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Sub: Transcript Analyst/Investor Earnings Call

Dear Sir

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed the transcript of Analyst/Investor Earning Call held on November 15, 2022. The same is also available on the website of the Company at the below mentioned link:

<https://www.cosmofirst.com/investors/investors-presentation>

You are requested to take the same on your records.

Thanking You

Yours faithfully
For **Cosmo First Limited**
(Formerly Cosmo Films Limited)

Jyoti Dixit
Company Secretary & Compliance Officer

Cosmo First Limited
Q2 FY23 Earnings Conference Call
November 15, 2022

Moderator: Ladies and gentlemen, good day, and welcome to the Investor Call of Cosmo First Limited to discuss the Q2FY23 Results. Today, we have with us from the management, Group CFO, Mr. Neeraj Jain. Starting with the statutory declaration. Certain statements in the conference call may be forward-looking. These statements are based on management's current expectation and are subject to uncertainties and changes in circumstances. These statements are not guarantees of future results. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions post the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. Now may I request Mr. Neeraj Jain to take us through his opening remarks, subsequent to which, we can open the floor for the Q&A session. Thank you and over to you sir.

Management: Thank you, and very good afternoon, ladies and gentlemen. I am Neeraj Jain, Group CFO at Cosmo First. My colleague, Mr. Pankaj Poddar, Group CEO at Cosmo First is not able to join the call today due to an emergency at his family. Our financial results for the September 2022 quarter and investors presentation both are available on company's website. We will start the call with a brief on the performance of the company, which may be followed by the questions.

First, starting with the flexible packaging business. During the quarter, flexible packaging industry in India experienced pressure on the margins due to commissioning of several new production lines during last six months. The bunching of capacity expansions caused temporary imbalance in the demand and supply scenario. There has been subdued order flow from the overseas customers as well, largely due to geopolitical crisis, particularly in Europe, supply chain corrections and major currency fluctuations in some part of the world like Japan and Korea. This caused temporary disruption in the overall demand and supply scenario, which impacted the margins as well.

BOPP film margin has been running close to Rs. 20 per kg during September 2022 quarter as compared to Rs. 40 per kg in September 2021 quarter. **The impact on Cosmo although was minimal as our strong and growing portfolio of specialty films is least prone to competitive pressure. So backed by specialty films, company has outperformed the environment and competition during the quarter 2.**

We witnessed margin pressure in the overseas subsidiaries as well, and there were two prime reasons for this. One is increase in the raw material costs across the industry in India and weakening of foreign currencies against the U.S. dollar, particularly in Japan and Korea. We

strongly believe while the near-term outlook for the non-specialty film may be challenging, however, the company will continue to expand its specialty films growth.

The demand and supply balance should get restored with the growing demand level in India. The industry has been growing double-digits from last more than a decade and returning of geopolitical normalcy, particularly in Europe will help. Basic factors behind the demand remains robust, whether you talk about the low packaged food penetration in India, rising personal disposable income, investment in the organized retail industry and change in the packed format from rigid to flexible.

The BOPET line of the company got commissioned two days before the end of the quarter 2. Like BOPP, our focus there will be very clear to expand the value-add specialty products.

Coming to September 2022 quarter financial results, the consolidated sales for the quarter is Rs. 778 crores, which is close to 3% up compared to September 2021 quarter. The EBITDA for the quarter is Rs. 124 crores compared to Rs. 152 crores of September 2021 quarter. The EBITDA is lower due to lower vanilla BOPP film margin, although part of it got mitigated with increase in these specialty sales as well as the specialty margins.

Subsidiaries performance dropped due to lower margins for the reasons which we discussed. Despite the drop in the quarter earnings, our financials remain fairly strong. The ROCE on trailing 12 months basis comes to 25% and Return on Equity comes to 32%. This of course is one of the best in the industry. The company's net debt stands at Rs. 370 crores at the end of September 2022. Even after a major part of the BOPET project capex has been done. This translates to 0.6 times of net debt to EBITDA ratio and 0.3 times net debt to equity ratio.

Moving to specialty films. In packaging business, we expect growth journey to continue with these specialty films. In fact, Cosmo has recently developed some unique products which will further enhance our specialty film growth. The specialty films' sales have grown year-over-year from last three years by close to 19%. The company's specialty sales now stand at 64% in volume terms in September 2022 quarter. We are in process of ordering several other value-add assets, which will further enhance our specialty product portfolio. As announced earlier, our target is to reach 80% volume terms of specialty products by the end of the FY24.

Some of the key products which will drive future specialty film growth will include synthetic paper, coated films, technical films, direct thermal printable and thermal lamination. As announced earlier, the company is going to launch heat control film for offices and homes by the end of the FY23 which will have significant potential.

Under flexible packaging growth projects, the company is targeting to add close to 70% capacity in a phased manner in the next three years which will drive the growth projects. Capacity additions shall be for the specialized BOPET line (where we just commenced

operations), BOPP line and CPP line. These three are the key growth drivers in flexible packaging business. Specialized BOPET line got commissioned in late quarter 2 of FY 23. The line will add close to 16% to 18% capacity. The company is targeting complementary growth from specialized BOPET line in medium terms which includes shrink labels and other high end specialty products. This will partially substitute the imports happening in India today.

The work on BOPP and CPP line has already commenced. Both the lines have been ordered. And both the lines in fact will be world's largest production capacity lines and will increase company's production capacity by close to 50% - 52%. And of course, it will happen in a phased manner in about next two and a half years. The CPP line will promote the sustainability as well, being monolayer structure along the BOPP films. This capacity addition means the specialized BOPET line, BOPP line and CPP line will allow the company to further expand its specialty films portfolio.

Now moving to specialty chemicals. The company's subsidiary into specialty chemical has posted 42 crores of sales during September 2022 quarter compared to almost half of the sales in the September 2021 quarter. We have raised close to 75% to 80% capacity utilization of the first masterbatch line. The complementary adhesives for the packaging segment are planned to be launched in the second half of the financial year 2023. The specialty chemical operation has been PAT positive in the first year of operation itself, which is FY 2022. So of course, from here, it should grow only. FY23 and FY24 will be the years for scaling up in specialty chemicals.

Moving to pet care vertical, Zigly. The company's pet care vertical which has been launched under the brand name Zigly is progressing as per the plan. With Zigly, the company is targeting direct-to-consumer digital-first omnichannel presence in products and services in the industry. And of course, we know this industry has been growing more than 25% year-on-year. The company has already started 6 experience centers in Delhi NCR and plans to increase the same to 15 by the end of FY 2023.

The company is the first in Indian industry to launch an app in the pet care space during previous quarter. Zigly today has served more than 10,000 customers with more than 1/3rd of them being repeat customers. We are looking at 15 crores of GMV to come from Zigly in FY23. Broadly, we are seeing Zigly gaining rapid recognition and is on its way to become one of the leading brands in the pet care industry in India.

Now moving to the capex plan of the company. The company is looking for about Rs. 650 crores of capex in the next three years, which will be largely on the value-add assets on the BOPET line, CPP line, BOPP line, some capex will be required in specialty chemicals and minor capex in Zigly. The financials are expected to remain strong even with this capex considering robust cash generation. The bottom-line impact of this capex will come in years to come.

At a broad level, if I had to summarize, in coming years, we are looking growth coming from B2B as well as B2C segments. For B2B, focus shall be on specialty sales, specialized BOPET line commissioning, world's largest BOPP and CPP line commissioning, while the B2C growth will come from direct-to-consumer pet care business and very specific specialty chemicals which can be launched in B2C.

These were a few updates on the quarter and the business performance. Now we would like to open the call for the questions, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Amit Aggarwal from E&Y Investments.

Amit Aggarwal: Sir, there has been an announcement regarding single-use plastic packaging three months back, especially in the cigarette industry. Will this change the scenario for the demand of our products?

Management: Very minimal impact. So, if I have to look at, maybe less than 1% of consumption of BOPP and BOPET goes to those kind of the products which have been banned. So, I would say, insignificant.

Amit Aggarwal: So is this domestically only or is this internationally, the same impact would be there across the board for the whole industry?

Management: Well, this single-use plastic, the ban has been in India. But yes, you are right, some of the other countries may also follow or might have already been implemented. But as we indicated, I mean, there is insignificant level of impact on the BOPP industry as such.

Amit Aggarwal: And my second question regarding shrink labels. So you said this is imports substitute. So is there any Indian player right now in the market or we are the first one to enter the industry? And what is the demand for the whole country as such?

Management: Well, it will largely replace the non-recyclable PVC film market in India, which happened to be close to 30,000 metric tons industry in India. The high shrinkage film will be fully recyclable. And nowadays, as you are aware, not only the brands, the government as well, is largely looking for recyclable film. So that is why we are fairly optimistic about its replacement.

Amit Aggarwal: Sir, if I am wrong, but I thought shrink labels are being used in beverages industries, like Coca Cola, Pepsi. Are our shrink labels different from compared to what my thought process is?

Management: Those are the label only, but with a high shrinkage capability. But as you rightly noticed, these are used in the labeling of bottles, but may not be in the examples which you have given, many other kind of product examples.

Amit Aggarwal: Is there any other player in the industry right now in India or we are the first one to enter the market?

Management: Not in our knowledge?

Amit Aggarwal: So we are the first one?

Management: Yes.

Amit Aggarwal: What turnover can we expect from this particular line?

Management: Well, the line will have the capacity to produce more than 22,000 metric tons.

Amit Aggarwal: And my last question is regarding BOPET line. What percentage of capacity are we going to use in the next financial year?

Management: If I got your question right, you want to know the March 2024 capacity utilization on BOPET line?

Amit Aggarwal: Yes.

Management: Very broadly, we see, close to full capacity utilization by the end of the March 2024.

Amit Aggarwal: And the actual turnover Rs. 500 crores around about, if I am correct?

Management: It depends to a large extent on the raw material price. But yes, it can fetch between Rs. 450 crores to Rs. 500 crores at the current raw material price.

Moderator: We will move to the next question from the line of Jiten Parmar from Aurum Capital, please go ahead.

Jiten Parmar: Congratulations on a decent set of numbers in a challenging environment. My question is, what were our stats for Q2? I believe, commodity film spreads were quite low, but what were our spreads?

Management: So as we mentioned at the beginning of the call, for plain vanilla BOPP film, which is non specialized film, it was running Rs. 20 gross margins, which of course, is after considering all variable costs, including raw metal, power and others.

Jiten Parmar: No, for but as with lot of specialty, 64% you mentioned specialty. So what was our spread?

Management: Well, we have close to 2/3rd of our product portfolio selling into specialty products, which will have a much superior margin compared to plain vanilla BOPP margin, which is getting reflected

in the company's performance as well. The investor presentation which we have uploaded on the company's website would have details about what has been the margins in the specialty category, semi-specialty and the commodity part of the business.

Jiten Parmar: In current quarter also, prices have reduced a bit. So have the raw material prices have reduced or the spreads have reduced further?

Management: Well, industry has broadly on a pass-through basis with respect to raw material change. So each fortnight, in a general normal market, whatever change happened in the raw material price, that gets passed on to the customers. So if there is a drop in the price, there may be a drop in the selling price, but not necessarily in the margin.

Jiten Parmar: So I wanted to know a bit more on supply scenario, we are also doing capex, are there any more plans coming industry-wide? Could that situation lead to ablate? What do you think about the scenario on supplies over the next two years?

Management: Well, at the broad level, what we see is in BOPP maybe about 25% to 30% capacity addition may happen in next three years based on of course the number of lines for which order has been placed. And in BOPET side, maybe about 40%.

Jiten Parmar: Have you displayed the chemical and the pet revenues separately in the results, I did not see that? You did mention about some revenues. Can you repeat that, please?

Management: See, at the end of the September, we have been into BOPP film only. And BOPP had two parts, specialty and non-specialty segment. The details available are for the BOPP only. BOPET, we have just kicked off from October onwards. So in future, detail will be available for the BOPET as well.

Jiten Parmar: No, sir, I am asking about the chemical and the pet business?

Management: That information may not be available in public domain as of now because the statutory requirement with respect to reporting is yet to kick off. But in future, you can expect those details to be available separately on the company's website.

Jiten Parmar: You mentioned that chemical business is profitable, right?

Management: The chemical business, as we mentioned, did Rs. 42 crores of sales in the quarter, which is double of the last year similar quarter sale.

Jiten Parmar: And last question is, what would be our peak debt?

Management: Well, as at Sept 22, we are at Rs. 370 crores of net debt. And we announced capex of close to Rs. 650 crores to happen in next three years. We do not feel debt level to increase from here significantly.

Jiten Parmar: Because all those will be done through internal accruals is what you are saying?

Management: Largely. I mean, the current level of operations generates so much cash that it can be capped from there.

Jiten Parmar: Regarding the spread, I am still not clear on that answer, because there is no volume information or something. So it is very difficult to calculate the blended spread for the quarter. So if that could be made available. Previously in past quarters also you have made that available. So I would still request you to give that, if possible.

Management: So partially, the information is available in investor presentation. So we'll definitely request you to look at that. If any unanswered question, we will be happy to answer the same.

Moderator: Thank you. We have the next question from the line of Devrat Himatsingka from Augmenta Research.

Devvrat Himatsingka: Sir, I would like to congratulate you. The numbers are quite commendable in the scenario that we are in today globally. So we have actually pulled off quite a good set of numbers despite all the uncertainties around us. Sir, I had one question, I wanted to understand. So you have specialty and then you have BOPP as a commodity. So in the specialty, I believe your margins were at roughly Rs. 65. Would that be a fair assumption?

Management: Yeah, broadly that range only. You are absolutely right, Mr. Singh.

Devvrat Himatsingka: And sir, so my follow-up question would be, if the commodity margins are coming down, why the specialty margin is not coming down? And another follow-up question to that would be, in your specialty margins, could you give the break-up between specialty and semi-specialty and how are they affected? How is the semi-specialty affected?

Management: We again tried to deal this perspective in our investor presentation. You might have noticed that there is a clubbing of specialty and semi-specialty taken together. Broadly, you can see 50% of this is specialty and 50% is semi-specialty. The margins of semi-specialty would always have additional delta over the commodity pricing. So for example, if let's say, I mean, there is a decrease of Rs. 10 in the commodity price or vice versa, drop, change in the semi-specialty maybe Rs. 2.5 to Rs. 3, but in specialty it will not change altogether because those are largely the raw material pass kind of the contract for the specialty. Semi-specialty also, to a large extent, the pricing is fairly rigid compared to commodity part of the business.

Devvrat Himatsingka: And sir, if say competition were to come in out there and do what we are doing, then how long would it take for someone to setup such a plant? And how do you see the demand and supply metrics, specifically in the specialty and semi-specialty, because that remains the key area of focus today?

Management: Well, of course, it all depends on the research and development. It is not one day process. So of course, you need to do a lot of research, you need to have full set of R&D. Like currently, we have more than 30 polymer scientists attached with the company. So that way, this is lot of patience-driven business. Even after that also you need to get qualified your new products with different brands across the globe. So I would say not that easy.

Devvrat Himatsingka: So sir, basically, then what I understood was like even if say the commodity margins – I am just throwing this out there. Even if say they were supposed to go to zero hypothetically, then our specialty margins would still be intact, and we would still be able to post a healthy profit. Am I understanding this correctly?

Management: Yes, you are right.

Moderator: Thank you. We have the next question from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari: Sir, you did an EPS of about 27 this quarter. And now with the commencement of new specialty BOPET line, do you think you can do a better EPS for Q3 because or the demand is tarred, and the margins are still in pressure? Any views on that?

Management: So frankly, I mean, it is difficult for me to comment specifically for the Q3 EPS, because in principal, company do not provide any forward-looking projection. But all I can share is the factors with respect to demand and supply in the quarter 3 as of now, it has not changed much from the quarter 2. The company's endeavor will be to further enhance the specialty part of the business and stabilize the BOPET line, which commissioned from the beginning of the quarter. So that ways, I think those are the things to be looked at in the current quarter.

Abhishek Maheshwari: And sir, secondly, the stock had fallen significantly on the expectation of the bad result. Now results came, results were not very bad and stock is still taking a beating. So any feelings on this? What can the management team do from their end to boost the investor confidence? Because it is a great business and they are doing very well. But relative to peers, we are falling more and more. Can you explain that?

Management: This we will request rather this group to consider. See, what all is there in management hands is to improve the company's performance and the results. On this, definitely, rigorously, we are working upon. That much I can assure you. And there is a very clear growth plan attached with

each of the businesses we are into. So it is more for the investors to look at with respect to the share price, we would not be able to comment there.

Abhishek Maheshwari: And lastly, sir, regarding Cosmo Global Enterprises Limited, a private company you have incorporated. What kind of assets are you thinking of investing in here? Are these for inorganic acquisitions or what is this company for?

Management: It will be organic only. So future manufacturing assets will be part of this actually.

Abhishek Maheshwari: But in the same business verticals or a new business particularly?

Management: Not necessarily. I mean, at this point of time, we are not phased on any kind of the specific projects to be taken in this subsidiary. But yes, at the right time, we will definitely come back and advise to you.

Abhishek Maheshwari: Thank you very much sir. I will get back in queue.

Moderator: We have the next question from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Just wanted to understand that in this sustainable product environment where everyone is talking about sustainable product or sustainable thing. So what type of demand change we have seen in our products? And how we are looking at this scenario going forward maybe after three, four years?

Management: Well, of course, sustainability is the future. We have no doubt about this. So in the future, flexible packaging structure needs to be fully recyclable in nature. That is a clear mandate, both from the government side & the large brands side, so that is where we are working on. You might have noticed company has announced world's largest CPP line to start operations in India. And key rationale behind this line is to promote sustainability. Why? Because what happens with CPP line, the raw material family, which is polypropylene, remains the same along with the BOPP family. So if you put one layer of, let us say, on chips packing, one layer of BOPP and one layer of CPP, it remains the fully recyclable structure as against the current structure, which may not be fully recyclable. So coming back to your question, there is a very clear focus on sustainability and packaging structures in India will also evolve around this only in future.

Rohit Sinha: So on the CPP, what was our overall capex dedicated?

Management: As we announced and indicated in investor presentation, it is Rs. 140 crores. And the line is expected to commence operations by the end of March 2024.

Rohit Sinha: And what kind of asset turn would be expected?

Management: That will be more than 2x asset turnover.

Rohit Sinha: And just to understand, everyone is talking about some kind of slowdown or subduedness in the global demand environment, so how we are seeing second half of this FY23? And also, are we seeing any softening in the power cost for us?

Management: See, your question has two parts. Demand side, I think we do not feel any major issue, frankly. In fact, we see clearly higher demand levels in India compared to previous year. The only margin pressure has happened because of the multiple lines coming within the short time gap that is in the last six months, multiple capacity has come in India. The demand continues to grow. So that ways, I think there is no issue at all in India, we expect demand to further increase only. Demand level is temporarily impacted from one of the regions abroad, which is Europe, and for which I need not to explain the reason. But we feel that once the geopolitical situation improves in the region, the order flow should normalize from that region also. Having said so, Cosmo today exports to more than 80 countries actually. So it is a very diversified portfolio which we run with single country exposure of maybe about 6% of the top-line. So that ways, I think it is fairly addressed.

Rohit Sinha: And on that power cost thing.

Management: Power cost, there has been temporary withdrawal of subsidy in one of the regions in which we operate the plant. The government has withdrawn the subsidy for some period. So once that period is done, then I mean, it should come back.

Rohit Sinha: And one last question if I may squeeze in regarding our exposure towards the textile industry. So how has been the overall revenue contribution from that segment? And as people are talking about the slowdown in the textile space for a short-term, maybe, so what kind of revenue contribution is there? And how we are seeing the demand recovering or we are still seeing a decent demand in that industry?

Management: We will see. I mean, we do supply to textile industry various flexible packaging film, but it is not much in terms of the revenue. If I have to try to quantify it, maybe about 6%-7% of the flexible packaging business. But having said so, so far, we have not seen any kind of the order slowness from the textile industry as such. So far, orders are fairly fine.

Moderator: Thank you. We have the next question from the line of Anshul Mittal from Care Portfolio Management Services. Please go ahead.

Anshul Mittal: Actually, I wanted to ask for the spreads for commodities' segment has fallen to close to Rs. 20 per kg. So do we feel that these are near bottom based on a historical data? And also, can we call current margins of 15% to 16% as sustainable based on this fact that we expect specialty segment to reach 80% in next couple of years?

Management: See, I mean, as I was trying to explain, it's very difficult actually to predict margins in the non-specialty kind of the businesses. It will largely depend on the how the supply comes, whether bunching of supply happens, or it comes in a scattered way. Demand side, we are fairly optimistic which may continue to improve only. But having said so, I think as a company, we are more looking at specialty growth which has been working well in favor of the company. So I think whole endeavor will be to further expand our specialty portfolio. I mean, one or two quarters because of the disruption or imbalance in the demand supply scenario may disturb the non-specialty part of the business in terms of the margins. But still, company is running at close to full capacity utilization.

Anshul Mittal: And sir, what will be the sustainable margins for new BOPET plant, considering the weak BOPET spread and the considerable fall recently and as well as introduction to specialty products in BOPET segment as well?

Management: See, BOPET commodity, if you make the commodity on the BOPET line today, it may not be viable. So our endeavor is more to look at the value-add products which we conceived with the specialized BOPET line. Some of those products may come in quarter 3, some of those products may come in quarter 4. But I think in the next six to nine months, we should be able to make our portfolio for specialty products to be launched on specialized BOPET line. So I mean, difficult to say on the commodity part of the business, but yes, very clearly, we are looking to increase the specialty only.

Anshul Mittal: So sir, do we already have the demand in place for this new BOPET value-added products as we are expecting full utilization in next two years or we are trying to kind of capture any other market?

Management: See, the space where we are looking for and the kind of the products we are going to launch, as I have given one example of substitution of imports happening in India, So that space is always available. Only thing is you need to do more research. You need to come up with the right products. And you need to price it right.

Anshul Mittal: And sir, coming to chemicals segment. So since last year, we have been very aggressive in this segment, but the growth has not been as per our expectation. It has taken longer time than anticipated. So are we facing any pressure in this segment or we have been conservative over here?

Management: So sir, this year FY23, we should be able to do between Rs. 180 crores to Rs. 200 crores of top-line from specialty chemicals. You might have noticed in our investor presentation where we indicated we are looking for Rs. 400 crores to Rs. 500 crores of sales from this vertical in four to five years period. So this FY23, in fact, is the second year of operation only. So I think we are running well with our targets.

Moderator: Thank you. We have the next question from the line of Subham Agarwal from Aequitas Investment. Please go ahead.

Subham Agarwal: Sir, most of my questions have already been answered. I just had one last question. So basis the numbers that have been provided in the presentation, if we see the proportion of specialty, which was 69% last quarter, has fallen down to 64% this quarter, almost a drop of 5%. So what were the key reasons for such a sharp fall?

Management: Subham, it is very difficult to enhance a particular segment quarter-over-quarter. There could be various supply chain disruption, order flow gap or many, many factors, seasonality aspects. So my humble request is to look at on a year-to-year basis. One or two quarters up or down would always happen.

Subham Agarwal: But sir, if we see almost 35% to 40% of our sales is exports and earlier in the call, you mentioned that only Europe is impacted. So I just wanted to understand whether this fall in specialty is because of decreased demand from our export.

Management: So that is true. Subdued demand from Europe region impacted specialty volume partly for the quarter 2.

Subham Agarwal: And what would be our total contribution from the entire Eurozone?

Management: Well, Eurozone may be about 8% to 10% of sales.

Subham Agarwal: And rest of the world, the demand is not impacted even from U.S. is what you are trying to say?

Management: Absolutely. we try to have a diversified kind of portfolio. So as a single largest country, maybe the U.S. actually, may have about 6%- 7% of our top-line, but as a region, maybe Europe region is close to 8% or so.

Moderator: Thank you. We have the next question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Given you are indicating that the overall capacity being added to BOPP and BOPET, it is 30% - 40% incremental. Actually, were you referring to the amount we are increasing, or the industry is increasing capacity by 30% to 40%?

Management: So you want to know for the future capacity or the capacity which got added already?

Riddhesh Gandhi: No, I have got the capacity and announced capacity additions which have happened in the industry. Did you indicate that there is a 30% to 40% incremental capacity.

Management: So that is for the future endeavor for the next three years based on the projected capacity which may happen to kick off the operation. And of course, from the various players in the industry, not Cosmo alone. Cosmo is also coming up with the BOPP capacity and CPP capacity and as we mentioned, the specialized BOPET line has already kicked in the operation.

Riddhesh Gandhi: But then if there is such a large increase in the capacity in the industry, and I am assuming given we are also providing internationally, that growth rates would be in single-digit growth rates overall. This would take a really long time to get actually absorbed, right, incremental capacity?

Management: Well, it may not be necessarily because the industry size as such in India is fairly significant now. So after China, India today has probably second largest capacity. Second, if we look at the growth rate of Indian flexible packaging industry, which has been double digits maybe from last decade or so. And there is a basic reason behind this because flexible packaging penetration has been low in India. And particularly, post-COVID, people are getting more conscious about the hygiene of the packaging of the products. So that way, we feel there is a much more scope for flexible packaging to further grow. So even if we take earlier single-digit growth, let's say, 11%, 12% kind of the growth year-on-year, still I think if capacity of 30% is to kick-in in next three years and demand may also be on the similar lines only, so overall, it may be a balanced scenario. But having said so, there may be few quarters if the supply comes in a cushioned manner, so there may be few quarters when the supply may be higher or vice versa. So that is something to me to be seen.

Riddhesh Gandhi: Got it and then just to understand effectively on the specialty angle of things, I think someone else had also asked the question and certainly need to understand the industry. In terms of specialty, we would earn an incremental delta over and above the commodity spreads. So in the event like commodities actually spreads are also lower, our specialty spreads will also be lower?

Management: Well, spreads may not get impacted actually, so it is a largely pass-through. But yes, if raw material price changes, it may impact the selling price, but may not necessarily the margins.

Riddhesh Gandhi: No, no, I guess that is effectively in a delta, which is the revenue less your cost of goods sold which is I think in a delta to your spread, you would expect to remain the same, is it?

Management: Broadly in the same range in the specialty part of the business.

Riddhesh Gandhi: Got it. Thank you. That is all. Thanks

Moderator: Thank you. We have the next question from the line of Vipul Kumar Shah from Sumangal Investments.

Vipul Kumar Shah: So what will be the asset churn in BOPET line? And what was the capex for this BOPET line? And this BOPET is 100% specialty, sir?

Management: So BOPET line, we did actually a lot of customization on this line. capex was about Rs. 350 crores. And what was your second part of question?

Vipul Kumar Shah: So what was the asset churn? And is it 100% specialty?

Management: Well, not necessarily from the day one it will make specialty. So as we are trying to explain on the call, in the initial phase, it will make both commodity and specialty. But in the medium to long-term, we are looking at this line to make largely these specialties.

Vipul Kumar Shah: Over medium term means over the next two, three years?

Management: Yes, it will take that kind of time.

Vipul Kumar Shah: And sir, what about the asset churn there?

Management: So asset turnover depends on the, again, product portfolio. If you make commodity part of the business, I mean, it may be close to 2x. If you make specialties, it maybe 1.5x in that range.

Vipul Kumar Shah: Specialty, it should be higher, because in specialty, we get higher realization?

Management: Post down the line. So I mean, the production will be higher if you make commodity and vice versa.

Vipul Kumar Shah: And sir, you mentioned Rs. 42 crores from specialty chemical turnover. So that is external sales or is it including internal sales also?

Management: It includes internal sales also.

Vipul Kumar Shah: But right now, what percentage of that Rs.42 crores we are selling as external?

Management: Broadly 75% internal sales, 25% external sales.

Vipul Kumar Shah: Okay sir. Thank you.

Moderator: Thank you. We have the next question from the line of Yash from Dante Equity. Please go ahead.

Yash: I just want to clarify something. First is, in the new line that you set-up for Rs. 350 crore capex, by when do you expect it to reach a 90% capacity utilization with the current demand trend?

Management: See, in FY24, we expect that kind of capacity utilization to happen.

Yash: And what kind of turnover would you expect at 90% utilization?

Management: So it should provide between 1.5x to 2x of asset turnover ratio.

Yash: So that is approximately Rs. 450 crores to Rs. 500 crores at 90%?

Management: Maybe a little higher. It also depends on the raw material prices, but broadly, you can take Rs. 500 crores.

Yash: With the crude oil prices coming down, have you not seen the raw material prices pull down at the same pace?

Management: That is true. That is happening.

Yash: So from the last quarter to this quarter, what percentage the raw material pricing come down by?

Management: I mean, you can see top-line broadly 8% -10%.

Yash: And how do you see the demand trend going ahead? Can you give some sort of approximation or guidance with the volume?

Management: So as we try to indicate, the demand from India continues to grow. So we do not see any kind of demand pressure coming in Indian industry. The margin pressure is largely because of the supply side than demand side. Was that your question?

Yash: Yeah. Also, you said something about the demand being same as last quarter, right? But due to the festival season or anything, have not you seen the demand pick up yet?

Management: So this industry generally you have good level of demand coming in quarter 4, followed by the quarter 1 and quarter 2 and quarter 3 is generally weak because of Christmas and Diwali festivals. But otherwise, the impact is also not much actually due to seasonality aspect because most part of the output goes to food sector or the pharma sector for that matter. So I mean, of course, we have a consistent kind of the demand level. So that ways, there is not much seasonality attached with this investment.

Yash: You did not you talk a lot about Zigly. Could you talk more about the new business in terms of how it is panning out? Would love to hear more about Zigly.

Management: We will actually. So we planned for about 15 stores by the end of the FY2023. So at the end of September 2022, we already opened six. And the current plan basically indicates to achieve that number. So besides the offline stores, we are looking for assertive growth online business. And this caters to, of course, the services as well as the products. Some of the very renowned

international tie-ups we are looking in this business. If those materialized, that would definitely give a value-add to this business. So I think things are moving good overall. I mean, it is Zigly is getting a fair amount of recognition across the industry. So in time, I think to further look at this business

Yash: By when do you expect this business to be EBITDA positive, sir?

Management: Well, it is very early, Yash, frankly, to comment on this. But yes, I mean, with volume of business, it will turn EBITDA and PAT positive. But for the FY2024, it may not happen. But as we announced earlier, at the right time, we will demerge this part of the business into a different subsidiary. And probably, we will also look at right kind of investors for this business.

Yash: Thank you so much for your time and thank you for taking all my questions.

Moderator: Thank you. We have the next question from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: I mean, last call, you had mentioned that we are getting into capacitors and the metallization line that we are putting up. So I would like to understand your thoughts behind we are getting into capacitor business. The target markets and your target industries and how is the competitive scenario in those markets?

Management: The market has been fairly large. So we are looking at FY24 to kick off the operation. Little early to say exact margins. But yes, when we evaluated the business, it was very exciting.

Vishal Prasad: So I mean, I understand from Jindal that they have been trying to get into capacitor for long. And they have struggled to get the right quality of films. And in India it is the only player which have been able to do it pretty consistently. So I mean, we have a very strong technical setup. So what gives us the confidence that we will be able to come up with the requisite quality and we will be to sell in the market?

Management: So our R&D has already made this product actually on the pilot lines and all. Those ways, we are fairly confident about the product.

Vishal Prasad: So what is the micron that we are looking at generally? I mean, usually it is 2.5 to 60. So the machine that we have ordered, if you could just help me understand the EBIT that we will be looking at?

Management: No, I would not be able to at this stage further comment on this.

Moderator: Thank you. We have the next question from the line of Anil Nahata, an Investor. Please go ahead.

Anil Nahata: My first question is on the EBIT. We are having very good cash flows and the stock price is very much down. Though I understand buybacks are always a decision of the Board of Directors, but has the management actively considered doing a buyback or is in the process of actively considering?

Management: So, sir, that is outside my preview. So that is board to decide, frankly. But I am sure that board consider all the facts before taking on any appropriate action this year.

Anil Nahata: And the question there was, you had announced at one point of time some Rs. 30 crore investment on a PLI scheme for some electronic film manufacture. I did not see a commentary on that in the entire presentation. Can you just give us some commentary on that?

Management: So that business will be, I mean, a fairly exciting business. But as we just said in the previous discussion, that will be in FY24, which is yet to kick in the operation, but the capex size on a comparative basis will be low. But we are looking forward for that business, I think.

Anil Nahata: So that was the capacitor business that the earlier gentleman was talking about?

Management: Yeah, that is true.

Anil Nahata: So, in terms of this present quarter, though I do not want any extrapolation numbers, now we would have been selling our BOPET products for one, one and a half months now. What are the current margins we are seeing in the BOPET, the commodity margins basically?

Management: So, the margins are not running all that great, which you must have seen in the numbers of many of the BOPET manufacturers in India. Cosmo margin will also be in the similar range only, the results which you have seen for the others, unless we do specialty products. And as we indicated, some of the specialty products should kick in from quarter 3, some may be from quarter 4. But our endeavor is to run primarily the specialty product on this line in medium term that is in three years.

Anil Nahata: Okay understood that. Could you just also have an estimate of the inventory losses that we might have taken this quarter?

Management: So there has been a drop in the raw material price, but the inventory loss has not been all that significant. Few crores.

Anil Nahata: Few crores only. Fair enough. Okay. Thank you. All the best.

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

Management:

So I think as an outset, company is taking all the steps required to transform into a specialty packaging and specialty chemical company with of course very clearly two broad segments, B2B and B2C in years to come. While on the full side specialty polyester line, BOPP line, CPP line, these will drive the growth and our focus will continue to be on improving further the specialty films, research and sustainability. On the other hand, I think diversification into specialty chemicals and Zigly may drive other part of the growth. At the end of the call, I would like to repeat the statutory declaration. Certain statements in this con call may be 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. Thank you very much for joining.

Moderator:

Thank you, Mr. Jain. Ladies and gentlemen, on behalf of Cosmo First Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.