okay sir. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Parag-bhai, regarding this volume growth of 11% quarter on quarter, so broadly if you can elaborate how this Positive Packaging, Webtech has grown on Huhtamaki Paper Products in terms of volume? And how you, from where you see this growth and how the scenario looks like, I would like your point of view.

Parag Vyavahare: If you see the Webtech also, Webtech has grown in this quarter by roughly by around, almost by around 28%-29%.

Sunil Kothari: Is this on quarter on quarter?

Parag Vyavahare: Yes, quarter on quarter. From Q1 to Q2, Webtech had a very good growth, because I said basically it is aided by the fact that the rains were expected to be very good. So, the pharma and agrochemical sectors growth picked up, which was otherwise very flat. Because, if there was a drought and typically the demand for these things go down and when the rains are good, the demand for the agrochemical sector especially picks up. So, that factor was positive for this thing, so which helped them. And in case of the Positive, they have grown and I am talking of the value growth and I am not talking of the volume growth alone here, because volume growth sometimes, it becomes very difficult to say for Positive plus Webtech plus HPPL. Whereas the Positive, they have grown roughly by around 8½% in this quarter, on quarter on quarter, which is basically from sequential quarter, from Q1 to Q2, they have grown by around 8.4%.

Sunil Kothari: Right. Parag-bhai, basically last year Positive was not growing or it was de-growing mainly because of lower exports and Webtech has now started recovering. So, how you will see this Positive in back of exports and their growth rate, all their synergies, now the acquisitions (not clear), all the benefits should start accruing now?

Parag Vyavahare: The benefits have started accruing. But, what happens is that sometimes what we have seen in this quarter is sort of bit of a negative momentum we saw, not in terms of the synergies perspective, but it was primarily in the area where the raw material prices situation and the selling price situation behaved in a very different way compared to the previous quarter. Because, when I had analyzed, was answering the question in the last quarter, I had mentioned that we have got exceptionally benefited in the Q1 by three factors, very good product mix, very favorable selling prices and also very favorable raw material prices, whereas exactly the reverse happened in this quarter. And that is what has really hurt us. Now, coming back to the growth if you are asking me, the domestic growth has started picking up and we are reasonably happy with that thing. However, the growth momentum in the exports side still is an area of worry. It is not, really we are still not, though there has been some growth in exports we have seen from quarter to quarter, I can just tell you, one second. Quarter on quarter exports have grown, the exports have grown by I think close to by around 16% we have seen on a combined entity basis. We have seen exports grow by 16% or so roughly. But, if you compare it to the previous year, it is slightly at the lower level, for the reason being that in between since the raw material prices have gone down, so the selling prices also have moved down. And some of the exports market still continues to be challenging, because the effect of the low oil prices which is hitting is mainly the economies in the Middle East and Africa. That effect still continues.

Sunil Kothari: Right. And sir, last question is, this raw material cost which has gone up, it will take one quarter or some months to pass it on to customer?

Parag Vyavahare: Sure, that is what I said, it takes anywhere between one month to four months to pass on the raw material price increase benefit to the customer or vice versa.

Sunil Kothari: Okay, thank you very much. Thank you.

Moderator: Thank you sir. Sir, the next question is from Mr. Chetan Thakker from ASK Investment. Please go ahead.

Chetan Thakker: Good afternoon sir.

Parag Vyavahare: Yeah, good afternoon.

Chetan Thakker: Sir, just wanted to get the volume growth number for H1 CY16 so far YoY?

Parag Vyavahare: Just one second. Roughly around 13% to 13½% is the volume growth between the last year first half to current year first half.

Chetan Thakker: And sir, for the year as a whole, where do you see this ending, closer to 15% or higher?

Parag Vyavahare: No, I would not like to right now put some hazard on that thing, because sometimes things can go (not sure) from what we expect. So, I would not like to put any figure or number on that thing.

Chetan Thakker: Sure, okay sir. Thank you so much sir.

Moderator: Thank you sir. Sir, the next question is from Mr. Balwinder Singh from BNK Securities. Please go ahead.

Balwinder Singh: Hi sir. Thanks for the opportunity. Sir, firstly if I see your subsidiaries performance, that is consol minus the standalone, on a quarter on quarter basis, there is a growth of around 11% on the sales side. While you highlighted that on a quarter on quarter basis, Positive has grown by 18%-18½% and Webtech by 28%-29%. So, where is the disconnect?

Parag Vyavahare: No, I said Positive has grown by 8½% I said, 8½, not on 18%, 8½. What you need to bear in mind is that the Positive is a much larger entity compared to Webtech. So, Webtech even though has high growth, on a large base, it tends to bring down your average.

Balwinder Singh: Fair enough sir. Secondly, on this if you can highlight more on the margin per se, that I see your gross margin on the standalone side has dipped by almost like 280 bps year on year, while on the subsidiary side, the gross profit margin has improved, Positive and Webtech. So, where is the disconnect? On standalone there has been a margin decline, whereas combined Positive plus Webtech, there is a gross margin improvement. What are we missing in this?

Parag Vyavahare: No, we have seen some improvement in the margin in the case of the Webtech, because as I told you, because of the favorable monsoon factors, some of the segments which were not doing earlier well, they have gone and picked up. They have picked up very well, good quantity of the materials in Q2, which is the typical spike in the demand which comes and which has helped them in the Q2. So, there we have seen some expansion in the margin, because some complex products they had to give in a very short period of time. Whereas if you look at the margins which have gone down, have gone down both in the HPPL as well as in the Positive. It is not that the margin has gone down only in HPPL. It has gone down in Positive also. And in fact both places are roughly in the range of 3% to 4%.

Balwinder Singh: Sorry, I missed your last line.

Parag Vyavahare: The impact of the margin drop, raw materials margin drop in both HPPL and Positive is in the range of somewhere between 3% to 4%. HPPL and Positive, both have loss on VA margin.

Balwinder Singh: At the gross margin levels?

Parag Vyavahare: Yes, what we call as the sales minus raw material cost.

Balwinder Singh: Yeah, value addition.

Parag Vyavahare: Yeah, value addition.

Balwinder Singh: Okay. And if I may ask last question, if you can just highlight on the exports front, you said that there is a growth of around quarter on quarter 16%, right?

Parag Vyavahare: Just one second. Yeah, around 15½% I said, 15½% to 16%, that is right.

Balwinder Singh: Okay. Sir, if I add your Positive plus Webtech sales, on year on year it is down by about 2% or so. Standalone is up by around 10%-11%, while subsidiary is down 2%. So, any color on that?

Parag Vyavahare: It is primarily two factors. In case of the Positive, the sales have been bit lower, the reason primarily being that there is an impact of this raw material price correction, which is there. Of course even in Positive, the sales are not down. Last year they were almost flat I will say, Positive is flat I will say.

Balwinder Singh: Minus 2% it is.

Parag Vyavahare: No, it is not minus. It is flat.

Balwinder Singh: Sir, last year in June quarter, your subsidiary sales, Positive plus Webtech was around 243 crores. This year it is around 239 crores, June to June comparison.

Parag Vyavahare: No, I understand. You are talking about three months basis, right? Three months.

Balwinder Singh: Yes, April to June quarter of last year and this year.

Parag Vyavahare: No, the Webtech also has grown roughly by 20% compared to last year and Positive has just flat. I will say, actually Positive there is a small dip of around, I will say 1.5%, in Positive's case, but whereas the Webtech has expanded almost by 20%. So, between them they have still grown somewhat. Between both of them put together we have grown.

Balwinder Singh: Okay. So, but sir roughly it will be kind of flat, if Positive has dipped by 1.5%, whereas in standalone year on year the growth is?

Parag Vyavahare: Just one second, I will tell you. Just give me one second. It is 0.6% growth combined.

Balwinder Singh: Okay sir, mostly it will be kind of flat only. But, in standalone year on year, there is a growth of 11%.

Parag Vyavahare: Yes, yes.

Balwinder Singh: So, where is the disconnect? Positive is seeing pressure and standalone has grown 11%. So, if you can give some color on that? And that will be my last question.

Parag Vyavahare: In HPPL if you see, we had expanded our capacities in 2014, whereas the Positive we have not expanded capacity in the recent past. So, some of the benefit of that expansion of the capacity we are still deriving. Because what happened, after the expansion which we completed in 2014, 2015 the markets were slow. So, the growth was (not clear) if you remember in 2015, compared to the 2014. So, that capacity which was there, but that was primarily in HPPL, it was not in Positive. Because in Positive, since the owner decided to sell somewhere in the end of 2013, their investments, their capacity expansions were really muted. So, basically the same existing capacities we have been utilizing, but obviously we are also facing the challenge in the same time on the value growth. Two places the challenges are coming in the case of Positive. One is, the value depreciation is occurring, because the raw material price (not clear) the selling price decreases. So, selling prices have gone down. So, that is one factor. And the exports market is not doing that well.

Balwinder Singh: Right. Thank you sir. That is fine.

Moderator: Thank you sir. Sir, the next question comes from Mr. Anshul Saigal from Kotak. Please go ahead.

Anshul Saigal: Sir, my questions were answered. Thank you.

Parag Vyavahare: Yeah, thank you Anshul.

Moderator: The next question is from Mr. Rohit from Harmony Capital. Please go ahead.

Rohit: Am I audible?

Parag Vyavahare: Rohit, can you speak slightly loudly, because it is very faint?

Rohit: Can you hear me now?

Parag Vyavahare: Yeah, I am able to hear you. Now, it is perfectly alright.

Rohit: Okay sir. Sir, my question was around the competition. I understand that there is expansion that is happening in this piece, from the competitor side. So, just as an example, I understand that TCPL Packaging is entering in this segment and they have a long history in packaging. They have good customer relationship and they have the land available. And so I was wondering how the company is seeing this competition that is coming in?

Parag Vyavahare: Competition is a reality of the day. So, that is something you can't wish away. So, people will keep on entering this thing. Now, TCPL is a reasonably strong player. So, they are not a fly-by-night operator. So, they are a company, which is a sound company. So, their entrance is good for the sector.

Rohit: Okay. So, just trying to understand what would be the competitive stance that Huhtamaki, our company has vis-à-vis TCPL and other players?

Parag Vyavahare: You can't really keep on comparing with each player as to what we generally do, stance. Actually I can't really explain that thing. But, if you have to know what is my stance which I can talk of and which I already have been talking. My strength is that my financial stability, my deep customer knowledge and my expertise in this area for long and dedication to this one sector.

Rohit: Okay, sure. That helps sir. Just one more question, you had mentioned that the capacity utilization this quarter is 85% to 86%, is this the optimum utilization or can it go up to 95%-100%?

Parag Vyavahare: No, it cannot go up to, the street cannot go to 95%-100%. Maximum we may be able to push it to 90%. Beyond 90% we will find it very difficult.

Rohit: Okay, understood. Thank you sir. That is it from my end.

Moderator: Thank you sir. Sir, the next question comes from Mr. Saurin Shah from Saurin Financial Services Private Limited. Sir, please go ahead.

Saurin Shah: Sir, good afternoon.

Parag Vyavahare: Good afternoon.

Saurin Shah: Sir, I was disappointed with the kind of numbers that you declared yesterday. In fact not only the raw material cost has gone up, in fact what we believe is the (not clear) expenses, as well as the other expenses have gone up substantially. And that is not, so in fact the net margin which was 3.75% in the calendar year 2015, it has come down to 3.12% in quarter two. In fact this was maintained at 6.42% in quarter one. So, what I would like to request you now, can you just highlight what could be the net profitability ratio to total income for the current calendar year 2016?

Parag Vyavahare: Sorry, as a policy we do not give guidance. So, I really cannot offer any comment on the projections.

Saurin Shah: But then sir, something kind of a range, because this gives a wide variance of 6.41%-6.42% (not clear).

Parag Vyavahare: I understand. And I think those questions I have answered in my earlier conference call also and at the end of the Q1. And also earlier also, during today's call also I have answered as to what had happened in the Q1 and why the margins had expanded substantially and which was expected to be a temporary benefit. So, now that has reverted. But, unfortunately it has only reverted to more normalcy, but also has got bit adversely affected because of some of the factors, which I explained. So, I don't think I can really explain beyond that.

Saurin Shah: I understand. But sir, would I believe that we are not in a position to pass on the sales realization, higher sales realizations on the customer to whom they are supplying?

Parag Vyavahare: There are various different market dynamics which operate in this factor. So, it is very difficult to say and sum up in one line, because there are certain mechanisms in which you operate and there are certain comparisons or certain understanding with the customer. So, you can't just go and raise the prices at your whims and fancies. You have to follow some kind of process or agreement, methodology etc. And based on that sometimes you benefit and sometimes you lose.

Saurin Shah: Sir, I agree with you. But, what I understand with your initial remark in this concall that you will try to recover some of the lost pieces for the quarter two. Should we believe that it will be done in the quarter three?

Parag Vyavahare: I said we will be taking actions in the Q3 and we will have to wait for how the results will pan out, because it does take time. It does take time. It is not such a very quick process, which I had mentioned. The price correction process takes somewhere between, depending on customer to customer, anywhere between one month to four months. So, really for the effects to come through, it will take some time. So, I would not like to say immediately whether we will be able to see the whole effect in Q3 or now.

Saurin Shah: Okay, fine. That is all. Thank you from my side. Wish you all the best for quarter three sir.

Parag Vyavahare: Thank you. Thank you.

Saurin Shah: Thank you.

Moderator: Sir, the next question comes from Mr. Rakesh Bansal from Eniro. Please go ahead.

Rakesh Bansal: Good afternoon sir.

Parag Vyavahare: Good afternoon.

Rakesh Bansal: I wanted to understand, sir on half yearly basis our employee cost has increased substantially. It has gone from 80 crores to 95 crores. This is my first question. Why it has happened? Have we started a new plant or something? And since our capacity utilization is somewhere around 85%, the maximum we can reach is 90%. There is not much of gap left over there. So, in your earlier concall also you said that you will be doing some CAPEX, like around 75 crores to 80 crores. So, are we doing something on that front?

Parag Vyavahare: Okay. Let me respond first on the capacity side, because it is easier. Yes, capacity we are currently operating at tight level. So, we are working on various plans to improve, debottleneck the existing capacity wherever possible and also we are evaluating on our new CAPEX plans. But, it is slightly premature. They are still not being completely frozen. So, I really can't comment exactly on that thing, since they are not fully firmed up right now, so I can't really throw more light. But yes, we are looking at expansion. That is for sure. That is on the capacity side of it. Coming to the employee cost, there are two-three factors which we need to bear in mind. One factor, key factor which we have to see is, on the six months to six months basis when we are doing comparison, the Positive Packaging we started consolidating from the 1st of February 2015 last year. So, the one month salary of the Positive Packaging was not there in the last year six months results. That is the first factor which you have to keep in mind. Second factor is that, second factor which happened is that, if you see in the end of 2014, the Government has amended the Bonus Act. So, the bonus provisions have gone up. So, that has, which was not there in the last year first half, the impact was not there, but whereas that cost had increased. Third factor which is also playing out is that, last year when you see, you are seeing the impact of the increment which will come in the month of April. So, you have been able to see the impact only let's say for the three months, whereas when you are coming to the current year, when you are seeing, you are not only seeing the full impact of the last year increments, but also you are able to see the partial impact of the current year increments in the current quarter. And the fourth factor is that, our Government, considering the cost of living which has been going up, the Government has been increasing the minimum wage levels. So, many of the areas, wherever the level of either the contract labor or various outsourced services etc. or our own labor etc., due to the resetting of the minimum wage, you have to keep on raising their wages. So, those costs also have gone up. That is the fourth factor I will say. And the fifth factor, which also does play is, what happens is that if the rate of interest goes down, typically the actual valuation liability tends to go up. And your cost impact which comes on the gratuity, leave encashment, these kinds of long term benefits starts going up. So, five factors specifically have played out I will say.

Rakesh Bansal: Sir, I will ask just a follow up question. Since you are thinking of expanding your capacity, do you have anything planned like, what kind of amount will go into that CAPEX?

Parag Vyavahare: We really have not yet frozen that thing that is what as I told you. Nothing has been fully frozen. I really can't comment or give out any specific detail at this point of time. But yes, we are sure that we will have to undertake some CAPEX in the current year. We will undertake, that is what I can say.

Rakesh Bansal: Do we have enough land available for it?

Parag Vyavahare: Yes, we do have. We do have.

Rakesh Bansal: Okay, thank you sir. That is all from my side.

Moderator: Thank you sir. Sir, the next question comes from Ms. Swati from Zen Securities. Please go ahead.

Swati: Hello?

Parag Vyavahare: Yes madam.

Swati: Good afternoon sir. Thanks for taking my question. Sir, my doubt is like with the expected growth in FMCG, because of good monsoon and the Seventh Pay Commission, sir we are expecting that there should be a good sales in FMCG, which should also reflect in our sales, right?

Parag Vyavahare: Yes.

Swati: So, did we get any hint from suppliers, like do we have to increase our inventory ahead of sales?

Parag Vyavahare: No, not really. We already have seen that there is a pick up in the demand and that is why you are able to see a growth in the standalone HPPL as well as what we saw in the growth in the Webtech. It is the reflection of that thing, where consequent to the good monsoon and bit of what I will say, the bullishness coming back in the economy, the demand has picked up. And that is what we have seen. And beyond that I don't think so. Because, in this industry the people give you the order specific for a specific period and that is it. We are done with that thing. We really don't have to start storing very high inventory, because that you can't afford in the industry.

Swati: Okay. Sir, what is the current market share sir, because the growing demand for Patanjali and other products, ayurvedic products is going up substantially over the last few quarters. So, we also supply for those as well as the listed peers.

Parag Vyavahare: Yes, we do supply in a very small way to Patanjali, small way and not very big way.

Swati: Okay. Last time when you said that the current market share is around 9%, so if it is the same or did we see any increase in that?

Parag Vyavahare: No, no, it is more or less around that same level. There is no major change.

Swati: Okay. Sir, will the growth in FMCG, would it impact the second half of this year in our sales?

Parag Vyavahare: Already we have seen some sales growth. Already we have seen some sales growth, because one has to take into consideration that since the raw material prices went down, the selling price also have gone down. So, that has muted our sales growth on the value basis. But, on the volume basis if you see, our volume growth has been at a much higher level. It is almost at around 10%-12% level, the volume that we have done. So, that is definitely we are already seeing an uptake of that thing. So, that is what I really expect that the growth momentum should get maintained going forward also.

Swati: Okay, thank you. That is all from my side sir.

Moderator: Thank you ma'am. The next question is from Mr. Ankit Ghosh from Systematics. Please go ahead.

Ankit Ghosh: Thank you again sir. Sir, couple of questions. Sir, one is, I have witnessed that the tax rate was higher this quarter, consol as well as on the standalone basis. And which was much higher than 35%, what was the basic reason behind that and what should be the tax rate going ahead for the next couple of quarters?

Parag Vyavahare: One reason is that we and Webtech were enjoying certain tax concessions for our units at Uttaranchal and Himachal. And now we have gone out of the tax holiday period. So, that is having its own effect. And there are certain mitigation matters, because of which we have been making; we have been forced to consider certain disallowances etc. So, considering that we have been making provisions. So, as a combined result of that thing, the effect you are able to see. That is why the tax rate is slightly high.

Ankit Ghosh: Correct. So, for a full year basis what would be the tax rate for your…..?

Parag Vyavahare: It is slightly difficult to comment at this point of time Ankit, because too many variables keep on coming and keep on working. So, therefore quarter to quarter there are variations, so I would not like. But, it will be very close to 35%-36% plus.

Ankit Ghosh: Okay. And sir, with regards to short term liability, which also we actually repaid on a consol basis good amount. So, what was it and what was the reason behind the sharp decline in the short term liability?

Parag Vyavahare: Just one second. Short term liability?

Ankit Ghosh: Consol.

Parag Vyavahare: On consol basis?

Ankit Ghosh: It has gone down. Short term borrowings, not liability, I am extremely sorry, short term borrowings?

Parag Vyavahare: Short term borrowings are primarily, one, which is the term borrowings. One is basically the CC facilities. So, CC facilities have been subsequently have been run down, because there has been good cash flows which have gone and we had to do some CC borrowings. That is the one reason across all the three companies. And also there has been certain borrowings which are typically repayable within let's say, one year etc., those also have got repaid substantially. So, that is why you are continuously seeing this thing that the borrowings are going down.

Ankit Ghosh: Okay. Sir, I have a couple of questions more, with regards to this Webtech revenue, what was the Webtech revenue in this quarter sir, revenue from Webtech?

Parag Vyavahare: It was close to around 30 crores.

Ankit Ghosh: 30 crores. And export revenue in this quarter and half yearly both?

Parag Vyavahare: Exports as I mentioned, we have been roughly at around 24% of our consolidated turnover is exports.

Ankit Ghosh: Overall. And sir, if you want to break it out in PPL, HPPL and PPL export revenue, what that would be, PPLs export revenue?

Parag Vyavahare: HPPL will be roughly around 19% to 20% and Positive will be at around 30% or so, 30%, 32%-33%.

Ankit Ghosh: Okay. PPL would be at the higher side, right, 30%?

Parag Vyavahare: Right, Positive will be higher on the exports.

Ankit Ghosh: Okay sir, thanks a lot.

Moderator: Thank you sir. Participants, if you have a question, please press * and 1 on your telephone keypad.

I repeat, if you have a question, please press * and 1 on your telephone keypad.

Sir, the next question comes from Mr. Rohit from Harmony Capital. Please go ahead.

Rohit: Sir, thank you for taking my question again. I just wanted to understand more about the business per se. So, my question is, when a company approaches a new client, how long does it take generally to get approved as a vendor, as a supplier? So, I guess once you are approved, you start off with a small volume and that generally gets scaled up. So, just wondering, how long does it take for the whole process?

Parag Vyavahare: It varies from customer to customer. And depending on the customers urgency and how the customer himself is stringent about various processes which they follow, and whether the customer is a domestic customer or export customer. In case of domestic customer, let's say within a span of let's say two months, we can start supplying the material to him, whereas some customers they could be very stringent and even your time to qualify and start supplying and stocking to them etc. may take even as long as one year to one and a half years, very stringent ones.

Rohit: Okay. These are exports?

Parag Vyavahare: Considering all that thing, I am saying. Typically stringency will be more in the exports market, because they will take longer time. Because, they are long, so they will take, their qualification time will be longer. The samples will go. The samples travel time itself will be so long. They will test. They will give feedback etc. etc. The response, whole time is much longer.

Rohit: Okay. And once it is approved, immediately you get reasonable volume from the clients in general, is it?

Parag Vyavahare: No, no, it will start normally with gradually small pick up is there initially, one or two small lots you give. Both the side gets confidence. And then the ramp up occurs.

Rohit: Okay, fair enough. I understood. And sir, just one more question. I was wondering, in general as per what you have seen, your clients, in general how many suppliers, minimum how many suppliers do they keep for let's say packaging?

Parag Vyavahare: Slightly difficult to give. It is very difficult. But, it could be anywhere between two to five or whatever. The larger fellows could be maintaining even four, five, six suppliers. But, typical smaller ones typically will be maintaining anywhere between at least let's say two suppliers or something.

Rohit: Okay, fair enough. You have answered a lot of the questions patiently and comprehensively and I want to thank you for that sir.

Parag Vyavahare: Thank you. Thank you.

Moderator: The next question is from Mr. Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Parag-bhai, what is the difference between tax rates of this organized sector and this unorganized flexible packaging players, there are lot of?

Parag Vyavahare: Sorry, Sunil-bhai, I didn't get your question.

Sunil Kothari: Basically what type of tax structure is different from what we are paying in terms of excise and other service taxes and what are the taxes unorganized sector pays, which in any case are competing with us?

Parag Vyavahare: Unless the player is very, very small scale and hence he is enjoying maybe that basic exemption level, value exemption on excise duty, I don't think there are any large differences between; there are any differences between us and the unorganized players. The excise duty structure is the same. The sales tax structure is the same. Otherwise there is no difference.

Sunil Kothari: So, you don't see any major benefit coming after maybe, over a period when the GST is implemented?

Parag Vyavahare: Only what will happen is that, some of the taxes which are not getting VAT-ed today, they will get VAT-ed tomorrow. It will happen across the industry. Across all the industries and not only our industry. GST today is not VAT-ed. GST tomorrow will get VAT-ed. But, that benefit will come to everybody.

Sunil Kothari: Correct. Parag-bhai last question is, looking at your capacity utilization and the plans to expand, which is not yet frozen, if we look at the way the monsoon is going on, there is improvement in demand, will we be able to cope up with the demand if it happens substantially over say, next year or two?

Parag Vyavahare: We are working, as I told you we are working on our expansion plans. And we expect that we should be able to do something. We do have some capacity and which we can squeeze out some capacity. So, we know that for the next six to nine months, we will be able to manage with that extra squeezed out capacity. But, beyond that we will have to look for the expansion.

Sunil Kothari: Okay. So, for the next year you have to have some expansion?

Parag Vyavahare: That's right.

Sunil Kothari: Thank you very much. Thanks.

Moderator: Thank you sir. And we will have the last question from Mr. Aditya Shah from Vikram Advisory Services. Please go ahead.

Aditya Shah: Sir, I have a question regarding the ValPack Solutions acquisition. Globally I see from your half yearly report that flexible packaging and food services segment contribute equally to the top line and the bottom line. Don't you think as a matter of better corporate governance, if anything related to your main business, that is Huhtamaki as a group, anything that happens in India should be in the listed entity, instead of going directly by the global parent? Because, globally even though Huhtamaki is a listed company has several business investments as in end use; similar structure could be done in India as well if the company wants to do it.

Parag Vyavahare: No, the question will come as to why will they do the exception for India. When throughout the world in many countries, when they are operating the flexible or the molded fiber or the food services are operating within the same country, they have kept it as an independent entity.

Aditya Shah: Correct. None of the countries have listed entities. In India only it has listed entities.

Parag Vyavahare: True. That may be true. That may be true. Since it is not a strategy which they have devised specifically for India and this is one strategy which they have followed consistently throughout the world that each segment entity will be independent entity, because then only the accountability, responsibility, resource allocation, answerability to the people in a single line concept, straight line answerable to the people and rather than going into multiple zigzag lines etc., make the structure straight and clear and more answerable and that is how you become more effective. So, that concept they have followed. I think that logic is very sound. And I don't think there is any issue on the governance side as such from my perspective. Because, we don't have expertise in the food services business, that business is completely different. Technology is different. The raw materials are different. Customers are different. The risk returns equation of the business is completely different, which we don't understand. So, what is the point just I trying to invest in that business and trying to become a PE investor for that business? No point.

Aditya Shah: Okay, so is it safe to assume that it would never be possible that let's say even in the future if the food services segment grows as good as our flexible packaging business, they would never be merged and operated independently?

Parag Vyavahare: They will always operate independently. They will always operate independently. As per today's understanding and today's structure what the group is following, they will be operated independently. Unless in the future some change takes place in their thinking process, that is something which I can't comment anything on that thing today. But, as of now the thinking process is very clear. This is what exactly I have been mentioning at least last four, five, six calls. Many times this question has been asked on the concall. This is the same strategy which the group has followed consistently and that is what we have been reiterating very clearly.

Aditya Shah: Alright, thank you sir. That's it. Thank you.

Moderator: Thank you sir. And that will be the last question for the day. I now hand over the floor to Mr. Parag for the closing comments. Over to you sir.

Parag Vyavahare: Thank you ladies and gentlemen for being patient and participating in this call and spending your valuable, almost 65-70 minutes on the call. And we look forward to talking to you again at the end of the September quarter. Thank you very much and over to Shreyans.

Shreyans Mehta: Thank you everyone. Thank you very much sir.

Parag Vyavahare: Yeah, thank you. Thank you.

Shreyans Mehta: Thank you.

Moderator: Thank you ladies and gentlemen. This concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.