

# JK PAPER LTD.

Nehru House, 4 Bahadur Shah Zafar Marg, New Delhi-110002



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Dear Sir/Madam,

Re: Conference Call organized by M/s Elara Capital Limited on 3rd August 2017, at 11.30 A.M.

In continuation to our letter dt. 2<sup>nd</sup> August 2017, on the subject, attached herewith is the transcript/minutes of the aforesaid conference call.

Submitted for your kind reference and records.

Thanking you,

Yours faithfully  
For JK Paper Limited

(Suresh Chander Gupta)  
Vice President & Company Secretary

Encl: a/a



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# “JK Paper Limited Q1 FY2018 Results Conference Call”

August 03, 2017



**ANALYST: MS. ANUJA BARVE - ELARA SECURITIES PRIVATE LIMITED**

**MANAGEMENT: MR. A.S. MEHTA – PRESIDENT – JK PAPER LIMITED  
MR. ASHOK GUPTA – VICE PRESIDENT (FINANCE & ACCOUNTS)– JK PAPER LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the JK Paper Limited Q1 FY2018 Results conference call hosted by Elara Securities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Anuja Barve from Elara Securities Private Limited. Thank you and over to you Madam!

**Anuja Barve:** Good morning everyone. On behalf of Elara Securities we welcome you for Q1 FY18 earnings conference call of JK Paper. I take this opportunity to welcome the management of JK Paper represented by Mr. A.S. Mehta, President JK Paper and his team. We will begin the call with brief overview by the management followed by Q&A questions. I would like to now hand over the call to Mr. A.S. Mehta. Over to you Sir!

**A.S. Mehta:** Good morning to you all and thank you for being with us on this con call. I would take you through the results and also the attributes of the results and then you can shoot your questions and then I will respond is it okay?

**Moderator:** Yes that is fine Sir you can go ahead please.

**A.S. Mehta:** This April, June quarter normally is not a very good quarter for paper industry because these months are predominantly the vacation months for schools, colleges, institutions, course and other things. Normally this quarter is not considered to be a good quarter from demand point of view, but still if you see our topline despite being a slower quarter we have done a 5% almost increase over the corresponding quarter in the value term, of course the volume wise it is lower compared to the last year the same quarter. Why the sales volume is low as one I said that this is not a great quarter for paper industry, at the same time GST and apprehension in the mind of trade has impacted the sale in the month of June and the channel inventory has come down drastically because all the channel partners they were apprehending and in fact their apprehension is true to the great extent because they would lose tax benefit or the tax credit to the extent of 60% on their June stock, so they reduced their stock and they reduced their buying, so that was an impact of GST, which was obvious and it was expected by all of us. Only the silver lining is that in the month of July our sale has been good, it has picked up very well and hope that July, September quarter should be a better quarter from demand point of view and whatever the channel inventory has come down should go back to a normal channel inventory, this is for the quarter July, September on the demand aspect. July, September is a good quarter being the festival quarter, the publication picks up, also all the institution and the course and the school, colleges they open so the demand picks up, so this is what the outlook for the July, September quarter as well when I am commenting on the volume of April-June.

When you talk about the operating profit in fact the operating profit has moved up healthily from 117 Crores to almost 160 Crores so that means 36% increase in the operating profit. There have

been three factors in the improvement in the operating profit, first and predominant factor is the increase in the NSR, due to enriched product mix so the NSR increase has given almost half of the incremental EBITDA in the quarter. Rest of the two factors, one was the operating efficiencies we further improved on the operating efficiencies on our yield parameters, on our energy parameters, on our usage parameters, so that has also given us the advantage and also the raw material cost has come down in this quarter further. Quarter-after-quarter our raw material cost is coming down on the strength of our incremental procurement from the local area. This is predominantly on account of the greater focus on plantation activities in last four years, so in fact our local procurement in Odisha plant has reached something around 60%, Gujarat we are already 100% procuring from the local areas and as we increase the local procurement . Our logistics cost comes down and that is how our raw material cost has come down in the quarter. Of course having said that the lower raw material cost is one factor, but at the same time pulp prices have been higher globally so that has also impacted adversely, but that adverse impact is smaller than the favourable factor of reduction in the logistics cost because of the higher local sourcing.

Also the power and fuel cost has gone up during this quarter and the reason is the coal we get under the fuel supply agreement from the Coal India the quantity has come down because possibly one is the lower production in the quarter by Coal India and also there given priority to supply coal to the power sector, so we suffered on the coal because we had to buy from the open market and the imported coal, which are costlier coal, but I hope in the quarter July, September this situation would reverse and we would get better quality and better quantity of coal from Coal India because the demand from power sector normally drops in the July, September quarter, so these are the factors for operating improved profit and thereafter you would see that our finance cost has come down. This is also a substantial reduction from something around 49 Crores for the quarter to 40 Crores and there have been three factors in the reduction in the finance cost, one is that our working capital has been lower in fact it is the efficient working capital management we could see in our day-to-day operation, our outstanding has come down, our inventory levels have come down and so that has saved the finance cost, also the rate of interest has been lower. Also our rating upgrade has given us the advantage of lower interest rate and the third one is that our net debt has also come down as we have been generating surplus cash flow and that is being used for the reduction in the debt so that has also resulted in the lower interest cost. So the outcome of all these things, I have said the net profit has moved up from 27 Crores to 60 Crores, so almost 125% increase in the net profit, so these are some of the things I thought I would touch upon the results. Now I would invite the questions from you.

**Moderator:** Thank you very much Sir! Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

**Dhaval Shah:** Good set of numbers congratulations. I have mainly two questions. First on the expansion path which the company will take over the next two three years it seems we are almost at full capacity so I was just looking at a historical gross block growth, so we have done large capex thrice like

once in FY2001 we did 650 Corers then FY2008 we did 300 and FY2014 we did around 1500 Crores. Now so I assume there is a difference between all the three gross blocks what we have done in the past there was a kind of product we have added, the bulk capacity, etc., so how should we reach the expansion plans for the company going forward?

**A.S. Mehta:** The next question you said two questions.

**Dhaval Shah:** And the next question is on the outlook on the paper industry in the light of the increasing imports from Asian countries in India and how does this impact industry and your company in particular?

**A.S. Mehta:** I would respond the question two first on the outlook because that outlook defines and set the context for the industry and for JK Paper. As far as the demand outlook is concerned India is right now also and likely to be the fastest growing paper market. Of course the consumption per capita is much lower, but that does not define the outlook, but the increased literacy level, the way we have the lifestyle and the selling pattern, so the demand is likely to grow in various segment of paper industry and the more and more growth is likely to be in the craft paper, the packaging boards and thereafter the writing and printing. So overall the growth I estimate that in next five years it should be somewhere around 6% to 7% depending on the various segment of paper industry and for 15-year projection because we have had an consultant to do a demand forecast for the country and their forecast on a realistic model basis is that for 15 years the Indian paper demand should grow at somewhere around 4.5% to 5%, but in the first block of five years it should be somewhere around 6% to 7% so this is on the demand outlook. As far as the import from Asian countries is concerned, yes this is one concern area for paper industry because there is a zero duty from the import of the Asian countries so that creates some kind of difficulty as there is no level playing field, their raw material cost is much lower because they source raw material from the forest given to them on a long-term lease whereas we resource material from the farm forestry model where the alternate income source define the raw material cost so that is one challenge and in fact we need to work on different fronts, we need to be more competitive, we need to have some differentiators so that we do not allow them to grow, but yes this is a challenge. Also we have been taking up this issue with the Government of India and since this is a governmental action, which has impacted the industry so again the governmental action should be there and proactive action should be there so that we have the right kind of a level playing field and the atmosphere so that we can work and the industry can survive and we are working with the government as well.

**Dhaval Shah:** So if I want to ask you this way the conversion cost for the Indian Paper Mills compared to the the Asian countries if you leave aside the raw material then are we on the same level or there is a difference in that also?

**A.S. Mehta:** No, I would say that more or less we are on the same level yes it makes a difference of scale and size, but the best mills in India like the JK Paper we are more or less at par with the conversion

cost when you exclude the raw material so we have no issue on that part. We can very well compete with any of the best player in the world on the conversion cost.

**Dhaval Shah:** Now year-on-year we are up 5% and there was a volume de-growth so we are up like more than that. Now so the net sales realizations are up a) one is the product mix and b) the demand supply a little bit of mismatch in the country, which happened because of BILT going out so where do the current realizations for you in the market?

**A.S. Mehta:** In fact let me touch this point that the realization what you have seen as I said that the April, June quarter is not a very good quarter, but the rest of the three quarters are going to be better quarters, so I would say that the market factor will not adversely impact the NSR and the BILT capacity even if it is factored on a 100% utilization basis still the demand supply scenario is a fairly balanced in fact the demand is more than the supply in the market, so we need not to worry about the demand supply the worrisome issue is only the surge in import, so on that part we need to be very actively engage with the government for governmental action.

**Dhaval Shah:** So your blended NSR would be around 54, 55 right now per kg?

**A.S. Mehta:** I think it is 55 plus.

**Dhaval Shah:** On the gross block side expansion like how much is that?

**A.S. Mehta:** Yes this is on the second question let me say that there is one paradigm shift we are working on in the company that isolate market and the manufacturing. Every time we talk about the expansion on a hard core physical asset side, in fact we will be working more on a market expansion and our focus is going to be that how do we participate and gain the market share irrespective of the manufacturing. Some debottlenecking, balancing, modernization, those will continue, but we will participate in the market and in fact we have embarked upon a journey of sourcing arrangements and we are the one company who is sourcing a substantial quantity as far as the coated paper is concerned and for the other varieties as well we can work on the sourcing arrangement in our own brands. We do not act like traders, we source a quality product in our own brand from the manufacturers and sell in our own brand, so in going forward not necessary that we put up the manufacturing facility, but certainly we would grow in the market and one more thing is that when you grow based on the sourcing your return on capital employed is better than the return on employed on the manufacturing.

**Dhaval Shah:** Exactly because your assets are like that.

**A.S. Mehta:** Absolutely so that is also going to be focus area, but certainly that is not the only strategy as the right time come we will certainly invest in the manufacturing facility also provided that makes a sense as far as the value creation is concerned.

- Dhaval Shah:** So then should I interpret that given the kind of cash flows you will be making say over the next two to three year period you should be around 600, 700 Crores of debt by FY2020?
- Ashok Gupta:** Think so yes. Every year we are reducing close to 200 to 250 Crores debt and reduction of that is much faster than what we anticipated. As of today we are running around close to 1400 Crores and if we take that 250 to 300 Crores kind of reduction so that will help us and at the same time we have been sanctioned some \$50 million lines from IFC for refinancing, which is a long-term tenure line, which is a 4 plus 6 kind of repayment schedule. So that will help us to keep the repayment and extend our repayment schedule, so we will try to repay some of the near-term maturity loan and to extend that, so that will also help us to improve our DSCR.
- A.S. Mehta:** Also I will just add to what Ashok Gupta has said that it will improve the interest cost because the new loan is a cheaper loan and we will substitute the high cost loans.
- Dhaval Shah:** Correct so currently your total long-term plus short-term debt is 1200 Crores currently?
- A.S. Mehta:** No, currently it is something around 1400 Crores and as we said that yearly we are likely to repay something around 250 to 300 Crores so in five years time it should be zero, but certainly we are not going to be a zero debt company because when we will have the right kind of debt equity or healthy debt equity and we are going to certainly invest somewhere.
- Dhaval Shah:** Just last question if you allow me on the FCCB now how much conversion into equity shares is left?
- A.S. Mehta:** I think it is now something around 8.2 million Euro.
- Dhaval Shah:** So that is 600 Crores?
- A.S. Mehta:** No, 60 Crs.
- Dhaval Shah:** 60 Crores is the conversion, 60 Crores worth okay that much is left?
- A.S. Mehta:** Yes absolutely a very small amount now.
- Dhaval Shah:** And that has to be done till May 2018?
- A.S. Mehta:** That is right. The next is the November 2017 and thereafter the May 2018 just two tranches.
- Dhaval Shah:** So 60 Crores you have to divide by 65 right that is the conversion rate?
- A.S. Mehta:** Yes absolutely. That only is 4% of the market cap. that is not going to give any major impact.
- Dhaval Shah:** Thank you very much.



- Moderator:** Thank you. Next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.
- Pritesh Chedda:** You mentioned that the NSR for you is about Rs.56 a kg for the last two quarters right and at capacity utilization of 100% the volume number is about 110000 that you would have sold for the last two quarters?
- A.S. Mehta:** Is more than 110000 in fact with the sourcing it should be somewhere around 119000 barring this GST impact for this quarter of June, but otherwise it should be somewhere around 120000.
- Pritesh Chedda:** That is the optimum no problem.
- A.S. Mehta:** Yes.
- Pritesh Chedda:** Just second question if you had to set up a 100000 tonne capacity now let us say in the current time environment what is the capex for a 100000 tonne Greenfield capacity?
- A.S. Mehta:** The question is at 100000 tonne when you are talking if it is a paper only based on the market pulp then it is a one investment, if you are setting up integrated plant then it is a different investment.
- Pritesh Chedda:** If you could give for writing and printing paper if it is integrated mill?
- A.S. Mehta:** If it is 100000 tonnes integrated, which is not a right size today let me tell you because nobody would set up integrated plant of 100000 tonne today because 100000 tonne integrated plant means you need something around 80000 tonne of pulp mill, which is not a ideal size pulp mill in today's parlance. Any pulp mill you are likely to set up is something around 200000 tonne minimum and 200000 tonne minimum pulp line that means you are talking about a paper of something around 250000 tonne paper, so that is one point, but if you set up integrated plant of 100000 tonne to my mind the investment would be somewhere around 1000 Crores.
- Pritesh Chedda:** If it is not integrated then?
- A.S. Mehta:** If it is not integrated then normally what people do is that the second hand paper machines are available and duly refurbished so that can be done in something around 250 to 300 Crores.
- Pritesh Chedda:** There they use recycle paper or they use fresh pulp only?
- A.S. Mehta:** No, it would be based on the market pulp available. Yes it can be recycled as well, but then you need to work on a different packs and the paper quality, but the way we are doing we would produce a paper out of the virgin pulp and so the investment would be somewhere around 300 Crores.

- Pritesh Chedda:** My last question is this NSR, which is 56 what is currently the NSR number?
- A.S. Mehta:** See currently also the NSR would be more or less the same 500, 700 here or there, so our NSR remains the same level. Plus or minus they will always happen in month-to-month basis as I said that July-September quarter and thereafter the next two quarters are better quarters for paper industry so need not to worry on the NSR part.
- Pritesh Chedda:** This is blended NSR right?
- A.S. Mehta:** Yes this is weighted average NSR.
- Pritesh Chedda:** So the writing and printing NSR will be higher than this?
- A.S. Mehta:** Writing and printing would also be in the line and the packaging board would also be there, but yes coated paper NSR would be lower.
- Pritesh Chedda:** Thank you and all the best to you Sir!
- Moderator:** Thank you. Next question is from the line of Sumant Kumar from Emkay Global. Please go ahead.
- Sumant Kumar:** We have seen the raw material price, raw material cost was declining in couple of years and so because of the availability of raw material in your catchment area so can we assume this is going to continue for FY2018 and 2019 and if yes what is the key initiatives company has taken for that?
- A.S. Mehta:** As I said that the plantation acreage and the hectares in the last four years has been over 10000 hectare every year in fact we have been doing for three years 16000 hectare every year, last year because of the drought in Odisha the plantation acreage was lower it was something around 14000 hectare so this kind of a plantation will certainly give you the harvestable wood in your own area, so even if we see something around 70% out of the our own planted wood then also it is a sizable quantity we get from our own local area, in fact as I said in my first response that we have already achieved 100% in Gujarat sourcing from local area and now we have reached a level of something around 60% in our Odisha plant, which was earlier somewhere around 40% and our target is that we want to achieve somewhere around 70%, 75% in Odisha from our own local area, so as the percentage moves up our cost should come down.
- Sumant Kumar:** What about the Brownfield expansion we had a plan, so how much capacity is likely to increase Brownfield expansion?
- A.S. Mehta:** Brownfield I have not said that it is a major expansion, these are all improvement and debottlenecking exercises and that would certainly increase the capacity and that has been our experience. Last time also we did something our capacity has increased by almost 3% and this is

how when we say that a nameplate capacity our utilization is 106% so this is how we do the higher capacity utilization because the nameplate capacity remains the same and time to come also this is going to be one focus area where we would do minor capex and then improve the utilization.

**Sumant Kumar:** So can we assume 5% to 10% capacity increase in FY2018 and 2019 over two years?

**A.S. Mehta:** 5% to 10% is a very ambitious number you are talking because 10% we cannot increase in one year

**Sumant Kumar:** In two years?

**A.S. Mehta:** In two years I would assume that yes 5% to 10% yes it is the realistic estimate.

**Sumant Kumar:** Thank you so much.

**Moderator:** Thank you. Next question is from the line of Jayan Mamania from Care Portfolio Management Services. Please go ahead.

**Jayan Mamania:** Congratulations Mr. Mehta for good set of numbers in spite of GST impact. I want to understand how the domestic source of raw material is, its pricing is governed by global pulp prices?

**A.S. Mehta:** See the global pulp prices there is a different dynamics and the raw material in the local market, which is predominantly the woods has no connection with the pulp prices globally, the local raw material prices depend on the availability of woods and that is dependent on the revenue model of a farmer, if a farmer is having alternative model. If somebody is comfortable in doing cropping of cotton then he would estimate the woods earning with the cotton and this is how he will almost think on the plantation of woods and that will define the availability of wood in the country, so the demand & supply will play a major role and what should be the rate of wood in the country irrespective of the pulp prices globally.

**Jayan Mamania:** In your opening remarks you said that mostly we bought 100% wood pulp in Gujarat and 60% in Odisha, but global wood pulp prices have affected our profitability adversely so how that worked actually?

**A.S. Mehta:** What we do is that at Odisha we are totally integrated because we have our own pulp so that has no major impact of the global pulp prices, but in Gujarat our packaging board plant has some impact because the packaging board plant is not fully integrated with our own local pulp production. Our local pulp was adequate for our paper production, but when we set up the packaging board in the year 2006-07 that time the pulp capacity was not enhanced it was based on the market pulp that means the global pulp and in that also the two varieties of pulp we use one is the normative paper pulp and the other one is the packaging board pulp, in the technical term they are called bleached pulp and the other one is called the BCTMP pulp. BCTMP pulp is

not produced in the country it is always imported from the overseas sources because that is a different pulp, so we import BCTMP and also some quantity of bleached pulp for our packaging board plant, so if the pulp prices moves globally that impacts the profitability and during this year there was a major increase in the pulp prices in the last four five months so that has impacted in the quarterly results. Otherwise the wood prices have been better and in the opening remark also I said that the adverse impact of the pulp prices has been more than compensated from the lower cost of wood for the domestic pulp.

**Jayan Mamania:** Can we have a data on our retail sales in JK brand of last three quarters and how much we have gained due to closure of BILT plant because it is predominant in the retail sales area?

**A.S. Mehta:** See I would say that we have been selling our volumes consistently from last two years as far as the copier paper is concerned, yes we have increased the volume but that increase was again a participation in the growth, in fact two years back our market share was somewhere around 21%-22% it has moved up to 26%-27%, but again it has come down because our volume remains same, but the market growth is there, so now presently our market share is 24% in the copier paper. In the Maplitho category yes we have improved our market share it used to be somewhere around 3% it has moved up to around 4% to 5% so that is the growth we have seen, but as I said that the Ballarpur shutting is not very, very favourable for the Indian player in the sense since that capacity was closed in fact the import started and they filled the gap in the copier paper at least.

**Jayan Mamania:** What is the per tonne realization in case of retail branded sales?

**A.S. Mehta:** See our per tonne realization for the branded sale when you talk it is a copier paper and that is our total copier paper sale is a branded copier paper, so whatever is the NSR of our copier paper is the NSR of a branded paper.

**Jayan Mamania:** Sir our raw material cost has come down to 46.5% in raw material sales ratio, which was 53% in corresponding quarter and 51% in the previous quarter so this reduction in the raw material to sales ratio is due to higher sales price or advantage at the raw material side and whether it is sustainable or not?

**A.S. Mehta:** See major impact is certainly the lower raw material cost per se and certainly when the denominator is higher in terms of a net sales realization you also gain some, but the major is the reduction in the raw material cost per se. As I said that since we are sourcing more from the local area so the cost is lower because its logistics cost is lower.

**Jayan Mamania:** What is our long-term loans as on date as on June 30, 2017?

**Ashok Gupta:** It is 1400 Crores.

**Jayan Mamania:** Thank you.

- Moderator:** Thank you. Next question is from the line of Nathmal Modi Individual Investor. Please go ahead.
- Nathmal Modi:** Actually I got the reply in earlier questions so my question is no more valid.
- Moderator:** Thank you. Next question is from the line of Jeevan Patwa from Candyfloss Advisor. Please go ahead.
- Jeevan Patwa:** Sir my questions have been answered. Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Sameer Kapadia from Rockstud Capital. Please go ahead.
- Sameer Kapadia:** Congratulations for the good set of numbers. Can you tell me what is your average cost of borrowing as of now?
- Ashok Gupta:** Average cost of borrowing is close to you are asking that current cost of that borrowing or that at what cost we are borrowing as of now?
- Sameer Kapadia:** What is the current cost and how is it going forward?
- Ashok Gupta:** Current cost for that long-term loan is close to 9% and working capital is close to 6%.
- Sameer Kapadia:** And how do we see us going forward.
- Ashok Gupta:** Going forward because mix of foreign currency loans that is why we are close to 9% in case of long-term loan whatever the replacements we are doing with a mix of foreign currency and that so it will be close to 8% to 8.5% kind of mix.
- Sameer Kapadia:** So it would remain more or less at the current level only?
- Ashok Gupta:** Yes because earlier our mix of foreign currency was more 60% foreign currency, 40% rupee debt so earlier our weighted average cost was close to 8.5% or so, but slowly that foreign currency loan is getting repaid and foreign currency also for our normal purpose cannot be borrowed it is only for the capex only.
- Sameer Kapadia:** Understood and in between I had heard like you are going to do an inorganic acquisition so is it something, which you are planning for still or like...
- A.S. Mehta:** No, just to add also what Ashok Gupta has said that when the next time the rating upgrade takes place I anticipate some more reduction in the rate of interest that is one part and as far as the inorganic growth is concerned we have said in past as well that we continue to explore all the opportunities, but as of date there is nothing, which is reportable and we do not want to comment on any speculation roaming in the market so that is the stand.

- Sameer Kapadia:** And secondly in regards with your improvement in the profitability do you see a further improvement because of the reason as you mentioned like our local sourcing to improve in the Odisha plant as well as the reduction in the cost of raw material?
- A.S. Mehta:** See as I said that on the efficiency parameters and on the raw material front what we have taken the actions those advantage will continue.
- Sameer Kapadia:** But then it would improve going forward on this level also what is it?
- A.S. Mehta:** That whatever level we have achieved today there must be some more improvement and we should have the incremental advantage in time to come.
- Sameer Kapadia:** In regards to what your topline growth you have said like you are going to out beat the industry level, but then will it be a bit more quantifiable in term of how much more we can expect?
- A.S. Mehta:** No, as I said that if the industry grows at 6% there is no reason that we should grow less than 6%, so I should outperform the industry growth percentage.
- Sameer Kapadia:** Within how much if you can give me some ballpark?
- A.S. Mehta:** That is very difficult because if I could do this possibly I will be sitting somewhere else.
- Ashok Gupta:** In fact just to clarify further if you see that we came out with our expansion in August 2013 and our expansion was close to 50% of our copier capacity just doubling of our capacity. So market wise it is still good and get 6% to 7%, but within a period of one, one-and-a-half years we could have pushed the entire 50% volume to the market so that shows the strength of JK Paper the market will be growing 5% to 6%, but we have the capacity then first the market demand our kind of capacity they will switch over immediately from other products to the JK Paper so in the past also if you see that growth of JK Paper in terms of the volume is better than the market growth, so it is only question that when we pushup our quantity to the market.
- Sameer Kapadia:** And lastly in regards which you said like you are going to going forward focus more on the value added kind of product so can you tell me what is the current mix as of now and where do you see it going forward?
- A.S. Mehta:** See currently I would think that we would be doing somewhere around on a month-to-month basis somewhere around 8% to 10% these are the value added truly the value added and our target is that how do we go up to 15% this is what the target.
- Sameer Kapadia:** And this target would be over a period of...
- A.S. Mehta:** Over a period of two years.

- Sameer Kapadia:** And what would be the margin difference between the values added products in your norm?
- A.S. Mehta:** There is a substantial difference, if the margin on the normative product is 20% then the margin on the value added product as a basket it would be somewhere around 35% to 40%.
- Sameer Kapadia:** That is it from my side.
- Moderator:** Thank you. Next question is from the line of Abhishek Maheshwari from Wallfort Financials. Please go ahead.
- Abhishek Maheshwari:** Thank you for the opportunity. My first question is regarding water availability so is that a concern for the company or do we have no problem on that front?
- A.S. Mehta:** Very good question and it is not only the availability issue it is our responsibility as a responsible corporate body and irrespective of the good availability of water we are taking steps to conserve water and reduce water consumption. Gujarat there is no issue at all because the ample quantity of water is available near to our plant because we have a very big dam and but as I said that our responsibility is to conserve water and natural resources so we are still working out that how do we reduce water consumption. As far as the Odisha is concerned water availability is fine, in the summer months there is some issue, but we have not faced any difficulty as far as the production is concerned and in fact at Odisha plant our water consumption has been now half of it what it used to be earlier we have put up the plant, which is or the technology, which is far more water conserving technology, so our consumption has come down and right now I do not think that is an issue.
- Abhishek Maheshwari:** Regarding land availability in future suppose you want to set up a new facility or expand your existing manufacturing capacity so do you have enough land to expand or do you have to buy?
- A.S. Mehta:** As I said that if at all we want to put up a paper machine or a board machine we have the land available for those kind of machines because we have kept a provision for futuristic view of manufacturing facility so that is not an issue.
- Abhishek Maheshwari:** On the Ballarpur front there are certain plants, which have been closed, so reopening of those plants will that affect net realizations?
- A.S. Mehta:** As I said that they have already opened a plant that in fact their plants are operating from last almost one month now and that has not impacted in a big way. There was some impact, but that impact was predominantly because of lean season April-June as I said that it is not a great quarter, but I do not think that reopening of Ballarpur will create a kind of adverse impact in the market because the demand supply scenario is fairly balanced keeping in view the full capacity of Ballarpur.

**Abhishek Maheshwari:** My last question is regarding local area procurement of pulp so going forward is there a concern keep the pulp will not be available like it is available now?

**A.S. Mehta:** No, it is not the local sourcing of pulp it is local sourcing of woods and we produce pulp out of the woods and then the paper out of the pulp so this is what the integrated plant is, in fact the wood availability has improved in the last two / three years because the entire paper industry has done a great work on a social farm forestry and increase plantation in their own respective area and that has resulted into higher availability of woods and in time to come also the paper industry particularly at least we are committed on increasing the plantation and I must say that we are a wood positive company because we plant more than what we need and that our approach will continue in this regard.

**Abhishek Maheshwari:** Thank you. That is it from my side.

**Moderator:** Thank you. Next question is from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.

**Jinal Fofalia:** Congratulations on great set of numbers. Is it possible to get segment wise revenue of each of the segment like craft paper, packaging board?

**A.S. Mehta:** Alright. I will just give you the broad number that almost 20% of our revenue come from the packaging boards, we do not produce the craft paper, we are in the writing and printing and I would say that this again the 20% is the coated paper, so 20% is packaging board, so this is almost 40% and the rest 60% comes from the writing and printing means the uncoated wood tree paper, which includes copier as well as the Maplitho varieties so this is the broad breakup.

**Jinal Fofalia:** Second question is in terms of margins so do we see current level of margin sustainable going forward as well?

**A.S. Mehta:** See as in my own way I have responded that the attributes of the operating margin and the levers of operating margin be it raw material cost, be it operating efficiencies these are the levers where I would feel that wherever we are we will further improve upon. Only the topline issue of the market factor they are not in our control so if those factors are favourable then it is going to be more favourable, if they are adverse then it will have bearing on the operating margin.

**Jinal Fofalia:** Great. All the best. Thank you.

**Moderator:** Thank you. Next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

**Ritesh Poladia:** Thanks for giving me an opportunity. You said that your plant is operating at a 100% plus, but there would be some environmental specification beyond which you cannot operate, so is there any bottleneck basis on that?



- A.S. Mehta:** See the environmental clearance for the manufacturing facilities are in terms of paper and pulp productions. Our pulp mill has still some scope where we can go up so that is not an issue.
- Ritesh Poladia:** And regarding paper?
- A.S. Mehta:** Paper also we have some leeway so I do not foresee any issue going forward in at least next two years.
- Ritesh Poladia:** So that could be at least 10%, 15% higher than the nameplate capacity?
- A.S. Mehta:** Yes.
- Ritesh Poladia:** Second can you take us through what could be the revenue model of the farmers for plantation and how quickly he can decide to switch from one to another?
- A.S. Mehta:** See the switching is not that easy and faster because if a farmer decides that his revenue today let us say that the farmer calculates a lifecycle revenue and a lifecycle cost broadly because if the plantation is done he is going to harvest every fourth year or third year and he will get let us say the three crops from the plantation activity, so he calculate a revenue model for 9 years or 10 years or 12 years based on the harvest cycle, so let us say if it is 12-year cycle three crops from the plantation activity and at the same time he will calculate the cost of cropping if he does the alternative crop because the plantation activity cost is for first six months and thereafter a very miniscule cost of maintaining the plantation, whereas if he goes for sugarcane or cotton or commercial crop or food grain then he has to spend money every crop every day every week so then the cost model is calculated. To our calculation if the cycle is three-and-a-half-years or a three year and if it is a right kind of a plantation activity by a farmer today the net revenue from the plantation activity is better on a normative price of a cotton, forget about the peak of cotton prices right now because even if the peak prices of cotton and sugarcane is this year the farmer cannot immediately switch from a plantation to sugarcane and a cotton, so normally they take a long-term view, based on that they decide and go for plantation activity. Also what they do is that there are two kinds of plantation one is the fence plantation like in UP, Punjab, Haryana and these parts where the farmers do not do plantation in the entire field they do only on the fence plantation that can be done at any time and all the time and in fact the availability of wood in UP, Haryana, Punjab is from the fence plantation only and there is a huge quantity of wood is available out of even the fence plantation. Second is the intercropping, some of the farmers they are the smart farmers what they do is for first two years they take plantation as well as the intercropping means other crops like the pulses and other things and even in the first year the cotton also, so for first year they will have a plantation as well as the other crops, the second year also may be one crop or the other, but the third year and fourth year only plantation, so these are all different models and the farmers are attracted towards these models that is the reason that the plantation activity has picked up very well.

- Ritesh Poladia:** So that means that over three years right now if a farmer does the wood plantation vis-à-vis cotton he would gain more than the cotton.
- A.S. Mehta:** On the net revenue basis.
- Ritesh Poladia:** On net revenue basis?
- A.S. Mehta:** Yes.
- Ritesh Poladia:** Means profit in hands of the farmers?
- A.S. Mehta:** Correct.
- Ritesh Poladia:** So cotton I believe is right now second most profitable crop?
- A.S. Mehta:** No, right now this is what I said that forget about the cyclicity and the cyclical prices of the crop because this year the cotton prices maybe very good, but the last year cotton prices were pathetic. Before last year the sugarcane prices were pathetic, current year the sugarcane prices are attractive for a farmer, but one year attractive prices cannot take a move for shifting.
- Ritesh Poladia:** And you take this production from the farmer will there be a predetermined price or that would be a market price?
- A.S. Mehta:** In certain areas we announce, in fact we tell them while encouraging them for plantation that when the plantation is likely to be harvested we commit you that this is what the minimum price we will give you and option is still with the farmers, if they get a better price from the open market they can still sell in the open market, predominantly we do not allow them to sell outside the open market if prevailing prices at that time are higher so normally we pay them the higher price then what we commit, but there is a commitment from our side to the farmer that we will buy the material at least at that guaranteed price.
- Ritesh Poladia:** That is all from my side. Thank you very much Sir!
- Moderator:** Thank you. Next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Just a followup question. Sir I was looking at your raw material basket over past five, six years now bamboo, hardwood, pulp, chemicals and other packaging materials. Now the consumption of pulp had not gone up the way consumption of hardwood has gone up one, two the consumption of chemical so in FY2012 it was 235 Crores, in FY2016 was 283 Crores, so even that has not gone up, so I want to understand why the rate of change in the consumption is not similar to hardwood?

**A.S. Mehta:** When the pulp consumption has not gone up that means the wood consumption will go up because you will produce your own pulp more rather than buying pulp from outside in fact we produced more pulp and reduced our pulp buying from the market so that is one factor.

**Dhaval Shah:** And this pulp is what you import?

**A.S. Mehta:** That is right.

**Dhaval Shah:** And this chemicals?

**A.S. Mehta:** Chemical it is the chemical cost per se in fact our chemical constitutes a major quantity of a lime and the lime cost we have reduced because in the country we are the only company who is producing lime out of using alternate fuel where the cost is lower in fact we are producing now in the lime kiln using petcock, earlier we and most other people were using furnace oil and the furnace oil is a costly fuel so in fact we put up first time in the country a petcock based lime kiln, so that has reduced our lime cost, so consequent to that our overall chemical cost remains at that level.

**Dhaval Shah:** It is very commendable because the rate of increase in the hardwood and the production volume the chemical cost increase is nothing.

**A.S. Mehta:** That is right.

**Dhaval Shah:** Sir now can we make in the same rate when we go for say outsourcing based model as you told me in my last question that you will be getting manufacture to some third party so will they have this, they would not have the same efficiency level so...

**A.S. Mehta:** I would say that our model is very, very clear, our model is that if that gives me return on capital employed better than my manufacturing return on capital employed then I do outsourcing so when we source we select the parties where their conversion cost and their overall cost is more or less like our cost otherwise it does not make sense.

**Dhaval Shah:** So do we have as a broad we have any particular number in mind for the ROC as there are...

**A.S. Mehta:** See I would say that not right now the number is not in my mind, but certainly the number in my mind is that it should be somewhere around 15% then only it make sense for the sourcing model.

**Dhaval Shah:** Just last is once the season starts the NSR would increase now for us like say by Rs.1...

**A.S. Mehta:** See in certain category there maybe some improvements and certain category there may not be improvements as I said that it will entirely depend on again the demand supply dynamics and also the import element and also the forex issue because if the rupee strengthens then the imported cost of paper comes down and then we face that situation in fact the coated paper and

also the imported paper the earlier the dollar used to be 67 and the dollar prices were different and now the dollar if it remains at 64 the Rs.3 that means it is 5% already is the lower cost, so all these factors will have to be kept in mind when we decide on the pricing.

- Dhaval Shah:** Yes currency is a big headwind for your business.
- A.S. Mehta:** No our focus is not going to be on the price part our focus is going to be on the cost part.
- Dhaval Shah:** But rupees say maybe next year the rupee goes to say 60 bucks then it intensify the level of competition for you...
- A.S. Mehta:** But at the same time you have the advantage because you are net importer. See if the rupee goes to 60 then I have the advantage because I will pay lower costs on imports.
- Dhaval Shah:** Your raw material, your chemical and pulp is imported.
- A.S. Mehta:** We are the net importer.
- Dhaval Shah:** Understood Sir! Thank you.
- Moderator:** Thank you. Next question is from the line of Manoj Saini from P&Y. Please go ahead.
- Manoj Saini:** Could you let us know the unorganized share in the market?
- A.S. Mehta:** That is very difficult I would only say that the IPMA member companies in the country their production is somewhere around 35% to 40% of the total size of the paper industry, so rest I would say that 60% to 65% the paper size some of them are organized I would not say that they are all unorganized, but they are not the member of the Indian Paper Manufacturers Association, but maybe 30% or 20% are the unorganized players.
- Manoj Saini:** Post GST do you see incremental demand going towards the organized players?
- A.S. Mehta:** See post GST I would say that the manufacturers they will remain because even if they are unorganized they are still, they are not out of the GST or the excise or the weight network they will remain what will happen on undergo a likely scenario is the unorganized trade or the channels there may be a tendency towards migration from the tax evasion in the trade to the tax compliance in the trade.
- Manoj Saini:** Secondly the current level of profitability can we assume the company to get to 18%, 20% return on capital by end of the fiscal?

- A.S. Mehta:** It is very, very ambitious if you ask me because the paper industry has never been on the Return on capital employed more than 12% to 13%. Globally the return on capital employed of paper industry is somewhere around 7% to 8% and if we remain at 13% that is a good number.
- Manoj Saini:** Thanks.
- A.S. Mehta:** I hope you are asking on return on capital employed.
- Moderator:** Manoj Saini. Sir the participant is moved out of the queue. We take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Sir in your raw material basket can you tell me what is the split between hardwood and pulp?
- A.S. Mehta:** I will tell you the mix of own pulp and the market pulp that is a better response. See in fact our pulp capacity today it is something around 280000 tonne and we need the market pulp of something around 60000 tonne, so this is what the mix sense 60000 vis-à-vis 280000.
- Arjun Sengar:** So basically the confusion is that hardwood.
- A.S. Mehta:** Around 17%, 20% is the market pulp, which is imported pulp and rest 80% to 83% is our own pulp.
- Ashok Gupta:** And also that imported pulp is for the packaging not for our paper so for paper we are fully integrated and because of that speciality kind of pulp, which we have to use for our packaging board that is why we have to import that pulp because especially though it is not that much fully integrated because of the speciality pulp it require, but for our copier we are 100% integrated.
- Arjun Sengar:** Secondly I am just trying to understand the structural trend of hardwood prices let us say over the next 5 to 10 years, so one thing, which you clearly explained was that it is determined by the opportunity cost of the farmer, the other crops that he could grow on the same piece of land, which is cotton, sugarcane, etc. Other thing which could impact price structurally is obviously the overall area under cultivation, am I right to say that the structural prices of hardwood would pretty much trend with the prices of cotton and sugarcane over a period of time?
- A.S. Mehta:** No also there are number of factors I would say that there are various factors there are patches of land where you cannot grow cotton or sugarcane or anything, but on the same land you can grow the plantation.
- Arjun Sengar:** Within Gujarat and Odisha?
- A.S. Mehta:** Predominantly in Andhra and Odisha and some part in Gujarat, but not the huge trek of land in Gujarat, but in Gujarat there is a different scenario as well and there are good number of farmers at large they are not staying in the country or even if they are staying in the country they do not

want to do the farming in fact we do the departmental farming and plantation activity on the number of pieces of lands in Gujarat where the farmers are staying overseas and they want to do plantation just to secure their land that the land is not encroached and they have no means to do or the supervise the farming activities of cane or cotton or paddy or any other things so that is also one more factor possibly the people may not know it.

**Arjun Sengar:** So lately we have seen a downward trend in prices of hardwood the question is would it continue to trend downwards or how should I understand that?

**A.S. Mehta:** No, as I said that there is no major downward in the basic prices of wood to the farmer there is some correction, but it is not a major correction and the farmer what he used to get let us say the last year he is getting more or less the same this year also, but as we source more from the local area we spend less in the logistics or the handling so that saves the raw material cost that will continue.

**Arjun Sengar:** There is room for next five, six years for you right?

**A.S. Mehta:** I would say that next three years for our Odisha plant it will continue, Gujarat we have already achieved so we have reasonable where our cost is very good cost I would say that we are in a position where the cost is much better and we will continue to have that, in fact the harvesting what we are likely to do next year will have some more cost advantage in the raw material.

**Arjun Sengar:** Secondly can you tell us how much is the share of imports in total consumption of paper in India?

**A.S. Mehta:** It depends on the category of paper if you ask me on the coated paper it is almost 50% is imported because there are only two producers Ballarpur and JK and we have not added any capacity in the coated variety so whatever the market is growing it is filled up by the imports and overseas the surplus capacity available so the import come so the Indian market is and the demand is met by the import to an extent of 50%. As far as the uncoated paper is concerned the import element is somewhere around 5% to 7% on total uncoated means the writing, printing paper, but if you ask me copier of late it is increased and it is something around 12% to 14% today.

**Arjun Sengar:** And at the current realizations of paper this is likely to only increase?

**A.S. Mehta:** It is a question, which I do not think that on a plain vanilla basis we can think it is likely to increase.

**Arjun Sengar:** When was the last time there was import duty on imports?

**A.S. Mehta:** There was import duty from Asian countries as well. There is a 10% import duty on import of paper from anywhere in the world except Asian countries and the countries of the Bangkok

agreement and the Asian countries the duty has been gradually reduced and from January 1, 2014 there is zero duty on import from Asian countries and from the Korea it is now zero from January 1, so this is on the duty structure.

**Arjun Sengar:** So like you said it has been gradually reduced over many years obviously there must be some thought process there so would we expect that to be an import duty now?

**A.S. Mehta:** See that we need to understand that why there should be import duty on anything right and why there should not be a duty on anything so that is a country as a whole the ministry and also the other peoples and the economist they certainly do the analysis and decide. The duty part I would only say that it will be unfortunate if there is no duty on import because elsewhere also globally there are duties on papers in the other countries and why we should have duty is to see that what is the cost structure of the domestic industry and what are the issues or the attributes of cost for the domestic industry in fact the Asian countries where you have the enablers for the manufacturing sector we do not have those enablers in our country so unless you have some kind of a protection you will have a difficulty.

**Arjun Sengar:** Sure is this one of the factors why you have decided not to go for a major expansion?

**A.S. Mehta:** No, this is not...

**Arjun Sengar:** We have to wait and see how it goes.

**A.S. Mehta:** See in fact that the expansion when you do you need to justify yourself that are you going to make adequate return on your investment so the right now if I decide today, today return on capital employed is let us say 13% so you will be very, very bullish, but in long run the paper industry will have to be seen in a different perspective because there are n number of factors and if your average return on capital employed is 10% then does it make sense to go for the Greenfield so that is one factor always need to be kept in mind.

**Arjun Sengar:** Thirdly you said that the prices your net sales realizations have not really changed post Q1, but if I speak to some of the dealers they are saying there has been a from the peak levels prices are down 3% to 5%, how do we reconcile that?

**A.S. Mehta:** See you are right see the peak level is one let us say in the month of April there was a peak it came down in May or it came down in June so average quarter your NSR is let us say 56 that is a 56 and 56 also your EBITDA level is a decent EBITDA of 25% so that is fine.

**Arjun Sengar:** No, that is obviously that is their performance is great I am just trying to understand directionally have prices...

**A.S. Mehta:** No, there is no further downward trend in the prices today and as I said that April-June quarter is a lean quarter for paper industry, but thereafter you have seven, eight months of a bullish quarter.

**Arjun Sengar:** And you also said that BILT last one month significant volumes are started coming in, do you have a sense of how much utilization is happening over there?

**A.S. Mehta:** My understanding is that their one mill is operating at somewhere around 70%, 80%, the other mill should also be somewhere around that 60% to 70%, their north base mill is temporarily shut today if they start they will produce 70%-80% there also.

**Arjun Sengar:** And one slightly broader question out of total hardwood consumption in the country what percentage is done by the paper industry?

**A.S. Mehta:** Hardwood consumption you are asking?

**Arjun Sengar:** Yes there might be other uses like furniture and all.

**A.S. Mehta:** Sure I must give you, I am very happy that you asked this question and we have been talking in elsewhere on the other platform also that India total the firewood and pulpwood and total wood consumption in the country if you have a pie only 7% is consumed by the industrial sector means it is furniture, construction, decorative, paper and everywhere that is 7% of the total wood consumption, 93% of the wood is being consumed is firewood and the domestic use, it is a very startling number I think you will see. So only industrial consumption is 7% and out of industrial consumption of 7% paper industry consumes only 3% and the 3% consumption by paper industry is coming out from the social farm forestry being done by paper industry only.

**Arjun Sengar:** Fine Sir! Thank you very much for this and good luck.

**Moderator:** Thank you. Next question is from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.

**Jaineel Jhaveri:** Thanks for taking my question. Congratulations on good quarter. Just wanted to know one thing that can we expect this since usually your Q1 is one of the weakest quarters can we at least expect Q1 to kind of continue for the rest of the year like Q1 x 4 can we take that at a PBT level?

**A.S. Mehta:** Ideally I wish to do it.

**Jaineel Jhaveri:** But do you see like any kind of at least from where you are right now where we are right now do you see anything?

**A.S. Mehta:** Also we need to understand that of course this is a lean quarter, but at the same time in the manufacturing sector you have some kind of uncertainties always, so it is very difficult, but let me tell you that this quarter there was almost all the 90 days we produced. In the coming quarters in the rest of the nine months we would have to take the shut also and we will decide when do we take a shut because in the paper industry elsewhere also, but as far as we are concerned we take almost 10 to 12 days shut for our major maintenance and also the boiler inspection and other things so whichever quarter we take a shut there is going to be some impact that is all.



- Jaineel Jhaveri:** Thank you so much. Good luck for the rest of the year.
- Moderator:** Thank you. Next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Sir can you please breakup this Rs.15000 almost EBITDA per tonne for us in pulp and paper?
- A.S. Mehta:** No, there is no breakup of EBITDA in pulp and paper because we are integrated plant
- Nihal Jham:** Can you just share a rough sense like if we would have been putting all the pulp so whether it is divided 50%:50% or paper conversion..
- A.S. Mehta:** No, you cannot do it. I can only give you one number where you can make some estimate that today the lended cost of imported pulp for paper manufacturing it is somewhere around Rs.42000 a tonne and...
- Nihal Jham:** Our NSR is roughly Rs.55000 per tonne for paper and we use roughly 0.85 tonnes of pulp.
- A.S. Mehta:** We use less in fact we are being more efficient in the industry so we use less we use somewhere around 0.8 only.
- Nihal Jham:** So at 0.8 we use roughly our pulp cost is Rs.35000 about Rs.42000 you are saying is imported?
- A.S. Mehta:** Rs.42000 is the lended cost of imported pulp at 10% moisture because always the pulp is measured with the 10% moisture so if you calculate on a zero moisture basis then the cost is Rs.46000 and our own pulp cost, your next question would be that what is our pulp cost. Our pulp cost is somewhere around Rs.35000.
- Nihal Jham:** So it means that if Rs.46000 is zero moisture and our cost of production is Rs.35000 10% moisture or zero moisture?
- A.S. Mehta:** Zero moisture. When I am saying like-to-like it is 35000...
- Nihal Jham:** Like-to-like is Rs.46000 versus Rs.35000 so it is very much clear that Rs.11000 definitely we are making in pulp and rest Rs.4000 we are making in paper.
- A.S. Mehta:** No, but you cannot make estimate like this because your whole investment is different in the pulp and investment in Paper.
- Nihal Jham:** Yes that I understand Sir I was just trying to understand your lakh rupees per tonne invested in a whole completely fully integrated paper plant.
- A.S. Mehta:** And more would be towards pulp.
- Nihal Jham:** But there has been in history where paper was making more money and pulp was cheaper?

**A.S. Mehta:** See that depends on the pulp prices in the market, at one point of time the pulp prices were somewhere around 35000 the imported pulp.

**Nihal Jham:** Do you want to say that when you mentioned that in a Brownfield expansion of Rs.30000 per tonne for a Brownfield expansion plan or paper based out of waste paper where you are importing pulp so those guys are only making a conversion margin of Rs.4000 per tonne?

**A.S. Mehta:** It may be sometime even lower, but when the pulp prices are lower let us say the pulp prices from 46000 it comes down to 37000 then your margin in paper moves up.

**Nihal Jham:** But Sir even those are waste paper based company so even their NSR will be much lower than Rs.55000.

**A.S. Mehta:** No, I am saying that if you are producing paper out of the virgin pulp of which is 37 or 38 in a right time then your margin would be better, but at the same time that time what will be the paper prices that is also one factor.

**Nihal Jham:** So this converter only paper converter you see that they are making margins of Rs.5000 to Rs.6000 as of now, which definitely has a threat and can come under pressure going forward.

**A.S. Mehta:** Yes absolutely.

**Nihal Jham:** Sir there is lot of waste in North available especially rice husk, so we have been hearing that there are some pollution control norms and they are trying to get all those things closed because of the pollution which they create so do you see that in that front something is happening in some smaller mills are getting closed because of that.

**A.S. Mehta:** No see what you are saying the waste available is a basic raw material and there is no issue of environmental or the pollution as far as the input is concerned, those unit can continue, the only issue is that what kind of water they discharge, what kind of air quality they emit from their chimneys, so these are the issues. See the issue in the North is the Ganga because the water charter, they define some pollution and water quality norms so if they do not meet then those units are subjected to closure. So the basic issue for the smaller units is maintaining the pollution control norms not the input as such and these units are not able to meet the water quality and the discharge issue. So some of the units have already been closed, but they are not a paper company they are basically the craft manufacturers more or the recycle paper more.

**Nihal Jham:** Packaging paper and all.

**A.S. Mehta:** Yes the brown paper.

**Nihal Jham:** The GST thing coming in do you see that there is a pressure on the smaller players or SME sector where in paper industry it is quite prevalent so they are facing any issues?

- A.S. Mehta:** No but they should become compliant to GST what is the big deal they are already registered dealer so they will comply.
- Nihal Jham:** No, but there is a cost that if they are discharging their effluent and all in Ganga and all those things so then they have to improve their cost...
- A.S. Mehta:** At the end of the day those units can survive in long run only if they comply with the norms.
- Nihal Jham:** Yes, so they have to probably increase the prices to recover the cost and that is beneficial for your company.
- A.S. Mehta:** Absolutely.
- Nihal Jham:** Thanks Sir!
- Moderator:** Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you Sir!
- A.S. Mehta:** Thank you very much for being with us and I hope I have responded all your questions and we seek support and also all the time the right kind of reporting for the company and we assure you that anytime you can seek any clarification anything from the company and we have been always transparent and straightforward in reporting all these issues, so with this thank you so much.
- Moderator:** Thank you. Ms. Anuja Barve would you also like to add your closing comments please?
- Anuja Barve:** We thank the management for giving us an opportunity to host this conference call, we also thank the investors and analysts for joining this call. Thank you so much.
- Moderator:** Thank you very much all. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.